Modern Advanced Accounting in Canada (Canadian) 9th edition Herauf Test Bank

SKU: 9781259654695-TEST-BANK

Chapter 02
Investments in Equity Securities

Multiple Choice Questions

1. Which of the following types of share investment does NOT qualify as a strategic investment?
A. Significant influence investments.
B. Joint Control investments.
C. Investments without significant influence.
D. Controlled investments.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Describe the main changes in the reporting of equity investments over the past 15 years.
Topic: 02-01 Equity Investments-The Big Picture

2. A significant influence investment is one that:
A. allows the investor to exercise significant influence over the strategic operating and financing policies of the Associate.
B. allows the investor to exercise significant influence over only the financing policies of the Associate.
C. allows the investor to exercise significant influence over only the operating policies of the Associate.
D. allows the investor to exercise significant influence over the strategic and operating policies of the Associate.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.
Topic: 02-06 Equity Method of Reporting and Investment in Associate

3. What is the dominant factor used to distinguish non-strategic investments from significant influence investments?
A. Use of the cost method to account for and report the investment.
B. Use of the equity method to account for and report the investment.
C. The investor's intention to establish or maintain a long-term operating relationship with the investee.
D. The percentage of equity held by the investor.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Describe the main changes in the reporting of equity investments over the past 15 years.
Topic: 02-01 Equity Investments-The Big Picture

4. Which of the following statements is TRUE under IFRS 9?
A. All unrealized gains and losses on equity investments flow through other comprehensive income (OCI).
B. Unrealized gains and losses on fair value through profit and loss (FVTPL) securities are included in Other Comprehensive Income.
C. Unrealized gains and losses on equity investments may be included in other comprehensive income (OCI) only if a decision to do so is made when the investment is acquired.
D. Other comprehensive income (OCI) is included in net income.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration

5. Gains and losses on fair value through profit or loss (FVTPL) securities:
A. are included in net income, regardless of whether they are realized or not.
B. are included in net income only when the investment has become permanently impaired.
C. are included in net income only when realized.
D. are never recorded until the securities are sold.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration

6. How are realized gains from the sale of fair value through other comprehensive income (FVTOCI) investments accounted for under IFRS 9?
A. They are transferred to net income in the period of the sale.
B. They remain in accumulated other comprehensive income.
C. They are transferred from accumulated other comprehensive income to retained earnings without going through net income.
D. They are transferred to contributed surplus.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration

7. Which of the following statements is TRUE regarding the equity method?
A. The equity method is used for reporting gains or losses for non-strategic investments.
B. The investor's share of the associate's dividends declared is reported as revenue.
C. The investor's investment in the associate changes in direct relation to the changes taking place in the associate's equity accounts.
D. The equity method reports unrealized gains and losses on revaluations to fair value in net income.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-07 Illustration of Equity Method Basics
Topic: 02-08 Complexities Associated with the Equity Method

8. What percentage of ownership is used as a guideline to determine that significant influence exists under IAS 28 *Investments in Associates and Joint Ventures*?
A. 20% or more.
B. Less than 20%.
C. Between 20% and 50%.
D. 25% or more.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.
Topic: 02-06 Equity Method of Reporting and Investment in Associate

9. Which of the following methods uses procedures closest to those used in preparing consolidated financial statements?
A. The fair value through profit or loss (FVTPL) approach
B. The cost method
C. The fair value through other comprehensive income (FVTOCI) approach
D. The equity method

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-10 Example

10. Which of the following is NOT a possible indicator of significant influence?
A. The investor has the ability to elect members to the Board of Directors.
B. The investor has the right to participate in the policy-making process.
C. The investor has engaged in numerous intercompany transactions with the Associate.
D. The Associate's new CEO was previously CEO of the investor company.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.
Topic: 02-06 Equity Method of Reporting and Investment in Associate

11. Which of the following statements is CORRECT?
A. Significant influence is only possible if the investor owns more than 50% of the voting shares of the associate.
B. An ownership interest between 20% and 50% always implies significant influence.
C. An ownership interest between 0 and 10% can never imply significant influence.
D. Significant influence is possible even if the investor owns less than 20% of the voting shares of the associate.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.
Topic: 02-06 Equity Method of Reporting and Investment in Associate

12. The difference between the investor's cost and the investor's percentage of the carrying value of the net identifiable assets of the associate is known as:
A. Goodwill.
B. the Acquisition Differential.
C. the Fair Value Increment.
D. the Excess Book Value.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-11 Acquisition Costs Greater than Carrying Costs

13. Any unallocated positive acquisition differential is normally:
A. pro-rated across the Associate's identifiable net assets.
B. charged to Retained Earnings.
C. recorded as Goodwill.
D. expensed during the year following the acquisition.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.
Topic: 02-11 Acquisition Costs Greater than Carrying Costs

14. When are gains on intercompany transfers of assets between an investor an associate recognized as part of the investment income accounted for by the investor under the equity method?
A. In the period when the intercompany transfer takes place.
B. In the period(s) when the assets are sold to third parties or consumed.
C. They are never recognized.
D. They are recognized only when the investment is sold.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-12 Unrealized Profits

15. The ________ investment must be shown as a current asset, whereas the other investments could be current or non-current, depending on management's intention.
A. fair value through profit or loss (FVTPL)
B. cost method
C. equity method
D. fair value through other comprehensive income (FVTOCI)

The FVTPL investment must be shown as a current asset, whereas the other investments could be current or non-current, depending on management's intention.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Analyze and interpret financial statements involving investments in equity securities.
Topic: 02-19 Analysis and Interpretation of Financial Statements

16. When analyzing and interpreting financial statements, although the reporting methods show different values for liquidity, solvency, and profitability, the real economic situation is ________ for the four different methods.
A. completely different
B. identical
C. almost similar except for the equity method
D. almost similar except for the fair value methods

When analyzing and interpreting financial statements, although the reporting methods show different values for liquidity, solvency, and profitability, the real economic situation is identical for the four different methods.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Analyze and interpret financial statements involving investments in equity securities.
Topic: 02-19 Analysis and Interpretation of Financial Statements

17. Reporting in accordance with the Accounting Standards for Private Enterprises (ASPE) is permitted in certain instances for:
A. privately held companies.
B. publicly held companies.
C. all Canadian companies.
D. Canadian companies consolidating their foreign subsidiaries.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-06 Identify some of the differences between IFRS and ASPE for investments in equity securities.
Topic: 02-19 Analysis and Interpretation of Financial Statements

18. When reporting under the Accounting Standards for Private Enterprises (ASPE) which method must be used to report investments where the investor has significant influence over the investee?
A. It must use the cost method to report all such investments.
B. It must use the equity method to report all such investments.
C. It may use the cost method, equity method, or at fair value but must account for all such investments by the same method.
D. It may use the cost method for some such investments and the equity method for other such investments.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-06 Identify some of the differences between IFRS and ASPE for investments in equity securities.
Topic: 02-19 Analysis and Interpretation of Financial Statements

19. On January 1, 2019, X Inc. purchased 12% of the voting shares of Y Inc. for $100,000. The investment is reported at cost. X does not have significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	Dividends
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

Which of the following journal entries would have to be made to record X's acquisition of Y's shares on January 1, 2019?

A.

	Debit	Credit
Investment in Y	$100,000	
Cash		$100,000

B.

	Debit	Credit
Investment in Y	$12,000	
Cash		$12,000

C.

	Debit	Credit
Investment in Y	$112,000	
Cash		$112,000

D. No entry required.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment

20. On January 1, 2019, X Inc. purchased 12% of the voting shares of Y Inc. for $100,000. The investment is reported at cost. X does not have significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	Dividends
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

Which of the following journal entries would have to be made to record X's share of Y's net income for 2019?

A.

	Debit	Credit
Investment in Y	$6,000	
Investment income		$6,000

B.

	Debit	Credit
Investment in Y	$50,000	
Investment income		$50,000

C.

	Debit	Credit
Investment in Y	$12,000	
Investment income		$12,000

D. No entry required.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment

21. On January 1, 2019, X Inc. purchased 12% of the voting shares of Y Inc. for $100,000. The investment is reported at cost. X does not have significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	Dividends
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2019?

A.

	Debit	Credit
Cash	$2,400	
Dividend income		$2,400

B.

	Debit	Credit
Cash	$2,400	
Investment in Y		$2,400

C.

	Debit	Credit
Investment in Y	$2,400	
Dividend income		$2,400

D. No entry required.

Share of dividends = $20,000 × 12% = $2,400.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment

22. On January 1, 2019, X Inc. purchased 12% of the voting shares of Y Inc. for $100,000. The investment is reported at cost. X does not have significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	**Dividends**
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2020?

A.

	Debit	**Credit**
Cash	$9,600	
Dividend income		$9,600

B.

	Debit	**Credit**
Cash	$9,600	
Investment in Y		$9,600

C.

	Debit	Credit
Cash	$9,600	
Dividend income		$8,400
Investment in Y		$1,200

D. No entry required.

Share of dividends = $80,000 × 12% = $9,600.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment

23. On January 1, 2019, X Inc. purchased 12% of the voting shares of Y Inc. for $100,000. The investment is reported at cost. X does not have significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	Dividends
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2021?

A.

	Debit	Credit
Investment in Y	$7,200	
Dividend income		$7,200

B.

	Debit	Credit
Cash	$7,200	
Investment in Y		$7,200

C.

	Debit	Credit
Cash	$7,200	
Dividend income		$7,200

D. No entry required.

Share of dividends = $60,000 × 12% = $7,200.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment

24. On January 1, 2019, X Inc. purchased 12% of the voting shares of Y Inc. for $100,000. The investment is reported at cost. X does not have significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	Dividends
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

What would be the carrying value of X's Investment in Y at the end of 2021?
A. $100,000
B. $98,800
C. $90,000
D. $91,200

Under the cost method, the carrying value of the Investment in Y will remain at $100,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment

25. On January 1, 2019, X Inc. purchased 25% of the voting shares of Y Inc. for $100,000. The investment is reported using the equity method, as X has significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	**Dividends**
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

Which of the following journal entries would have to be made to record X's acquisition of Y's shares?
A.

	Debit	**Credit**
Investment in Y	$100,000	
Cash		$100,000

B.

	Debit	Credit
Investment in Y	$12,000	
Cash		$12,000

C.

	Debit	Credit
Investment in Y	$112,000	
Goodwill		$112,000

D. No entry required.

On acquisition date, the only journal entry that is necessary is to record the share purchase. Subsequent to this date, changes to the Investment in Y will be recorded.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics

26. On January 1, 2019, X Inc. purchased 25% of the voting shares of Y Inc. for $100,000. The investment is reported using the equity method, as X has significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	Dividends
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

Which of the following journal entries would have to be made to record X's share of Y's net income for 2019?

A.

	Debit	Credit
Investment in Y	$12,500	
Equity method income		$12,500

B.

	Debit	Credit
Investment in Y	$7,500	
Equity method income		$7,500

C.

	Debit	Credit
Investment in Y	$12,000	
Equity method income		$12,000

D. No entry required.

Share of net income = $50,000 × 25% = $12,500.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics

27. On January 1, 2019, X Inc. purchased 25% of the voting shares of Y Inc. for $100,000. The investment is reported using the equity method, as X has significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	Dividends
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2019?

A.

	Debit	Credit
Cash	$5,000	
Dividend income		$5,000

B.

	Debit	Credit
Cash	$5,000	
Investment in Y		$5,000

C.

	Debit	Credit
Investment in Y	$5,000	
Dividend income		$5,000

D. No entry required.

Share of dividends = $20,000 × 25% = $5,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics

28. On January 1, 2019, X Inc. purchased 25% of the voting shares of Y Inc. for $100,000. The investment is reported using the equity method, as X has significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	**Dividends**
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2020?

A.

	Debit	**Credit**
Cash	$20,000	
Dividend income		$20,000

B.

	Debit	**Credit**
Cash	$20,000	
Investment in Y		$20,000

C.

	Debit	Credit
Cash	$20,000	
Dividend Income		$17,500
Investment in Y		$2,500

D. No entry required.

Share of dividends = $80,000 × 25% = $20,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics

29. On January 1, 2019, X Inc. purchased 25% of the voting shares of Y Inc. for $100,000. The investment is reported using the equity method, as X has significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	Dividends
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2021?

A.

	Debit	Credit
Cash	$15,000	
Dividend income		$15,000

B.

	Debit	Credit
Cash	$15,000	
Investment in Y		$15,000

C.

	Debit	Credit
Cash	$15,000	
Dividend Income		$12,500
Investment in Y		$2,500

D. No entry required.

Share of dividends = $60,000 × 25% = $15,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics

30. On January 1, 2019, X Inc. purchased 25% of the voting shares of Y Inc. for $100,000. The investment is reported using the equity method, as X has significant influence over Y. Y's net income and declared dividends for the following three years are as follows:

	Net Income	Dividends
2019	$50,000	$20,000
2020	$70,000	$80,000
2021	$30,000	$60,000

What would be the carrying value of X's Investment in Y at the end of 2021?
A. $100,000
B. $97,500
C. $98,800
D. $91,200

Under the equity method, the carrying value of the Investment in Y at December 31, 2021 is calculated as follows:

Acquisition	$100,000
Share of net income 2019	$12,500
Share of dividends paid 2019	($5,000)
Balance, Dec.31, 2019	$107,500
Share of net income 2020	$17,500
Share of dividends paid 2020	($20,000)
Balance, Dec.31, 2020	$105,000
Share of net income 2021	$7,500
Share of dividends paid 2021	($15,000)
Balance, Dec.31, 2021	$97,500

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics

31. If an investor's ownership interest in a significant influence investment increases or decreases, how are changes from accounting at fair value to the use of the Equity Method (or vice-versa) to be handled?
A. Changes from the Equity Method are to be handled prospectively, while changes to the Equity Method are to be handled retroactively.
B. Changes from the Equity Method are to be handled retroactively, while changes to the Equity Method are to be handled prospectively.
C. Any change is to be handled retroactively.
D. Any change is to be handled prospectively.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-13 Changes To and From the Equity Method

32. When an investment is accounted for using the Equity Method, how are the investor's share of the investee's income from non-operating sources (such as gains or losses from discontinued operations) to be accounted for by the investor?
A. Any such gains or losses are to be charged directly to Retained Earnings net of tax.
B. Any such gains or losses are included with the revenue and expenses from operations. The investor's *pro rata* share of these after-tax gains and losses are added to or deducted from the Investment account.
C. Any such gains or losses are shown separately, net of tax, below income from operations on the investor's Income Statement. The investor's *pro rata* share of these after-tax gains and losses are added to or deducted from the Investment account.
D. No specific accounting treatment is required. These items simply have to be disclosed in notes to the financial statements.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-09 Other Changes in Associate's Equity
Topic: 02-10 Example

33. If the investor sells part of its stake in an associate, accounted for using the equity method, which of the following is used to calculate the gain or loss on the sale of these shares?
A. The average carrying amount of the investment
B. The FIFO method
C. The LIFO method
D. The specific identification method

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-16 Gains and Losses on Sale of Investments

34. If an investment accounted for using the equity method suffers an impairment loss and the value in use of the investment subsequently recovers, what accounting entry should be made?
A. It may be revalued to fair value with the revaluation gain going to other comprehensive income, even if the recorded gain will exceed the original impairment loss.
B. It may be written up in value but not more than the amount of the impairment loss that was recorded at the time of impairment.
C. It may be revalued to fair value with the revaluation gain going to net income, even if the recorded gain will exceed the original impairment loss.
D. None; once an investment has been written down, it cannot subsequently be written up.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-15 Impairment Losses

35. If an investor is reporting in compliance with the International Financial Reporting Standards (IFRS) and has an investment with significant influence over the investee, what are the reporting requirements for the investor if the investment is in shares which are actively traded on an exchange?
A. The investment must be reported at fair value through profit and loss (FVTPL).
B. The investment must be reported at fair value through other comprehensive income (FVTOCI).
C. The investment must be reported using the equity method with the fair value disclosed in the notes to the financial statements.
D. The investment must be reported using the equity method; disclosure of the fair value of the investment is at the discretion of the investor.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-18 Presentation and Disclosure Requirements

36. How does the accounting for Other Comprehensive Income differ between the International Financial Reporting Standards (IFRS) and the Accounting Standards for Private Enterprises (ASPE)?
A. Under IFRS, realized gains are transferred from Other Comprehensive Income to net income when realized; under ASPE realized gains are transferred from Other Comprehensive Income directly to Retained Earnings.
B. Under ASPE, realized gains are transferred from Other Comprehensive Income to net income when realized; under IFRS realized gains are transferred from Other Comprehensive Income directly to Retained Earnings.
C. There is no difference between accounting for Other Comprehensive Income under IFRS and under ASPE.
D. The Accounting Standards for Private Enterprises do not recognize Other Comprehensive Income.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Identify some of the differences between IFRS and ASPE for investments in equity securities.
Topic: 02-19 Analysis and Interpretation of Financial Statements

37. Which of the following statements is true regarding an investment in associate that meets the criteria to be classified as held for sale?
A. The investment in associate is to be reported as a non-current asset.
B. The intention of management is to recover the carrying value of the investment through continued operations.
C. The sale of the investment in associate must be highly probable.
D. The investment in associate is to be measured at fair value.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-17 Held for Sale

38. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its investment in Stamp Company at fair value through profit or loss (FVTPL), what entry will the company make to record the dividends received from Stamp Company for 2019?
A.

	Debit	**Credit**
Cash	$16,000	
Dividend income		$16,000

B.

	Debit	**Credit**
Cash	$16,000	
Investment in Stamp Company		$16,000

C.

	Debit	Credit
Cash	$16,000	
OCI-unrealized gain		$16,000

D. No entry required.

$80,000 × 20% = $16,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration

39. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its investment in Stamp Company at fair value through profit or loss (FVTPL), what entry will the company make to record the revaluation of the investment at December 31, 2019?

A.

	Debit	Credit
Investment in Stamp Company	$20,000	
Unrealized gain (net income)		$20,000

B.

	Debit	Credit
Investment in Stamp Company	$20,000	
Unrealized gain (OCI)		$20,000

C.

	Debit	Credit
Unrealized loss (net income)	$20,000	
Investment in Stamp Company		$20,000

D. No entry required.

Acquisition	$200,000
Fair value adjustment [(20,000 × $11) – $200,000]	$20,000
Balance, Dec.31, 2019.	$220,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration

40. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its investment in Stamp Company at fair value through profit or loss (FVTPL), what will the balance in the Investment in Stamp Company be at December 31, 2019?
A. $200,000
B. $208,000
C. $220,000
D. $240,000

Acquisition	$200,000
Fair value adjustment [(20,000 × $11) – $200,000]	$20,000
Balance, Dec.31, 2019.	$220,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration

41. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its investment in Stamp Company at fair value through other comprehensive income (FVTOCI), what entry will the company make to record the dividends received from Stamp Company for 2019?

A.

	Debit	**Credit**
Cash	$16,000	
Dividend income		$16,000

B.

	Debit	**Credit**
Cash	$16,000	
Investment in Stamp Company		$16,000

C.

	Debit	**Credit**
Cash	$16,000	
OCI-Unrealized Gain		$16,000

D. No entry required.

$80,000 × 20% = $16,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration

42. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its investment in Stamp Company at fair value through other comprehensive income (FVTOCI), what entry will the company make to record the revaluation of the investment at December 31, 2019?

A.

	Debit	**Credit**
Investment in Stamp Company	$20,000	
Unrealized gain (net income)		$20,000

B.

	Debit	**Credit**
Investment in Stamp Company	$20,000	
OCI-Unrealized gain		$20,000

C.

	Debit	**Credit**
Unrealized loss (net income)	$20,000	
Investment in Stamp Company		$20,000

D. No entry required.

Acquisition	$200,000
Fair value adjustment [(20,000 × $11) – $200,000]	$20,000
Balance, Dec.31,2019	$220,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration

43. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its investment in Stamp Company at fair value through other comprehensive income (FVTOCI), what will the balance in the Investment in Stamp Company be at December 31, 2019?
A. $200,000
B. $208,000
C. $220,000
D. $240,000

Acquisition	$200,000
Fair value adjustment [(20,000 × $11) – $200,000]	$20,000
Balance, Dec.31,2019	$220,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration

44. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its investment in Stamp Company using the equity method, what entry will the company make to record the dividends received from Stamp Company for 2019?

A.

	Debit	Credit
Cash	$16,000	
Dividend income		$16,000

B.

	Debit	Credit
Cash	$16,000	
Investment in Stamp Company		$16,000

C.

	Debit	Credit
Cash	$16,000	
OCI-Unrealized gain		$16,000

D. No entry required.

$80,000 × 20% = $16,000.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics

45. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its significant influence investment in Stamp Company using the equity method, what entry will the company make to record the revaluation of the investment at December 31, 2019?

A.

	Debit	**Credit**
Investment in Stamp Company	$20,000	
Unrealized gain (net income)		$20,000

B.

	Debit	**Credit**
Investment in Stamp Company	$20,000	
OCI-Unrealized gain		$20,000

C.

	Debit	**Credit**
Unrealized loss (net income)	$20,000	
Investment in Stamp Company		$20,000

D. No entry required.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics

46. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its significant influence investment in Stamp Company using the cost method, what will the balance in the Investment in Stamp Company be at December 31, 2019?

A. $200,000
B. $208,000
C. $220,000
D. $240,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment

47. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its significant influence investment in Stamp Company using the cost method, what entry will the company make to record the dividends received from Stamp Company for 2019?

A.

	Debit	**Credit**
Cash	$16,000	
Dividend Income		$16,000

B.

	Debit	**Credit**
Cash	$16,000	
OCI-unrealized gain		$16,000

C.

	Debit	Credit
Cash	$16,000	
Investment in Stamp Company		$16,000

D. No entry required.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment

48. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its significant influence investment in Stamp Company using the cost method, what entry will the company make to record the revaluation of the investment at December 31, 2019?

A.

	Debit	Credit
Investment in Stamp Company	$20,000	
Unrealized gain (net income)		$20,000

B.

	Debit	Credit
Investment in Stamp Company	$20,000	
OCI-Unrealized gain		$20,000

C.

	Debit	Credit
Unrealized loss (net income)	$20,000	
Investment in Stamp Company		$20,000

D. No entry required.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment

49. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

If Posthorn Corporation accounts for its significant influence investment in Stamp Company using the equity method, what will the balance in the Investment in Stamp Company be at December 31, 2019?
A. $200,000
B. $208,000
C. $220,000
D. $240,000

Acquisition	$200,000
Share of net income 2019 $120,000 × 20%	$24,000
Share of dividends paid 2019 $80,000 × 20%	($16,000)
Balance, Dec.31,2019	$208,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics

50. In the situation where an investor's share of an associate's losses exceeds the carrying amount of the investment, which of the following is a true statement?
A. After the investor's interest is reduced to zero, any additional losses will, on a pro-rata basis, reduce the value of other investments the investor may have in the associate.
B. After the investor's interest is reduced to zero, any additional losses will be recognized as a gain.
C. After the investor's interest is reduced to zero, any additional losses will reduce any existing trade receivables, trade payables or any long-term receivables for which adequate collateral exists.
D. After the investor's interest is reduced to zero, any additional losses will be recognized as a liability to the extent the investor has legal obligations on behalf of the associate.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-14 Losses Exceeding the Balance in the Investment Account

Short Answer Questions

51. On January 1, 2019, Joyce Inc. paid $600,000 to purchase 25% of Mark Inc's outstanding voting shares. Joyce has significant influence over Mark. Mark's earnings for 2019 and 2020 were $100,000 and $200,000 respectively. Mark declared and paid dividends in the amount of $20,000 and $10,000 during 2019 and 2020, respectively.

Required:

Calculate the balance in the Investment in Mark Inc. account as at December 31, 2020.

Joyce Inc.
Investment in Mark Account
As at December 31, 2020

Acquisition cost:	$600,000
Pro-rata share of Mark's 2019 Net Income	$25,000
Pro-rata share of Mark's 2019 Dividends	($5,000)
Pro-rata share of Mark's 2020 Net Income	$50,000
Pro-rata share of Mark's 2020 Dividends	($2,500)
Investment in Mark Inc. as at December 31, 2020	$667,500

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate

52. X purchased 40% of Y on January 1, 2019 for $400,000. Y paid dividends of $50,000 in each year. Y's income statements for 2019 and 2020 showed the following.

	2019	2020
Income (loss) before income taxes	$100,000	($60,000)
Income tax expense (recovery)	40,000	(15,000)
Net income (loss)	$60,000	($45,000)
Other comprehensive income (net of tax)	20,000	25,000
Comprehensive income (loss)	$80,000	($20,000)

At December 31, 2019, the fair value of the investment was $440,000 and at December 31, 2020 the fair value of the investment was $420,000.

Required:

Prepare X's journal entries for 2019 and 2020, assuming that this is a non-strategic investment and is accounted for at fair value through profit and loss (FVTPL).

2019:	**Debit**	**Credit**
Investment in Y	$400,000	
Cash		$400,000
To record X’s purchase of Y		
Cash	$20,000	
Dividend Revenue		$20,000
To record receipt of Dividends from Y-2019		
Investment in Y	$40,000	
Investment revaluation gain (net income)		$40,000
To record revaluation at December 31, 2019		
2020:	**Debit**	**Credit**
Cash	$20,000	
Dividend Revenue		$20,000
To record receipt of Dividends from Y-2020		
Investment revaluation loss (net income)	$20,000	
Investment in Y		$20,000
To record revaluation at December 31, 2020		

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

53. X purchased 40% of Y on January 1, 2019 for $400,000. Y paid dividends of $50,000 in each year. Y's income statements for 2019 and 2020 showed the following:

	2019	**2020**
Income (loss) before income taxes	$100,000	($60,000)
Income tax expense (recovery)	40,000	(15,000)
Net income (loss)	$60,000	($45,000)
Other comprehensive income (net of tax)	20,000	25,000
Comprehensive income (loss)	$80,000	($20,000)

At December 31, 2019, the fair value of the investment was $440,000 and at December 31, 2020, the fair value of the investment was $420,000.

Required:

Prepare X's journal entries for 2019 and 2020, assuming that this is a significant influence investment.

2019:	**Debit**	**Credit**
Investment in Y	$400,000	
Cash		$400,000
To record X's purchase of Y.		
Investment in Y	$32,000	
Equity method income (40% × 60,000)		$24,000
Other comprehensive income related to associate (40% × 20,000)		$8,000
To record 2019 share of income from associate.		
Cash	$20,000	
Investment in Y		$20,000
To record receipt of Dividends from Y-2019		
2020:	Debit	Credit
Equity method loss ((40% × (45,000))	$18,000	
Other comprehensive income related to associate		$10,000
Investment in Y		$8,000
To record share of 2020 loss and OCI from associate		
Cash	$20,000	
Investment in Y		$20,000
To record receipt of Dividends from Y-2020		

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate

54. Telnor Corporation (whose year end is December 31 of each year) has made a series of investments in Pineapple Corp., one of their major customers. The management of Telnor has been impressed by the products produced and sold by Pineapple and their market success. These investments are only going to be held for a short period of time. The market price of Pineapple stock on December 31, 2019 and 2020 was $200 and $250 respectively per share. Dividends of $1.00 per share were declared and paid on December 31 of each year. The following are the purchases and sales that Telnor entered into in 2019 and 2020:

Date	No. Of Shares	Total	Cost (per share)
March 31, 2019	1,000	1,000	$75
June 30, 2019	1,000	2,000	$125
September 30, 2019	1,000	3,000	$175
September 30, 2020	(3,000)	0	$240

Assume that Telnor accounts for its investment in Pineapple Corp. at fair value through profit and loss (FVTPL).

Required:

(a) Prepare the journal entries to record the transactions in 2019 and 2020 with respect to Telnor's investment in Pineapple.

(b) How would Telnor disclose the investment in Pineapple on its balance sheet?

Date	No. Of Shares	Total	Cost (per share)	Total Cost
March 31, 2019	1,000	1,000	$75	$75,000
June 30, 2019	1,000	2,000	$125	$200,000
September 30, 2019	1,000	3.000	$175	$375,000

Unrealized gain at December 31, 2019 (3,000 × $200) - $375,000 = $225,000.

(a)

03.31.2019	Investment in Pineapple	75,000	
	Cash		75,000
	To record investment		
06.30.2019	Investment in Pineapple	125,000	
	Cash		125,000
	To record investment		
09.30.2019	Investment in Pineapple	175,000	
	Cash		175,000
	To record investment		
12.31.2019	Investment in Pineapple	225,000	
	Investment revaluation gain (FVTPL)		225,000
	To record unrealized gain		
12.31.2019	Cash	3,000	
	Dividend Income		3,000
	To record dividend income		
09.30.2020	Cash	720,000	
	Gain on sale		120,000
	Investment in Pineapple		600,000
	To record disposal of Pineapple shares		

(b) The investment would be included in current assets given management's intention to hold them for a short period of time.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

55. Telnor Corporation (whose year end is December 31 of each year) has made a series of investments in Pineapple Corp., one of their major customers. The management of Telnor has been impressed by the products produced and sold by Pineapple and their market success. These investments are only going to be held for a short period of time. The market price of Pineapple stock on December 31, 2019 and 2020 was $200 and $250 respectively per share. Dividends of $1.00 per share were declared and paid on December 31 of each year. The following are the purchases and sales that Telnor entered into in 2019 and 2020:

Date	No. Of Shares	Total	Cost (per share)
March 31, 2019	1,000	1,000	$75
June 30, 2019	1,000	2,000	$125
September 30, 2019	1,000	3,000	$175
September 30, 2020	(3,000)	0	$240

Assume that Telnor accounts for its investment in Pineapple Corp. at fair value through other comprehensive income (FVTOCI).

Required:

(a) Prepare the journal entries to record the transactions in 2019 and 2020 with respect to Telnor's investment in Pineapple.

(b) How would Telnor disclose the investment in Pineapple on its balance sheet?

Date	No. Of Shares	Total	Cost (per share)	Total Cost
March 31, 2019	1,000	1,000	$75	$75,000
June 30, 2019	1,000	2,000	$125	$200,000
September 30, 2019	1,000	3.000	$175	$375,000

Unrealized gain at December 31, 2019 (3,000 * $200) - $375,000 = $225,000

(a)

03.31.2019	Investment in Pineapple	75,000	
	Cash		75,000
	To record investment		
06.30.2019	Investment in Pineapple	125,000	
	Cash		125,000
	To record investment		
09.30.2019	Investment in Pineapple	175,000	
	Cash		175,000
	To record investment		
12.31.2019	Investment in Pineapple	225,000	
	Investment revaluation gain (OCI)		225,000
	To record investment		
12.31.2019	Cash	3,000	
	Dividend Income		3,000
	To record dividend income		
09.30.2020	Cash	720,000	
	Gain on sale (OCI)		120,000
	Investment in Pineapple		600,000
	To record disposal of Pineapple shares		
	Accumulated OCI–reclassification to retained earnings	345,000	
	Retained earnings–gain on sale of FVTOCI investments		345,000
	To transfer realized gain from AOCI to Retained Earnings		

(b) The investment would be included in current assets given management's intention to hold them for a short period of time.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

56. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each. Posthorn has a December 31 year end for all years.

During 2020, Stamp Company had a loss of $60,000 and paid dividends of $40,000. Income for the first half of the year was $80,000 and the loss in the second half of the year was $140,000. The dividends were paid on June 30. On July 2, 2020, Posthorn Corporation sold 5,000 shares of Stamp Company for a consideration of $12 per share. At the end of 2020, the share price of Stamp Company had fallen to $6 per share. The average of market analysts' forecasts was that the share price could be expected to rise to $8 per share over the next five years. (Assume that the future recoverable value of the shares is assessed to be $8 per share.)

Required:

Provide journal entries for Posthorn Corporation for all transactions relating to its investment in Stamp Company for the year 2020 if it accounts for its investment in Stamp Company as a fair value through profit and loss investment (FVTPL).

June 30, 2020	Cash	$8,000	
	Dividend income		$8,000
	(To record dividend paid on June 30, 2020)		
July 2, 2020	Cash	$60,000	
	Investment in Stamp Company		$55,000
	Gain on sale of investment		5,000
	(To record sale of shares on July 2, 2020; carrying value was $11 per share)		
Dec 31, 2020	Investment revaluation loss (FVTPL)	$75,000	
	Investment in Stamp Company		$75,000
	(To revalue investment to fair value at year-end– (15,000 × $6) – (15,000 × $11)		

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

57. On January 1, 2019, Black Corporation purchased 15,000 of the 100,000 (15 per cent) outstanding shares of White Corporation for $498,000. From Black's perspective, White was a fair value through profit or loss (FVTPL) investment. The fair value of Black's investment was $520,000 at December 31, 2019.

On January 1, 2020, Black purchased an additional 30 per cent of White's shares for $1,040,000. The second share purchase allows Black to exert significant influence over White.

During the two years White reported the following results:

	Net Income	Dividends Declared and Paid
2019	$400,000	$240,000
2020	$540,000	$250,000

Required:

With respect to this investment, prepare Black's journal entries for both 2019 and 2020.

The 15 per cent purchase should be recorded under the fair value method. Black's journal entries during 2019 are as follows:

Investment in White	$498,000	
Cash		$498,000
Purchase 15% of White’s shares		
Cash	$36,000	
Dividend Income		$36,000
15% of $240,000		
Investment in White	$22,000	
Investment revaluation gain (FVTPL)		$22,000
$520,000 - $498,000		

The shareholder will now record its share of White's income on the equity method as it now has significant influence.

Investment in White	$1,040,000	
Cash		$1,040,000
Purchase 30 per cent of the shares of White		
Investment in White	$243,000	
Investment Income		$243,000
45% of $540,000 profit for 2020		
Cash	$112,500	
Investment in White		$112,500
45% × $250,000 dividends for 2020		

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics

58. Dragon Corporation acquired a 7% interest in the outstanding shares of Slayer Inc. on January 1, 2019 at a cost of $200,000. Dragon Corporation was a private company and reported in compliance with the Accounting Standards for Private Enterprises (ASPE) and accounted for Slayer Inc., whose shares were not publicly traded, using the cost method. Slayer reported net income and made dividend payments to its shareholders as noted below. On December 31, 2021 Slayer declared bankruptcy as a result of a series of losses as noted.

	Income	**Dividends**
2019	50,000	20,000
2020	(10,000)	20,000
2021	(40,000)	20,000

Required:

(a) Prepare the journal entries that Dragon would make in 2019, 2020 and 2021.

(b) Prepare the general ledger account for Dragon's investment in Slayer at all relevant dates.

(a)

1.1.2019	Investment in Slayer	$200,000	
	Cash		$200,000
	To record Dragon’s investment in Slayer		
31.12.2019	Cash	$1,400	
	Dividend Income		$1,400
	To record dividend income		
31.12.2020	Cash	$1,400	
	Dividend Income		$1,400
	To record dividend income		
31.12.2021	Cash	$1,400	
	Dividend Income		$1,400
	To record dividend income		
31.12.2021	Loss on Investment	$200,000	
	Investment in Slayer		$200,000
	To write off investment after impairment		

(b) General Ledger

Investment in Slayer

	Dr	**Cr**	**Balance**
January 1, 2019-investment	200,000		$200,000
December 31, 2020-impairment		200,000	$0

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment
Topic: 02-19 Analysis and Interpretation of Financial Statements

59. Ronen Corporation owns 35% of the outstanding voting shares of Western Communications Inc. over which it exerts significant influence. The carrying value of its investment as at October 31, 2019 was $3,750,000. Ronen has now designated its investment in Western as fair value through profit or loss (FVTPL) as a result of the open market purchase of a 51% interest in Western by Overhaul Corp. Western is in financial distress. The market value of Ronen's 35% interest is now $2,000,000.

Required:

(a) What is the accounting result of a change from the equity method of accounting to FVTPL?

(b) Do any journal entries need to be recorded by Ronen as a result of this change? If so, what is the entry?

(a) When an investment changes from significant influence to FVTPL, the equity method ceases to be appropriate and the fair value method takes its place on a prospective basis. On this date, the investor shall measure at fair value any investment the investor retains in the former associate.

The investor shall recognize in profit or loss any difference between:

1. The fair value of the retained investment; and

2. The carrying amount of the investment at the date when significant influence was lost.

(b)

Loss on investment	1,750,000	
Investment in Western Communications		1,750,000
Recording loss on change from significant influence to FVTPL		

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Medium
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-13 Changes To and From the Equity Method

60. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2019, for a cash consideration of $200,000. During 2019, Stamp Company had net income of $120,000 and paid dividends of $80,000. At the end of 2019, shares of Stamp Company were trading for $11 each.

During 2020, Stamp Company had a loss of $60,000 and paid dividends of $40,000. Income for the first half of the year was $80,000 and the loss in the second half of the year was $140,000. The dividends were paid on June 30. On July 2, 2020, Posthorn Corporation sold 5,000 shares of Stamp Company for a consideration of $12 per share. At the end of 2020, the share price of Stamp Company had fallen to $6 per share. The average of market analysts' forecasts was that the share price could be expected to rise to $8 per share over the next five years. (Assume that the future recoverable value of the shares is assessed to be $8 per share.)

Required:

Provide journal entries for Posthorn Corporation for all transactions relating to its investment in Stamp Company for the year 2020 if it accounts for its investment in Stamp Company using the equity method.

The investment account balance at December 31, 2016 would be as follows:

Purchase consideration	$200,000
Share of 2019 net income	24,000
Share of 2019 dividends	(16,000)
	$208,000

June 30, 2020	Investment in Stamp Company	$16,000	
	Investment income (equity method)		$16,000
	(To record share of net income for first six months of 2020)		
	Cash	$8,000	
	Investment in Stamp Company		$8,000
	(To record dividend paid on June 30, 2020)		
July 2, 2020	Cash	$60,000	
	Investment in Stamp Company		$54,000
	Gain on sale of shares		$6,000
	(To record sale of shares; carrying value of shares sold is 5,000/20,000 × [$208,000 + $16,000 – $8,000])		
Dec 31, 2020	Investment loss (equity method)	$21,000	
	Investment in Stamp Company		$21,000
	(To record share of loss for last six months of 2020 [15% of $140,000])		
	Investment impairment loss	$21,000	
	Investment in Stamp Company		$21,000
	(To write investment down to $120,000 [i.e. 15,000 shares at $8]; Carrying value was $141,000 before write-down)		

At January 1, 2020	$208,000
Share of Jan to July 2020 net income	16,000
Share of 2020 dividends	(8,000)
Investment account balance–July 1, 2020	216,000
Less: sale of 5,000 shares	(54,000)
	162,000
Share of July to Dec 2020 loss	(21,000)
	141,000
Less: Impairment loss	(21,000)
Investment account balance–Dec. 31, 2020	$120,000

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting and Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics
Topic: 02-15 Impairment Losses

Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. on January 1, 2019 for a cash consideration of $150,000 and a further 10% of the company's common shares a year later for $110,000. On July 1, 2020, Ocean Enterprises sold half their holding in Zebrafish for proceeds of $150,000.

Zebrafish earned income of $150,000 in 2019 and $180,000 in 2020 (evenly over both years) and paid a regular semi-annual dividend of $60,000 in June and December each year.

Ocean Enterprises does not have significant influence over Zebrafish and its investment in Zebrafish is classified at all times as a fair value through profit and loss investment (FVTPL). The company's shares were trading for $11 at the end of 2019 and $12.50 at the end of 2020.

61. **Required:**

Prepare dated journal entries for Ocean Enterprises for 2019 to account for its investment in Zebrafish and any related income therefrom.

January 1, 2019	Investment in Zebrafish	$150,000	
	Cash		$150,000
	(To record initial investment in 15,000 shares of Zebrafish)		
June 30, 2019	Cash	$9,000	
	Dividend income		$9,000
	(To record receipt of dividend at June 30, 2019)		
Dec 31, 2019	Cash	$9,000	
	Dividend income		$9,000
	(To record receipt of dividend at Dec 31, 2019)		
	Investment in Zebrafish	$15,000	
	Investment revaluation gain		$15,000
	(To revalue shares to $11 to year-end)		

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

62. **Required:**

Prepare dated journal entries for Ocean Enterprises for 2020 to account for its investment in Zebrafish and any related income therefrom.

At January 1, 2019–purchase of 15%	$150,000
2019 revaluation	15,000
Balance–Dec. 31, 2019 (15%)	$165,000
Additional purchase (10%)–January 1, 2020	110,000
Balance (25%)	$275,000
July 1, 2020-Sale of 12,500 shares	137,500
Balance (12.5%)	137,500
2020 revaluation (12,500 × $12.50) - 137,500	18,750
Investment account balance–Dec. 31, 2020	$156,250

January 1, 2020	Investment in Zebrafish	$110,000	
	Cash		$110,000
	(To record second purchase of shares in Zebrafish)		
June 30, 2020	Cash	$15,000	
	Dividend income		$15,000
	(To record receipt of dividend at June 30, 2020)		
July 1, 2020	Cash	$150,000	
	Investment in Zebrafish		$137,500
	Gain on sale of shares (FVTPL)		12,500
	(To record sale of 12,500 shares for $12 per share)		
Dec 31, 2020	Cash	$4,500	
	Dividend income		$4,500
	(To record receipt of Dec 31, 2020 dividend)		
	Investment in Zebrafish	$18,750	
	Investment revaluation gain		$18,750
	(To revalue shares to $12.50 per share)		

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

63. **Required:**

Prepare dated journal entries for Ocean Enterprises for 2020 to account for its investment in Zebrafish and any related income therefrom.

At January 1, 2019–purchase of 15%	$150,000
2019 revaluation	15,000
Balance–Dec. 31, 2019 (15%)	$165,000
Additional purchase (10%)–January 1, 2020	110,000
Balance (25%)	$275,000
Revaluation on date of sale–(25,000 × $12) – 275,000	25,000
Balance	$300,000
July 1, 2020-Sale of 12,500 shares	150.000
Balance (12.5%)	150,000
2020 revaluation (12,500 × $12.50) - 150,000	6,250
Investment account balance–Dec. 31, 2020	$156,250

January 1, 2020	Investment in Zebrafish	$110,000	
	Cash		$110,000
	(To record second purchase of shares in Zebrafish)		
June 30, 2020	Cash	$15,000	
	Dividend income		$15,000
	(To record receipt of dividend at June 30, 2020)		
July 1, 2020	Investment in Zebrafish	$25,000	
	Investment revaluation gain (OCI)		$25,000
	(To revalue holding to $12 per share on date of sale)		
	Cash	$150,000	
	Investment in Zebrafish		$150,000
	(To record sale of 12,500 shares for $12 each)		
	Accumulated OCI – reclassification to retained earnings	$20,000	
	Retained earnings – gain on sale of FVTOCI investments (15,000 + 25,000) × 12,500/25,000		$20,000
	(To transfer realized gain to retained earnings)		
Dec 31, 2020	Cash	$7,500	
	Dividend income		$7,500
	(To record receipt of Dec 31, 2020 dividend)		
	Investment in Zebrafish	$6,250	
	Investment revaluation gain (OCI)		$6,250
	(To revalue shares to $12.50 per share)		

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

64. One of the changes introduced in IFRS 9 Financial Instruments was that realized gains on investments valued at fair value with revaluations through other comprehensive income were to be taken to retained earnings without being recycled through net income. Briefly explain how this eliminated one possible method of earnings management that previously allowed companies discretion in managing net income.

When realized gains on investments accounted for through other comprehensive income were cycled through net income, companies could designate investments as accounted for through other comprehensive income and then time the disposal of such investments to recycle the gains through net income to increase or decrease earnings. To increase net income, investments with unrealized gains could be sold and the gains recognized in net income. To reduce net income, investments with unrealized losses could be sold and the losses recognized in net income. This was potentially effective because the market places more emphasis on net income relative to other comprehensive income.

Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: Hard
Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value