FOTAMAT

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1

Why do companies invest?

•To house excess cash until needed. Ex: Short term government securities.

•To generate earnings.

•To meet strategic goals.

Types of Investments:

•Debt investments.

•Share investments.

1-Corporations invest excess cash for short periods of time in each of the following **except**

a. equity securities.
b. highly liquid securities.
c. low-risk securities.
d. government securities.

2-Corporations invest in other companies for all of the following reasons **except** to

a. house excess cash until needed.
b. generate earnings.
c. meet strategic goals.
d. increase trading of the other companies' shares.

3-A typical investment to house excess cash until needed is

a. shares of companies in a related industry.
b. debt securities.
c. low-risk, highly liquid securities.
d. share securities.

3-A company may purchase a noncontrolling interest in another firm in a related industry

a. to house excess cash until needed.
b. to generate earnings.
c. for strategic reasons.
d. for speculative reasons.

5-Pension funds and mutual funds regularly invest in debt and share securities to

a. generate earnings.
b. house excess cash until needed.
c. meet strategic goals.
d. control the company in which they invest.

6-Which of the following is **not** a true statement regarding short-term debt investments?

a. The securities usually pay interest.
b. Investments are frequently government or corporate bonds.
c. This type of investment must be currently traded in the securities market.
d. Debt investments are recorded at the price paid less brokerage fees.

7-Which of the following reasons best explains why a company that experiences seasonal fluctuations in sales may purchase investments in debt or share securities?

a. The company may have excess cash.
b. The company may generate a significant portion of its earnings from investment income.
c. The company may invest for the strategic reason of establishing a presence in a related industry.
d. The company may invest for speculative reasons to increase the value in pension funds.

8-On January 1, 2014, Milton Company purchased at face value, a $1,000, 8% bond that pays interest on January 1 and July 1. Milton Company has a calendar year end.

The entry for the receipt of interest on July 1, 2014, is

a.	**Cash**	**40**	
	Interest Revenue		**40**
b.	Cash	80	
	Interest Revenue		80
c.	Interest Receivable	40	
	Interest Revenue		40
d.	Interest Receivable	80	
	Interest Revenue		80

The adjusting entry on December 31, 2014, is

a.	not required.		
b.	Cash	40	
	Interest Revenue		40
c.	**Interest Receivable**	**40**	
	Interest Revenue		**40**
d.	Interest Receivable	40	
	Debt Investments		40

The entry for the receipt of interest on January 1, 2015 is

a.	Cash	80	
	Interest Revenue		80
b.	Cash	80	
	Interest Receivable		80
c.	Cash	40	
	Interest Revenue		40
d.	**Cash**	**40**	
	Interest Receivable		**40**

2

Debt investment

Investment date		
Debt investment	XX	
Cash		XX
Date of interest **اذا صار وقت الفوايد و عطونا كاش**		
Cash	XX	
Interest revenue		XX
Date of Interest **اذا صار وقت الفوايد بس ليلحين ما عطونا كاش, فلازم نسجل لان استحقينا الفوايد**		
Interest receivable	XX	
Interest revenue		XX
When they pay the cash **لمن يدفعون لنا الفوايد**		
Cash	XX	
Interest receivable		XX
Sale of bond investment		
Cash	XX	
Loss on sale debt investment	XX	
Gain on sale debt investment		XX
Debt investment		XX

- آخر قيد إما gain أو loss

P12-1A Yuen Long Carecenters Ltd. provides financing and capital to the healthcare industry, with a particular focus on nursing homes for the elderly. The following selected transactions relate to bonds acquired as an investment by Yuen Long, whose fiscal year ends on December 31.

2017

Jan 1	Purchased at face value HK$2,000,000 of Franco Nursing Centers, Inc., 10-year, 7% bonds dated January 1, 2017, directly from Franco. Interest is paid on January 1 of each year.
Dec 1	Accrual of interest at year-end on the Franco bonds.

(Assume that all intervening transactions and adjustments have been properly recorded and that the number of bonds owned has not changed from December 31, 2017, to December 31, 2019.)

2020

Jan 1	Received the annual interest on the Franco bonds.
Jan 1	Sold HK$1,000,000 Franco bonds at 105.
Dec 1	Accrual of interest at year-end on the Franco bonds.

1. Journalize the listed transactions for the years 2017 and 2020.
2. Show the statement of financial position presentation of the bonds and interest receivable at December 31, 2017. Assume the investments are considered long-term.

Date	Account	Dr	Cr

1-On January 1, Barone Company purchased as a short-term investment a $1,000, 8% bond for $1,000. The bond pays interest on January 1 and July 1. The bond is sold on October 1 for $1,125 plus accrued interest. Interest has not been accrued since the last interest payment date. What is the entry to record the cash proceeds at the time the bond is sold?

a.	Cash	1,125	
	Debt Investments	1,125	
b.	**Cash**	**1,145**	
	Debt Investments	**1,000**	
	Gain on Sale of Debt Investments		**125**
	Interest Revenue		**20**
c.	Cash	1,145	
	Debt Investments	1,125	
	Interest Revenue		20
d.	Cash	1,125	
	Debt Investments	1,000	
	Gain on Sale of Debt Investments		125

2-Which of the following is **not** a true statement about the accounting for debt investments?

a. At acquisition, investments are recorded at cost.
b. The cost includes any brokerage fees.
c. Debt investments include investments in government and corporation bonds.
d. The cost includes any accrued interest.

3-The cost of debt investments includes each of the following **except**

a. brokerage fees.
b. commissions.
c. accrued interest.
d. the price paid.

4-If a short-term debt investment is sold, the Investment account is

a. credited for the market value of the bonds at the sale date.
b. credited for the cost of the bonds at the sale date.
c. credited for the fair value of the bonds at the sale date.
d. debited for the cost of the bonds at the sale date.

5-In accounting for debt investments, entries are made for each of the following **except** the

a. acquisition.
b. interest revenue.
c. amortization of any discount or premium.
d. sale.

6-Barr Company acquires 50, 10%, 5 year, €1,000 Community bonds on January 1, 2014 for €50,000.

The journal entry to record this investment includes a debit to

a. Debt Investments for €55,000.
b. Debt Investments for €50,000.
c. Cash for €50,000.
d. Share Investments for €50,000.

Assume Community pays interest on January 1 and July 1, and the July 1 entry was done correctly. The journal entry at December 31, 2014 would include a credit to

a. Interest Receivable for €2,500.
b. Interest Revenue for €5,000.
c. Interest Expense for €2,500.
d. Interest Revenue for €2,500.

If Barr sells all of its Community bonds for €49,000, what gain or loss is recognized?

a. Gain of €6,000
b. Loss of €1,000
c. Gain of €1,000
d. Loss of €6,000

7-Winrow Co. purchased 30, 6% Johnston Company bonds for $30,000 cash. Interest is payable semiannually on July 1 and January 1.

The entry to record the July 1 semiannual interest payment would include a

a. debit to Interest Receivable for $900.
b. credit to Interest Revenue for $900.
c. credit to Interest Revenue for $1,800.
d. credit to Debt Investments for $900.

The entry to record the December 31 interest accrual would include a

a. debit to Interest Receivable for $900.
b. debit to Interest Revenue for $900.
c. credit to Interest Revenue for $1,800.
d. debit to Debt Investments for $900.

8-Debt investments are recorded at the

a. face value of the bonds purchased.
b. face value of the bonds purchased plus interest.
c. price paid for the bonds plus interest.
d. price paid for the bonds plus brokerage fees.

9-On January 1, Burkett Company purchased as an investment a $1,000, 6% bond for $1,000. The bond pays interest on January 1 and July 1. What is the entry to record the interest accrual on December 31?

a.	**Interest Receivable ....**	**30**	
	Interest Revenue		**30**
b.	Debt Investments	30	
	Interest Revenue		30
c.	Interest Receivable	60	
	Interest Revenue		60
d.	Debt Investments	60	
	Interest Revenue		60

10-On January 1, 2014, Bregeut Company, a calendar year corporation, purchased 900 of the $1,000 face value, 9% bonds of Clariant Incorporated, for CHF900,000. The bonds, which mature on January 1, 2019, pay interest semiannually on July 1 and January 1.

On July, 2014, Bregeut will make an entry to

a. amortize bond premium .
b. accrue interest expense.
c. recognize interest revenue.
d. adjust the investment to fair value.

The December 31, 2014 adjusting entry for the bonds on Bregeut's books will include

a. a credit to Interest Expense for CHF3,300.
b. a debit to Cash for CHF81,000.
c. a credit to Interest Receivable for CHF40,500.
d. a credit to Interest Revenue for CHF40,500.

11-At December 31, 2013, El Greco Company has an investment in 2,000 of the €1,000 8% bonds of Dublin Company with a carrying value of €2,000,000. The bonds, which mature on January 1, 2018, pay interest semiannually on July 1 and January 1. After collecting the interest on January 1, 2014, El Greco sells the bonds for €2,220,000. El Greco will recognize

a. an unrealized loss of €160,000.
b. a gain on the sale of debt investments for €220,000.
c. interest revenue of €160,000.
d. a loss on the sale of debt investments of €220,000.

12-Huang Company owns 15,000 of the 50,000 outstanding ordinary shares of Xi Inc. The balance in the investment account at January 1, 2014 was ¥500,000,000. During 2014, Xi earned ¥800,000,000 and paid cash dividends of ¥640,000,000.

The balance in the Investment in Xi account reported on Huang's December 31, 2014 statement of financial position should be

a. ¥740,000,000.
b. ¥660,000,000.
c. ¥548,000,000.
d. ¥500,000,000.

Huang should report investment revenue for 2014 of

a. ¥240,000,000.
b. ¥192,000,000.
c. ¥48,000,000.
d. ¥0.

13-Desmond Corporation owns 3,500 of the 10,000 outstanding ordinary shares of Wetmore Corporation. During 2014, Wetmore earned £2,400,000 and paid cash dividends of £800,000.

What balance should Desmond report on its December 31, 2014 statement of financial position for the investment account if the beginning of the year balance in the account was £3,200,000?

a. £4,040,000.
b. £3,200,000.
c. £3,760,000.
d. £4,800,000.

How much investment revenue should Desmond report in 2014?

a. £800,000.
b. £840,000.
c. £560,000.
d. £2,400,000.

14-Tolan Co. purchased 60, 6% Irick Company bonds for $60,000 cash. Interest is payable semiannually on July 1 and January 1. If 30 of the securities are sold on May 1 for $31,000 plus accrued interest, the entry would include a credit to Gain on Sale of Debt Investments for

a. $2,000.
b. $1,200.
c. $2,200.
d. $1,000.

3

Share investment		
% of share	**Influence**	**Method**
Less than 20%	Insignificant	Cost method
20% - 50%	Significant	Equity method
More than 50 %	Control	Consolidation

Holding of less than 20 %			NOTE
Share investment	XX		اذا الشركة سجلت
Cash		XX	net income
			ما نطلع شي عندنا
Dividends date			
Cash	XX		
dividends revenue		XX	
Selling the investment			
Cash	XX		
Loss on sale of share investment	XX		Either loss or gain
Gain on sale of share investment		XX	
Share investment		XX	

Holding between 20 % - 50 %			NOTE
Share investment	XX		
Cash		XX	
Dividends date			
Cash	XX		
Share investment		XX	
Net income			
Share investment	XX		
Revenue from investment	XX		

Holding more than 50%
Parent company, more than 50%, controlling interest Subsidiary (affiliated) company, less than 50%

1-In accounting for share investments between 20% and 50%, the _______ method is used.

a. consolidated statements
b. controlling interest
c. cost
d. equity

2-When a company holds shares of several different corporations, the group of securities is identified as a(n)

a. affiliated investment.
b. consolidated portfolio.
c. investment portfolio.
d. controlling interest.

3-For accounting purposes, the method used to account for long-term investments in ordinary shares is determined by

a. the amount paid for the shares by the investor.
b. the extent of an investor's influence on the operating and financial affairs of the investee.
c. whether the shares has paid dividends in past years.
d. whether the acquisition of the shares by the investor was "friendly" or "hostile."

4-If an investor owns less than 20% of the ordinary shares of another corporation as a long-term investment,

a. the equity method of accounting for the investment should be employed.
b. no dividends can be expected.
c. it is presumed that the investor has relatively little influence on the investee.
d. it is presumed that the investor has significant influence on the investee.

5-If 10% of the ordinary shares of an investee company is purchased as a long-term investment, the appropriate method of accounting for the investment is

a. the cost method.
b. the equity method.
c. the preparation of consolidated financial statements.
d. determined by agreement with whomever owns the remaining 90% of the shares.

6-The cost method of accounting for long-term investments in shares should be employed when the

a. investor owns more than 50% of the investee's shares.
b. investor has significant influence on the investee and the shares held by the investor are marketable equity securities.
c. fair value of the shares held is greater than their historical cost.
d. investor's influence on the investee is insignificant.

7-When an investor owns between 20% and 50% of the ordinary shares of a corporation, it is generally presumed that the investor

a. has insignificant influence on the investee and that the cost method should be used to account for the investment.
b. should apply the cost method in accounting for the investment.
c. will prepare consolidated financial statements.
d. has significant influence on the investee and that the equity method should be used to account for the investment.

8-Revenue is recognized when cash dividends are received under

a. the controlling interest method.
b. the cost method.
c. the equity method.
d. both the cost and equity methods.

9-If the cost method is used to account for a long-term investment in ordinary shares,

a. it is presumed that the investor has significant influence on the investee.
b. the earning of net income by the investee is considered a proper basis for recognition of income by the investor.
c. net income of the investee is not considered earned by the investor until dividends are declared by the investee.
d. the Investment account may be, at times, greater than the acquisition cost.

10-If a company acquires a 40% ordinary share interest in another company,

a. the equity method is usually applicable.
b. all influence is classified as controlling.
c. the cost method is usually applicable.
d. the ability to exert significant influence over the activities of the investee does not exist.

11-Under the equity method of accounting for long-term investments in ordinary shares, when a dividend is received from the investee company,

a. the Dividend Revenue account is credited.
b. the Share Investments account is increased.
c. the Share Investments account is decreased.
d. no entry is necessary.

12-If the cost method is used to account for a long-term investment in ordinary shares, dividends received should be

a. credited to the Share Investments account.
b. credited to the Dividend Revenue account.
c. debited to the Share Investments account.
d. recorded only when 20% or more of the shares are owned.

13-If one company owns more than 50% of the ordinary shares of another company,

a. the cost method should be used to account for the investment.
b. a partnership exists.
c. a parent-subsidiary relationship exists.
d. the company whose shares are owned must be liquidated.

14-When a company owns more than 50% of the ordinary shares of another company,

a. affiliated financial statements are prepared.
b. consolidated financial statements are prepared.
c. controlling financial statements are prepared.
d. significant financial statements are prepared.

15-All of the following are true regarding an investing company which holds more than 50% of the ordinary shares of an investee **except**

a. the investee is known as an affiliate.
b. the investor has a controlling interest in the investee.
c. the investor is known as the parent company.
d. consolidated financial statements are generally required.

16-Consolidated financial statements are prepared when a company owns __________ of the ordinary shares of another company.

a. less than 20%
b. between 20% and 50%
c. less than 50%
d. more than 50%

17-The company whose shares are owned by the parent company is called the

a. controlled company.
b. subsidiary company.
c. investee company.
d. sibling company.

18-A company that owns more than 50% of the ordinary shares of another company is known as the

a. charge company.
b. subsidiary company.
c. parent company.
d. management company.

19-Securities bought and held primarily for sale in the near term to generate income on short-term price differences are

a. trading securities.
b. non-trading securities.
c. never-sell securities.
d. held-for-collection securities.

4

E13-8 Presented below are two independent situations.

1. Chicory Cosmetics acquired 15% of the 200,000 ordinary shares of Racine Fashion at a total cost of €13 per share on March 18, 2017. On June 30, Racine declared and paid a €60,000 dividend. On December 31, Racine reported net income of €122,000 for the year. At December 31, the market price of Racine Fashion was €15 per share. The shares are classified as non-trading.

2. Frank, Ltd., obtained significant influence over Nowak Industries by buying 30% of Nowak's 30,000 outstanding ordinary shares at a total cost of €9 per share on January 1, 2017. On June 15, Nowak declared and paid a cash dividend of €30,000. On December 31, Nowak reported a net income of €80,000 for the year.

Instructions

Prepare all the necessary journal entries for 2017 for (a) Chicory Cosmetics and (b) Frank, Ltd.

Date	Account	Dr	Cr

1-On January 1, 2014, Daley Corporation purchased 30% of the ordinary shares outstanding of King Corporation for $500,000. During 2014, King Corporation reported net income of $200,000 and paid cash dividends of $100,000. The balance of the Share Investments—King account on the books of Daley Corporation at December 31, 2014 is

a. $500,000.
b. $530,000.
c. $560,000.
d. $470,000.

2-Under the equity method, the Share Investments account is increased when the

a. investee company reports net income.
b. investee company pays a dividend.
c. investee company reports a loss.
d. share investment is sold at a gain.

3-Elston Corporation sells 100 ordinary shares being held as an investment. The shares were acquired six months ago at a cost of $30 a share. Elston sold the shares for $40 a share. The entry to record the sale is

a.	Cash..	3,000
	Loss on Sale of Share Investments	1,000
	Share Investments	4,000
b.	Share Investments	4,000
	Cash	4,000
c.	**Cash ....**	**4,000**
	Gain on Sale of Share Investments	**1,000**
	Share Investments	**3,000**
d.	Cash..	4,000
	Share Investments	4,000

4-On January 1, 2014, Garner Corporation purchased 30% of the ordinary shares outstanding of Landon Corporation for $200,000. During 2014, Landon Corporation reported net income of $80,000 and paid cash dividends of $40,000. The balance of the Share Investments—Landon account on the books of Garner Corporation at December 31, 2014 is

a. $200,000.
b. $240,000.
c. $280,000.
d. $212,000.

5-Mouns Company owns 40% interest in the shares of Darian Corporation. During the year, Darian pays $20,000 in dividends to Mouns, and reports $100,000 in net income. Mouns Company's investment in Darian will increase Mouns' net income by

a. $20,000.
b. $40,000.
c. $32,000.
d. $8,000.

6-Nagen Company had these transactions pertaining to share investments:

Feb. 1 Purchased 2,000 shares of Horton Company (10%) for £34,000 cash.

June 1 Received cash dividends of £2 per share on Horton shares.

Oct. 1 Sold 800 Horton shares for £15,600.

The entry to record the purchase of the Horton shares would include a

a. credit to Share Investments for £34,000.
b. credit to Cash for £30,000.
c. debit to Share Investments for £34,000.
d. debit to Investment Revenue for £4,000

The entry to record the receipt of the dividends on June 1 would include a

a. debit to Share Investments for £4,000.
b. credit to Dividend Revenue for £4,000.
c. debit to Dividend Revenue for £4,000.
d. credit to Share Investments for £4,000.

The entry to record the sale of the shares would include a

a. debit to Cash for £13,600.
b. credit to Gain on Sale of Share Investments for £3,600.
c. debit to Share Investments for £13,600.
d. credit to Gain on Sale of Share Investments for £2,000.

7-Nance Company owns 40% interest in the shares of Finley Corporation. During the year, Finley pays $25,000 in dividends, and reports $100,000 in net income. Nance Company's investment in Finley will increase by

a. $25,000.
b. $40,000.
c. $32,000.
d. $30,000.

8-Osaka Co. acquired a 10% interest in Chen Corp. on December 31, 2013 for HK$3,780,000. During 2014, Chen had net income of HK$2,400,000 and paid cash dividends of HK$600,000. Osaka's 2014 income statement will report

a. dividend income of HK$60,000.
b. investment income of HK$180,000.
c. investment income of HK$240,000.
d. cannot be determined from the information given.

9-Beneteau Corporation purchased 30,000 ordinary shares of La Brea Corporation for €40 per share on January 2, 2014. During 2014, La Brea Corporation had 100,000 shares of ordinary shares outstanding, paid cash dividends of €60,000, and reported net income of €200,000. Beneteau Corporation should report revenue from this investment for 2014 in the amount of

a. €18,000.
b. €42,000.
c. €60,000.
d. €66,000.

10-Carlin Corporation sells 600 ordinary shares being held as a short-term investment. The shares were acquired six months ago at a cost of $50 a share. Carlin sold the shares for $40 a share. The entry to record the sale is

a. Cash 24,000

Loss on Sale of Share Investments 6,000

Share Investments 30,000

b. Cash.. 30,000

Gain on Sale of Share Investments 6,000

Share Investments...
24,000

c. Cash.. 24,000

Share Investments... 24,000

d. Share Investments 24,000

Loss on Sale of Share Investments.. 6,000

Cash 30,000

11-If an ordinary share investment is sold at a gain, the gain

a. is reported as operating revenue.
b. is reported under a special section, "Discontinued investments," on the income statement.
c. is reported in the Other income and expense section of the income statement.
d. contributes to gross profit on the income statement.

12-If the equity method is being used, cash dividends received

a. are credited to Dividend Revenue.
b. require no entry because investee net income has already been recorded at the proper proportion on the investor's books.
c. are credited to the Share Investments account.
d. are credited to the Revenue from Share Investments account.

5

Valuation methods:
- Cost.
- Fair value or lower of cost.
- Net realizable value.

Categories of securities (debt investment and share investment less than 20%):

- Trading securities. (Fair value through profit or loss securities (FVPL).

For share and debt investment.

- Trading.
- To use fair value option.
- Current assets.

Fair value adjustment-Trading	XX		FV > COST
Unrealized gain -income		XX	

Unrealized gain -loss	XX		COST > FV
Fair value adjustment-Trading		XX	

- Non-trading securities. (Available for sale securities (AFS).

Only for share investment.

- Current asset if less than one year or operating cycle.
- Non-current asset if more than one year or operating cycle.

Fair value adjustment-non-Trading	XX		FV > COST
Unrealized gain -equity		XX	

Unrealized gain -equity	XX		COST > FV
Fair value adjustment-non-Trading		XX	

- Held to maturity securities.

Only for debt investment.

1-All of the following are not true regarding the Fair Value Adjustment – Trading account **except**

a. the account is only adjusted at the end of the accounting period.
b. a debit balance in the account is subtracted from the cost of the investments so that the investments are reported at fair value.
c. the account is adjusted for the difference between the investments' fair value and cost.
d. if the total cost of the securities is greater than the total fair value, the account will be credited.

2-The fair value adjustment for trading securities

a. is reported as an increase to net income when the fair value of investments is greater than cost.
b. is reported as other comprehensive income.
c. is reported as an unrealized gain or loss on the statement of changes in equity.
d. is only allowed when the fair value of investments is less than cost.

3-The fair value adjustment for non-trading securities

a. is reported as an increase to net income when the fair value of investments is greater than cost.
b. is prohibited because these securities must be reported at cost.
c. is reported as a separate component of equity on the statement of financial position.
d. is only allowed when the fair value of investments is less than cost.

4-Reporting investments at fair value is

a. applicable to share securities only.
b. applicable to debt securities only.
c. applicable to both debt and share securities.
d. a conservative approach because only losses are recognized.

5-Changes from cost are reported as part of net income for

a. non-trading securities.
b. held-for-collection securities.
c. debt securities.
d. trading securities.

6-The Fair Value Adjustment account

a. is set up for each security in the company's portfolio.
b. relates to the entire portfolio of securities held by the company.
c. is closed at the end of each accounting period.
d. appears on the income statement as Other income and expense.

7-The contra-account, Fair Value Adjustment, is also called a(n)

a. offset account.
b. adjustment account.
c. valuation account.
d. opposite account.

6

Income statement form

Income statement X company date		
Revenues	XX	
Expenses	(XX)	
Operating income		**XX**
<u>Other income and expense</u>		
Interest revenue	XX	
Dividends revenue	XX	
Gain or (loss) on sale of investments	XX	
Unrealized gain or (loss) - income	XX	
Net income (loss)		**XX**
<u>Other comprehensive income</u>		
Unrealized gain or (loss) on non-trading securities	(XX)	
Other comprehensive income		**XX**

Closing entries for Unrealized gain or (loss) on non-trading securities

Unrealized gain -equity	XX	
Accumulated other comprehensive equity		XX

Accumulated other comprehensive equity	XX	
Unrealized loss -equity		XX

Statement of financial form

Statement of financial position X company date	
Assets	
<u>Investments</u>	
Investments in held for collection debt securities at amortized cost	XX
Investments in shares of less than 20%, at FV	XX
Investments in shares between 20% to 50%, at equity	XX
<u>Current Assets</u>	
Short term investment at fair value	XX
Equity	
Share capital	XX
Retained earnings	XX
Accumulated other comprehensive income (loss)	XX

1-Short-term investments are listed on the statement of financial position immediately above

a. **cash.**
b. inventory.
c. accounts receivable.
d. prepaid expenses.

2-Held-for-collection securities are valued at

a. original cost.
b. **amortized cost.**
c. fair value.
d. lower of cost or fair value.

3-Short-term share investments should be valued on the statement of financial position at

a. the lower of cost or fair value.
b. the higher of cost or fair value.
c. cost.
d. **fair value.**

4-Which of the following would not be reported under "Other income and expense" on the income statement?

a. **Unrealized gain on non-trading securities**
b. Dividend revenue
c. Interest revenue
d. Gain on sale of short-term debt investments

5-The balance in the Unrealized Loss—Equity account will

a. appear on the statement of financial position as a contra asset.
b. appear on the income statement under Other income and expense.
c. **appear as a deduction in the equity section.**
d. not be shown on the financial statements until the securities are sold.

6-All of the following statements about short-term investments are true **except**

a. Short-term investments are also called marketable securities
b. Trading securities are always classified as short-term investments.
c. **Short-term investments are listed below accounts receivable in the current asset section of the statement of financial position.**
d. Short-term assets must be readily marketable.

7-Non-trading securities are classified as

a. short-term investments only.
b. long-term investments only.
c. **either short-term or long-term investments.**
d. current assets only.

8-Short-term investments are securities that are readily marketable and intended to be converted into cash within the next

a. year.
b. two years.
c. year or operating cycle, whichever is shorter.
d. year or operating cycle, whichever is longer.

9-An unrealized gain or loss on non-trading securities is reported as a component of equity

a. because this discloses to the financial statement user the gain or loss that would result if the securities were sold at fair value.
b. because this treatment reduces the volatility of net income due to fluctuations in value.
c. in a line item either called "Reserves" or "Unrealized Gain or Loss."
d. All of these answer choices are correct.

10-An unrealized loss on non-trading securities is

a. reported under Other income and expense in the income statement.
b. closed-out at the end of the accounting period.
c. reported as a separate component of equity.
d. deducted from the cost of the investment.

11-Short-term investments are

a. (1) readily marketable and (2) intended to be converted into cash after the current year or operating cycle, whichever is shorter.
b. (1) readily marketable and (2) intended to be converted into cash within the current year or operating cycle, whichever is longer.
c. (1) readily marketable and (2) intended to be converted into cash after the current year or operating cycle, whichever is longer.
d. (1) readily marketable and (2) intended to be converted into cash within the current year or operating cycle, whichever is shorter.

12-Short-term investments are securities held by a company that are

a. readily marketable.
b. intended to be converted into cash within the next year.
c. readily marketable and intended to be converted into cash within the next year or operating cycle, whichever is longer.
d. readily marketable and intended to be held until maturity.

13-When bonds are sold, the gain or loss on sale is the difference between the

a. sales price and the cost of the bonds.
b. net proceeds and the cost of the bonds.
c. sales price and the market value of the bonds.
d. net proceeds and the market value of the bonds.

14-Which of the following is not true regarding the Fair Value Adjustment – Trading account?

a. It is a valuation allowance account.
b. It allows the investment account to maintain a record of the investment cost.
c. It should have a credit balance.
d. Its balance is carried forward to future accounting periods.

7

P13-2A In January 2017, the management of Stefan Company SE concludes that it has sufficient cash to permit some short-term investments in debt and share securities. During the year, the following transactions occurred.

Feb.1	Purchased 600 ordinary shares of Superior for €32,400.
Mar.1	Purchased 800 ordinary shares of Pawlik for €20,400.
Apr.1	Purchased 50 €1,000, 7% Venice bonds for €50,000. Interest is payable annually on October 1.
Jul.1	Received a cash dividend of €0.60 per share on the Superior ordinary shares.
Aug.1	Sold 200 ordinary shares of Superior at €57 per share.
Sept.1	Received a €1 per share cash dividend on the Pawlik ordinary shares.
Oct.1	Received the interest on the Venice bonds.
Oct.1	Sold the Venice bonds for €49,000.

At December 31, the fair value of the Superior ordinary shares was €55 per share. The fair value of the Pawlik ordinary shares was €24 per share.

Instructions

1. Journalize the transactions and post to the accounts Debt Investments and Share Investments. (Use the T-account form.)

2. Prepare the adjusting entry at December 31, 2017, to report the investment securities at fair value. All securities are considered to be trading securities.

3. Show the statement of financial position presentation of investment securities at December 31, 2017.

4. Identify the income statement accounts and give the statement classification of

Date	Account	Dr	Cr

1-If the equity method is being used, the Revenue from Share Investments account is

a. just another name for a Dividend Revenue account.
b. credited when dividends are declared by the investee.
c. credited when net income is reported by the investee.
d. debited when dividends are declared by the investee.

2-Under the equity method, the Share Investments account is credited when the

a. investee reports net income.
b. investee reports a net loss.
c. investment is originally acquired.
d. investee reports net income and when the investment is originally acquired.

3-On August 1, Dogwood Company buys 2,000 ordinary shares of XYZ for $61,200 cash. On December 1, the share investments are sold for $72,000 in cash. Which of the following are the correct journal entries to record for the purchase and sale of the shares?

a.	Aug. 1	Cash	61,200	
		Share Investments		61,200
	Dec. 1	Cash	72,000	
		Share Investments		61,200
		Gain on Sale of Share Investments		10,800
b.	**Aug. 1**	**Share Investments**	**61,200**	
		Cash		**61,200**
	Dec. 1	**Cash**	**72,000**	
		Share Investments		**61,200**
		Gain on Sale of Share Investments		**10,800**
c.	Aug. 1	Share Investments	61,200	
		Cash		61,200
	Dec. 1	Share Investments	72,000	
		Cash		61,200
		Loss on Sale of Share Investments		10,800
d.	Aug. 1	Cash	61,200	
		Share Investments		61,200
	Dec. 1	Share Investments	72,000	
		Cash		61,200
		Gain on Sale of Share Investments		10,800

4-Lanier industries owns 30% of McCoy Company. For the current year, McCoy reports net income of $250,000 and declares and pays a $60,000 cash dividend. Which of the following correctly presents the journal entries to record Lanier's equity in McCoy's net income and the receipt of dividends from McCoy?

a.	**Dec. 31**	**Share Investments ....**	**75,000**	
		Revenue from Share Investments..........		**75,000**
	Dec. 31	**Cash ....**	**18,000**	
		Share Investments		**18,000**
b.	Dec. 31	Share Investments.......................................	75,000	
		Revenue from Share Investments		75,000
	Dec. 31	Cash	60,000	
		Share Investments		60,000
c.	Dec. 31	Share Investments.......................................	57,000	
		Revenue from Share Investments		57,000
d.	Dec. 31	Revenue from Share Investments.................	75,000	
		Share Investments		75,000
	Dec. 31	Share Investments.......................................	18,000	
		Cash		18,000

5-On January 1, 2014, Bartley Corp. paid $900,000 for 100,000 ordinary shares of Oak Company, which represents 40% of Oak's outstanding shares. Oak reported net income of $200,000 and paid cash dividends of $60,000 during 2014. Bartley should report the investment in Oak Company on its December 31, 2014, statement of financial position at:

a. $900,000
b. $844,000
c. $924,000
d. $956,000

6-At the end of the first year of operations, the total cost of the trading securities portfolio is $240,000. Total fair value is $250,000. The financial statements should show

a. an addition to an asset of $10,000 and a realized gain of $10,000.
b. an addition to an asset of $10,000 and an unrealized gain of $10,000 in the equity section.
c. an addition to an asset of $10,000 in the current assets section and an unrealized gain of $10,000 in “Other income and expense.”
d. an addition to an asset of $10,000 in the current assets section and a realized gain of $10,000 in “Other income and expense.”

7-In recognizing a decline in the fair value of short-term share investments, an unrealized loss account is debited because

a. management intends to realize this loss in the near future.
b. the securities have not been sold.
c. the share market is volatile.
d. management cannot determine the exact amount of the loss in value.

8-On January 1, 2014, Duvall Industries acquired a 25% interest in Florida Corporation through the purchase of 12,000 ordinary shares of Florida Corporation for $720,000. During 2014, Florida Corp. paid $180,000 in dividends and reported a net loss of $270,000. Duvall is able to exert significant influence on Florida. However, Duvall mistakenly records these transactions using the cost method rather than the equity method of accounting. Which of the following would show the correct presentation for Duvall's investment using the equity method?

	Investment *Account*	*Net* *Earnings (loss)*
a.	$270,000	($90,000)
b.	**$607,500**	**($67,500)**
c.	$652,500	($67,500)
d.	$652,500	($22,500)

9-Dobson Inc. earns €900,000 and pays cash dividends of €300,000 during 2014. Cornwell Corporation owns 70,000 of the 210,000 outstanding shares of Dobson.

What amount should Cornwell show in the investment account at December 31, 2014 if the beginning of the year balance in the account was €80,000?

a. €280,000
b. €200,000
c. €300,000
d. €400,000

How much revenue from investment should Cornwell report in 2014?

a. €100,000
b. €200,000
c. €300,000
d. €400,000

10-The equity method of accounting for an investment in the ordinary shares of another company should be used by the investor when the investment

a. is composed of ordinary shares and it is the investor's intent to vote the ordinary shares.
b. ensures a source of supply of raw materials for the investor.
c. enables the investor to exercise significant influence over the investee.
d. is obtained by an exchange of shares for shares.

8

E13-10 At December 31, 2017, the end of its first year of operations, the trading securities for Geneva, AG are as follows.

Security	Cost	Fair value
A	$ 17,500	$ 16,000
B	$ 12,500	$ 14,000
C	$ 23,000	$ 19,000
TOTAL	$ 53,000	$ 49,000

Instructions

1. Prepare the adjusting entry at December 31, 2017, to report the securities at fair value.
2. Show the statement of financial position and income statement presentation at December 31, 2017, after adjustment to fair value.

9

E13-11

Same of the previous question but instead of being trading securities assume they are non-trading securities and classified as long-term investment.

Security	Cost	Fair value
A	$ 17,500	$ 16,000
B	$ 12,500	$ 14,000
C	$ 23,000	$ 19,000
TOTAL	$ 53,000	$ 49,000

Instructions

1. Prepare the adjusting entry at December 31, 2017, to report the securities at fair value.
2. Show the statement of financial position and income statement presentation at December 31, 2017, after adjustment to fair value.

1-At the beginning of 2014, Trichet Inc. purchased a 27% stake in the ordinary shares of Papandreou Company at a cost of €4,000,000. After applying the equity method, the Investment in Papandreou account has a balance of €4,020,000. At December 31, 2014 the fair value of the investment is €4,130,000. Which of the following values is acceptable for Trichet to report for the investment in its December 31, 2014 statement of financial position?

I. €4,000,000

II. €4,020,000

III. €4,130,000

a. I, II, or III.
b. I or II only.
c. II only.
d. II or III only.

2-A year-end analysis of Valencia Inc.'s equity securities portfolio acquired in 2014 shows the following totals at December 31, 2014 for trading and non-trading securities:

	Trading Securities	Non-Trading Securities
Aggregate cost	€900,000	€1,100,000
Aggregate fair value	700,000	950,000

What amount of unrealized holding loss should Valencia report in its 2014 income statement?

a. €0.
b. €50,000.
c. €150,000.
d. €200,000.

3-At December 31, 2014, Jantzen Corp. had the following trading securities purchased during 2014, its first year of operation:

	Cost	fair Value	unrealized Gain (Loss)
Security A	CHF 900,000	CHF 700,000	CHF(200,000)
B	150,000	200,000	50,000
Totals	CHF1,050,000	CHF 900,000	CHF(150,000)

How will the fair value adjustments for 2014 impact the year's net income?

a. an unrealized holding loss will decrease net income by CHF200,000.
b. an unrealized holding gain will increase net income by CHF50,000.
c. an unrealized holding loss will decrease net income by CHF150,000.
d. unrealized holding gains and losses on trading securities do not impact net income.

4-At December 31, 2014, Greystone Corp. had the following non-trading securities that were purchased during 2014, its first year of operation:

	Cost	Fair Value	Unrealized Gain (Loss)
Security A	£ 170,000	£ 180,000	£ (10,000)
B	185,000	170,000	15,000
Totals	£ 355,000	£ 350,000	£ (5,000)

How will the fair value adjustments for 2014 impact the year's net income?

a. an unrealized holding loss will decrease net income by £10,000.
b. an unrealized holding gain will increase net income by £15,000.
c. an unrealized holding loss will decrease £5,000.
d. unrealized holding gains and losses on non-trading securities do not impact net income.

5-On December 31, 2013, Patel Co. purchased equity securities as trading securities. Pertinent data are as follows:

Security	Cost	fair value At 12/31/14
A	Rs932,000	Rs1,032,000
B	468,000	508,000
C	688,000	478,000

The journal entry to record the fair value adjustment at December 31, 2014 will include

a. a debit to Fair Value Adjustment-Trading for Rs140,000.
b. a debit to Unrealized Loss – Equity for Rs70,000.
c. a debit to Unrealized Loss – Income for Rs70,000.
d. a credit to Unrealized Gain – Income for Rs140,000.

6-Noell Corp. has share capital of $5,000,000, retained earnings of $3,000,000, unrealized gains on trading securities of $100,000 and unrealized losses on non-trading securities of $200,000. What is the total amount of its equity?

a. $7,800,000
b. $8,000,000
c. $7,900,000
d. $8,100,000

7-Foley Corporation's trading securities portfolio at the end of the year is as follows:

Security	Cost	Fair Value
Ordinary Share A	£10,000	£12,000
Ordinary Share B	9,000	5,000
	£19,000	£17,000

Foley subsequently sells Share B for £12,000. What entry is made to record the sale?

a. Cash.. 12,000
    Share Investments... 12,000

b. Cash.. 12,000
    Fair Value Adjustment.. 3,000
    Share Investments... 9,000

c. Cash 12,000
    Share Investments 9,000
    Gain on Sale of Share Investments................................ 3,000

d. Cash.. 12,000
    Share Investments... 5,000
    Gain on Sale of Share Investments 7,000

Foley At the end of the year, Foley Corporation should

a. set up a Fair Value Adjustment account for Share B.
b. set up a Fair Value Adjustment account for the portfolio.
c. recognize an Unrealized Gain or Loss—Income for £4,000.
d. report a loss on the income statement for £4,000 under "Other income and expense."

8-If the cost of an non-trading security exceeds its fair value by $40,000, the entry to recognize the loss

a. is not required since the share prices will likely rebound in the long run.
b. will show a debit to an expense account.
c. will show a credit to a contra-asset account that appears in the equity section of the statement of financial position.
d. will show a debit to an unrealized loss account that is deducted in the equity section of the statement of financial position.

9-On January 2, Groneman Corporation acquired 30% of the outstanding ordinary shares of Coulson Company for $580,000. For the year ended December 31, Coulson reported net income of $90,000 and paid cash dividends of $30,000 on its shares. At December 31, the carrying value of Groneman's investment in Coulson under the equity method is

a. $571,000.
b. $580,000.
c. $607,000.
d. $598,000.

10-Under the equity method, the investor records dividends received by crediting

a. Dividend Revenue.
b. Investment Income.
c. Revenue from Share Investments.
d. Share Investments.

11-The statement of financial position presentation of an unrealized loss on a non-trading security is similar to the statement presentation of

a. treasury shares.
b. bonds payable.
c. allowance for doubtful accounts.
d. prepaid expenses.

12-At the end of its first year, the trading securities portfolio consisted of the following ordinary shares.

	Cost	Fair Value
Able Corporation	$ 46,400	$ 50,000
Benes Inc.	60,000	53,800
Cole Corporation	80,000	76,000
	$186,400	$179,800

The unrealized loss to be recognized under the fair value method is

a. $6,200.
b. $10,200.
c. $6,600.
d. $4,000.

In the following year, the Benes ordinary shares are sold for cash proceeds of $58,000. The gain or loss to be recognized on the sale is a

a. gain of $4,200.
b. loss of $2,000.
c. gain of $2,200.
d. loss of $400.

13-Cost and fair value data for the trading securities of Clifford Company at December 31, 2014, are $100,000 and $79,000, respectively. Which of the following correctly presents the adjusting journal entry to record the securities at fair value?

a.	Dec. 31	Unrealized Loss—Income............................	21,000	
		Trading Securities		21,000
b.	Dec. 31	Unrealized Gain—Income	21,000	
		Trading Securities		21,000
c.	**Dec. 31**	**Unrealized Loss—Income ....**	**21,000**	
		Fair Value Adjustment—Trading		**21,000**
d.	Dec. 31	Fair Value Adjustment - Trading...................	21,000	
		Unrealized Gain-Income		21,000

14-At December 31, 2014, Gregson Inc. has these data on its security investments:

Security	Cost	Fair Value 12/31/14
Trading	$ 140,000	$172,000
Non-trading	137,000	125,000

If the non-trading securities are held as long-term investments, which of the following will be recorded to adjust the securities to fair value?

a.	Securities	20,000	
	Unrealized Gain—Income		20,000
b.	Unrealized Loss—Income..	12,000	
	Securities	20,000	
	Unrealized Gain—Income		32,000
c.	**Fair Value Adjustment—Trading ....**	**32,000**	
	Unrealized Gain—Income		**32,000**
	Unrealized Gain or Loss—Equity..............................	12,000	
	Fair Value Adjustment—Non-Trading		12,000
d.	Unrealized Gain—Income	32,000	
	Fair Value Adjustment—Trading		32,000
	Fair Value Adjustment—Non-Trading........................	12,000	
	Unrealized Gain or Loss—Equity		12,000

15-At December 31, 2014, the trading securities for Mayfair, Inc. are as follows

Security	Cost	Fair Value
X	$90,000	$92,000
Y	150,000	145,000
Z	32,000	28,000

Mayfair should report the following amount related to the securities in its 2014 income statement:

a. $2,000 gain
b. $7,000 realized loss.
c. $7,000 unrealized loss.
d. $9,000 unrealized loss.

THE END

Good luck