Case 13-07
Definition of a Business

Fuzzy Dice Inc. ("Fuzzy" or "the Company") manufactures novelty items that it distributes to wholesalers and large online and direct-mail retailers. Because of the current overwhelming demand for novelty products, Fuzzy is having a record-breaking year and is holding a large amount of cash on its balance sheet.

Fuzzy operates in an area where several other manufacturers operate, one of which is Tiny Tots Toys LLC ("Tiny"), an educational children's toy manufacturer. Tiny has been unable to turn a profit for the past few years and has recently filed for Chapter 11 bankruptcy protection. Tiny's primary asset is its manufacturing facility. The location and capabilities of this facility are the key reasons why it represents an acquisition target to Fuzzy. Tiny has no other tangible assets outside of the factory and its small fleet of delivery vehicles. Because of Tiny's recent financial challenges, most of its manufacturing equipment has been neglected and is outdated and falling into disrepair; however, the equipment is currently operational. Tiny does not have any goodwill recorded on its balance sheet but does have some intangible assets such as licenses and product patents.

This morning you received a voice message from Bill Smith, Fuzzy's CFO, informing you that the Company is in the final stages of a transaction structured as an asset acquisition to buy all of Tiny's assets, and tomorrow is the effective date of the acquisition. However, the Company is undecided on how it should use Tiny's factory after the acquisition. The Company will either (1) continue to use the facility to manufacture children's toys and enter another business line alongside its novelty business or (2) renovate the factory in order to expand its novelty item production capacity to grow its current business. Since the acquisition will be structured as an asset purchase rather than a stock purchase, Fuzzy will not assume the employment relationships with the Tiny employees. In both scenarios, Fuzzy expects to hire all the current Tiny employees; however, the Company believes its current workforce is capable of operating the Tiny facility if necessary. Bill would like to speak with you to determine how the Company's decision to use the factory would affect its accounting for the transaction under ASC 805, *Business Combinations*.

Required:

1. If Fuzzy decides to operate the factory in its current capacity to manufacture children's toys, should the transaction be accounted for under ASC 805 as an acquisition of a business or an acquisition of assets?
2. If Fuzzy decides to refurbish the factory to manufacture novelty items, would this affect its assessment of how to account for the transaction under ASC 805?
3. If Fuzzy decides instead to structure the acquisition through its French subsidiary, Dés Floue Inc., which issues stand-alone financial statements under IFRSs, should the transaction be accounted for differently under IFRSs with regard to whether it should be deemed as an acquisition of a business or a group of assets?