Purchase vs. pooling for acquisitions

Berkshire letters: 1999, 2000 · Difficulty: Advanced

> *“Managements usually detest purchase accounting because it almost always requires that a “goodwill” account be established and subsequently written off.” (1999)*

1. Which method must U.S. companies use today to record an acquisition?

   A. The acquisition (purchase) method: assets and liabilities at fair value, the excess as goodwill

   B. Pooling of interests

   C. Either method, at management’s choice

   D. No entry until the target is sold

2. Why did many managers prefer pooling?

   A. It recorded assets at fair value

   B. No goodwill was created, so there was no later charge against earnings

   C. It required more disclosure

   D. It raised income taxes

Source: Warren E. Buffett, Letters to Berkshire Hathaway Shareholders: 1999, 2000 (berkshirehathaway.com/letters). Quotation © Berkshire Hathaway Inc., all rights reserved; reproduced in part for non-commercial teaching. Numbers in the questions are made up unless stated.