Session 3: Post class test solutions

1. **c. At original cost, adjusted for loss is value from aging of the asset (estimated with depreciation).** Book value in conventional accounting is a reflection of original investment, net of depreciation. There is no inflation adjustment.
2. **b. At book value for the 10% holding.** The investment is recorded at original cost at the time it is made, but augmented by retained earnings since the investment, making it a current book value.
3. **e. At book value for a 100% holding on assets, with a liability (minority interests) shown for the 40% that does not belong to the company**. Companies that have majority stakes have to consolidate, thus showing the entire subsidiary company on the asset side and offsetting it with a minority interest reflecting the portion not owned.
4. **c. It measures the premium paid over and above the book value to acquire a company**. This is the closest description of goodwill, though accountants are allowed to adjust the book value of assets of the target company.
5. **d. For mature companies, with significant physical and tangible assets**. Growth companies will usually have intrinsic values that exceed book value, because the value of growth cannot be easily captured on an accounting balance sheet. Tangible assets are also more likely to be recorded on accounting balance sheets at meaningful values than intangible assets.