

c2

Student: _____

1. Which of the following statements pertaining to joint ventures is TRUE?
 - A. A joint venture must have a contractual arrangement establishing joint control over the venture.
 - B. It must be accounted for using the Cost Method.
 - C. It must be reported at fair value with revaluations through net income.
 - D. One of the parties of the joint venture must have unilateral control over the venture.

2. Which of the following statements is TRUE under IFRS 9?
 - A. All unrealized gains and losses on equity investments flow through Other Comprehensive Income.
 - B. Unrealized gains and losses on FVTPL securities are included in Other Comprehensive Income.
 - C. Unrealized gains and losses on equity investments may be included in Other Comprehensive Income only if a decision to do so is made when the investment is acquired.
 - D. Other Comprehensive Income is included in Retained Earnings.

3. Under which of the following scenarios would a Foreign Currency translation definitely NOT be required?
 - A. The investee is located in a different country.
 - B. The investee prepares its financial statements in a foreign currency.
 - C. The investing company has borrowings denominated in a foreign currency.
 - D. The investee prepares its financial statements using the same currency as the investing company.

4. Reporting in accordance with the Accounting Standards for Private Enterprises is permitted in certain instances for:
 - A. privately held companies.
 - B. publicly held companies.
 - C. all Canadian companies.
 - D. Canadian companies consolidating its foreign subsidiaries.

5. 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.

6. What percentage of ownership is used as a guideline to determine that significant influence exists under IAS 28?

- A. 20% or more.
- B. Less than 20%.
- C. Between 20% and 50%.
- D. 25% or more.

7. Gains and losses on fair-value-through-profit-or-loss 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.

8. Which of the following methods uses procedures closest to those used in preparing consolidated financial statements?

- A. Fair Value Through Profit or Loss.
- B. The Cost Method.
- C. Fair Value Through Other Comprehensive Income.
- D. The Equity Method.

9. 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.

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 policymaking 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.

11. What is the dominant factor used to distinguish portfolio 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 relationship with the investee.
- D. The percentage of equity held by the investor.

12. Which of the following statements is CORRECT?

- A. Control 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 still possible if the Investor owns less than 20% of the voting shares of the Associate.

13. 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.

14. 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.

15. When using the cost method of accounting, which method should be used to determine the carrying value of shares sold when a portion of the shares making up an investment is sold?

- A. Average cost.
- B. Specific cost.
- C. Last in, first out.
- D. First in, first out.

16. When are gains on intercompany transfers of assets between an investor and a significant influence investment recognized as part of the investment income accounted for by the parent 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.

17. How are realized gains from the sale of investments accounted for at fair value through Other Comprehensive Income 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 to Retained Earnings without going through net income.
- D. They are transferred to Contributed Surplus.

18. When reporting under the Accounting Standards for Private Enterprises 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 either the cost or equity method 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.

19. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$30,000	\$60,000

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

	Debit	Credit
Investment in Y	\$100,000	
A. Cash		\$100,000
Investment in Y	\$12,000	
B. Cash		\$12,000
Investment in Y	\$100,000	
C. Goodwill		\$100,000
D. No entry required.		

20. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2010?

	Debit	Credit
Investment in Y	\$6,000	
A. Investment Income		\$6,000
Investment in Y	\$50,000	
B. Investment Income		\$50,000
Investment in Y	\$12,000	
C. Investment Income		\$12,000
D. No entry required.		

21. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2010?

	Debit	Credit
Cash	\$2,400	
A. Dividend Income		\$2,400
Cash	\$2,400	
B. Investment in Y		\$2,400
Investment in Y	\$2,400	
C. Dividend Income		\$2,400
D. No entry required.		

22. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2011?

	Debit	Credit
Cash	\$9,600	
A. Dividend Income		\$9,600
Cash	\$9,600	
B. Investment in Y		\$9,600
Cash	\$9,600	
Dividend Income		\$8,400
C. Investment in Y		\$1,200
D. No entry required.		

23. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2012?

Investment in Y	\$7,200	
A. Dividend Income		\$7,200
Cash	\$7,200	
B. Investment in Y		\$7,200
Cash	\$7,200	
C. Dividend Income		\$7,200
D. No entry required.		

24. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$30,000	\$60,000

What would be the carrying value of X's Investment in Y at the end of 2012?

- A. \$100,000
- B. \$98,800
- C. \$90,000
- D. \$91,200

25. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$30,000	\$60,000

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

- | | Debit | Credit |
|-----------------------|--------------|---------------|
| Investment in Y | \$100,000 | |
| A. Cash | | \$100,000 |
| Investment in Y | \$12,000 | |
| B. Cash | | \$12,000 |
| Investment in Y | \$100,000 | |
| C. Goodwill | | \$100,000 |
| D. No entry required. | | |

26. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2010?

	Debit	Credit
Investment in Y	\$12,500	
A. Investment Income		\$12,500
Investment in Y	\$7,500	
B. Investment Income		\$7,500
Investment in Y	\$12,000	
C. Investment Income		\$12,000
D. No entry required.		

27. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2010?

	Debit	Credit
Cash	\$5,000	
A. Dividend Income		\$5,000
Cash	\$5,000	
B. Investment in Y		\$5,000
Investment in Y	\$5,000	
C. Dividend Income		\$5,000
D. No entry required.		

28. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2011?

	Debit	Credit
A. Cash	\$20,000	
Dividend Income		\$20,000
B. Cash	\$20,000	
Investment in Y		\$20,000
C. Cash	\$20,000	
Dividend Income		\$17,500
Investment in Y		\$ 2,500
D. No entry required.		

29. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2012?

	Debit	Credit
A. Cash	\$15,000	
Dividend Income		\$15,000
B. Cash	\$15,000	
Investment in Y		\$15,000
C. Cash	\$15,000	
Dividend Income		\$12,500
Investment in Y		\$ 2,500
D. No entry required.		

30. On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$30,000	\$60,000

What would be the carrying value of X's Investment in Y at the end of 2012?

- A. \$100,000
- B. \$97,500
- C. \$98,800
- D. \$91,200

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.

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 combined with 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 a note to the financial statements.

33. If the Investor sells part of its stake in an Associate, accounted for using the equity method, which method is used to calculate the gain or loss on the sale of these shares?

- A. The average carrying value of the Investment.
- B. FIFO.
- C. LIFO.
- D. Specific Identification.

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. None; once an investment has been written down, it cannot subsequently be written up.
- 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. 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.

35. If an investor is reporting in compliance with the International Financial Reporting Standards 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.
- B. The investment must be reported at fair value through other comprehensive income.
- 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.

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.

37. Under which method of accounting for investments are investments required to be included in current assets?

- A. Fair value through profit or loss.
- B. Fair value through other comprehensive income.
- C. Equity method.
- D. Cost method.

38. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what entry will the company make to record the dividends received from Stamp Company for 2010?

- | | | | |
|----|-----------------------------|----------|----------|
| | Cash | \$16,000 | |
| A. | Dividend Income | | \$16,000 |
| | Cash | \$16,000 | |
| B. | Investment in Stamp Company | | \$16,000 |
| | Investment in Stamp Company | \$16,000 | |
| C. | Dividend Income | | \$16,000 |
| D. | No entry required. | | |

39. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what entry will the company make to record the revaluation of the investment at December 31, 2010?

- | | | | |
|----|--|----------|----------|
| | Investment in Stamp Company | \$20,000 | |
| A. | Investment revaluation gain (net income) | | \$20,000 |
| | Investment in Stamp Company | \$20,000 | |
| B. | Investment revaluation gain (OCI) | | \$20,000 |
| | Investment revaluation loss (net income) | \$20,000 | |
| C. | Investment in Stamp Company | | \$20,000 |
| D. | No entry required | | |

40. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what will the balance in the Investment in Stamp Company be at December 31, 2010?

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

41. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what entry will the company make to record the dividends received from Stamp Company for 2010?

- | | | | |
|----|-----------------------------|----------|----------|
| | Cash | \$16,000 | |
| A. | Dividend Income | | \$16,000 |
| | Cash | \$16,000 | |
| B. | Investment in Stamp Company | | \$16,000 |
| | Investment in Stamp Company | \$16,000 | |
| C. | Dividend Income | | \$16,000 |
| D. | No entry required. | | |

42. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what entry will the company make to record the revaluation of the investment at December 31, 2010?

- | | | | |
|----|--|----------|----------|
| | Investment in Stamp Company | \$20,000 | |
| A. | Investment revaluation gain (net income) | | \$20,000 |
| | Investment in Stamp Company | \$20,000 | |
| B. | Investment revaluation gain (OCI) | | \$20,000 |
| | Investment revaluation loss (net income) | \$20,000 | |
| C. | Investment in Stamp Company | | \$20,000 |
| D. | No entry required | | |

43. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what will the balance in the Investment in Stamp Company be at December 31, 2010?

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

44. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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 2010?

- | | | | |
|----|-----------------------------|----------|----------|
| | Cash | \$16,000 | |
| A. | Dividend Income | | \$16,000 |
| | Cash | \$16,000 | |
| B. | Investment in Stamp Company | | \$16,000 |
| | Investment in Stamp Company | \$16,000 | |
| C. | Dividend Income | | \$16,000 |
| D. | No entry required. | | |

45. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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 revaluation of the investment at December 31, 2010?

- | | | | |
|----|--|----------|----------|
| | Investment in Stamp Company | \$20,000 | |
| A. | Investment revaluation gain (net income) | | \$20,000 |
| | Investment in Stamp Company | \$20,000 | |
| B. | Investment revaluation gain (OCI) | | \$20,000 |
| | Investment revaluation loss (net income) | \$20,000 | |
| C. | Investment in Stamp Company | | \$20,000 |
| D. | No entry required | | |

46. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

If Posthorn Corporation accounts for its investment in Stamp Company using the equity method, what will the balance in the Investment in Stamp Company be at December 31, 2010?

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

47. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

If Posthorn Corporation accounts for its investment in Stamp Company using the cost method, what entry will the company make to record the dividends received from Stamp Company for 2010?

- | | | | |
|----|-----------------------------|----------|----------|
| | Cash | \$16,000 | |
| A. | Dividend Income | | \$16,000 |
| | Cash | \$16,000 | |
| B. | Investment in Stamp Company | | \$16,000 |
| | Investment in Stamp Company | \$16,000 | |
| C. | Dividend Income | | \$16,000 |
| D. | No entry required. | | |

48. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

If Posthorn Corporation accounts for its investment in Stamp Company using the cost method, what entry will the company make to record the revaluation of the investment at December 31, 2010?

- | | | | |
|----|--|----------|----------|
| | Investment in Stamp Company | \$20,000 | |
| A. | Investment revaluation gain (net income) | | \$20,000 |
| | Investment in Stamp Company | \$20,000 | |
| B. | Investment revaluation gain (OCI) | | \$20,000 |
| | Investment revaluation loss (net income) | \$20,000 | |
| C. | Investment in Stamp Company | | \$20,000 |
| D. | No entry required | | |

49. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

If Posthorn Corporation accounts for its investment in Stamp Company using the cost method, what will the balance in the Investment in Stamp Company be at December 31, 2010?

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

50. Under which standards is it appropriate to record losses in excess of the investor's interest in an associate company because the associate is imminently expected to return to profitability?

- A. Only under IFRS.
- B. Only under US GAAP.
- C. Only under ASPE.
- D. Under US GAAP and ASPE, but not IFRS.

51. On January 1, 2011, 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 2011 and 2012 were \$100,000 and \$200,000 respectively. Mark paid dividends in the amount of \$20,000 and \$10,000 during 2011 and 2012, respectively.

Required:

Calculate the balance in Joyce's Investment account as at December 31, 2012.

52. X purchased 40% of Y of Y on January 1, 2012 for \$400,000. Y paid dividends of \$50,000 in each year. Y's income statements for 2012 and 20103 showed the following:

	2012	2013
Income (loss) before income taxes	\$100,000	(\$60,000)
Income tax expense (recovery)	<u>40,000</u>	<u>(15,000)</u>
Net income (loss)	\$ 60,000	(\$45,000)
Other comprehensive income	<u>20,000</u>	<u>25,000</u>
Comprehensive income (Loss)	<u>\$ 80,000</u>	<u>(\$20,000)</u>

At December 31, 2012, the fair value of the investment was \$440,000 and at December 31, 2013, the fair value of the investment was \$420,000.

Prepare X's journal entries for 2012 and 2013, assuming that this is a significant influence investment.

53. X purchased 40% of Y of Y on January 1, 2012 for \$400,000. Y paid dividends of \$50,000 in each year. Y's income statements for 2012 and 20103 showed the following:

	2012	2013
Income (loss) before income taxes	\$100,000	(\$60,000)
Income tax expense (recovery)	<u>40,000</u>	<u>(15,000)</u>
Net income (loss)	\$ 60,000	(\$45,000)
Other comprehensive income	<u>20,000</u>	<u>25,000</u>
Comprehensive income (Loss)	<u>\$ 80,000</u>	<u>(\$20,000)</u>

At December 31, 2012, the fair value of the investment was \$440,000 and at December 31, 2013, the fair value of the investment was \$420,000.

Prepare X's journal entries for 2012 and 2013, assuming that this is a Portfolio Investment and is accounted for at fair value through profit and loss.

54. On January 1, 2009, Black Corporation purchased 15 per cent of the outstanding shares of White Corporation for \$498,000. From Black's perspective, White was a FVTPL investment. The fair value of Black's investment was \$520,000 at December 31, 2009.

On January 1, 2010, 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:

	<u>Profits</u>	<u>Dividends</u>
2009	400,000	240,000
2010	540,000	250,000

Required:

With respect to this investment, prepare Black's journal entries for both 2009 and 2010.

55. Dragon Corporation acquired a 7% interest in the outstanding shares of Slayer Inc. on January 1, 2010 at a cost of \$200,000. Dragon Corporation was a private company and reported in compliance with the Accounting Standards for Private Enterprises 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 at noted below. On December 31, 2012 Slayer declared bankruptcy as a result of a series of losses as noted.

	<u>Income</u>	<u>Dividends</u>
2010	50,000	20,000
2011	(10,000)	20,000
2012	(40,000)	20,000

Required:

- Prepare the journal entries that Dragon would make in each year.
- Prepare the general ledger account for Dragon's investment in Slayer.

56. 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, 2008 and 2009 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 2008 and 2009:

<u>Date</u>	<u>No. Of Shares</u>	<u>Total</u>	<u>Cost (Per share)</u>
March 31, 2008	1,000	1,000	\$75
June 30, 2008	1,000	2,000	\$125
September 30, 2008	1,000	3,000	\$175
September 30, 2009	(3,000)	0	\$240

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

(a) Prepare the journal entries to record the transactions in 2008 and 2009 with respect to Telnor's investment in Pineapple.

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

57. 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, 2008 and 2009 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 2008 and 2009:

<u>Date</u>	<u>No. Of Shares</u>	<u>Total</u>	<u>Cost (Per share)</u>
March 31, 2008	1,000	1,000	\$75
June 30, 2008	1,000	2,000	\$125
September 30, 2008	1,000	3,000	\$175
September 30, 2009	(3,000)	0	\$240

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

(a) Prepare the journal entries to record the transactions in 2008 and 2009 with respect to Telnor's investment in Pineapple.

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

58. 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, 2009 was \$3,750,000. Ronen has now designated its investment in Western as 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?

59. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

During 2011, 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, 2011, Posthorn Corporation sold 5,000 shares of Stamp Company for a consideration of \$12 per share. At the end of 2011, 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.)

Provide journal entries for Posthorn Corporation for all transactions relating to its investment in Stamp Company for the year 2011 if it accounts for its investment in Stamp Company as a fair value through profit and loss investment.

60. Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

During 2011, 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, 2011, Posthorn Corporation sold 5,000 shares of Stamp Company for a consideration of \$12 per share. At the end of 2011, 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.)

Provide journal entries for Posthorn Corporation for all transactions relating to its investment in Stamp Company for the year 2011 if it accounts for its investment in Stamp Company using the equity method.

61. Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. on January 1, 2011 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, 2012, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

Zebrafish earned income of \$150,000 in 2011 and \$180,000 in 2012 (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 as a fair value through profit and loss investment. The company's shares were trading for \$11 at the end of 2011 and \$12.50 at the end of 2012.

Prepare dated journal entries for Ocean Enterprises for 2011 to account for its investment in Zebrafish and any related income therefrom.

62. Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. on January 1, 2011 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, 2012, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

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Zebrafish earned income of \$150,000 in 2011 and \$180,000 in 2012 (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 elected when it first acquired its initial investment in Zebrafish to account for this investment through other comprehensive income. The company's shares were trading for \$11 at the end of 2011 and \$12.50 at the end of 2012.

Prepare dated journal entries for Ocean Enterprises for 2011 to account for its investment in Zebrafish and any related income therefrom.

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Ocean Enterprises does not have significant influence over Zebrafish and elected when it first acquired its initial investment in Zebrafish to account for this investment through other comprehensive income. The company's shares were trading for \$11 at the end of 2011 and \$12.50 at the end of 2012.

Prepare dated journal entries for Ocean Enterprises for 2012 to account for its investment in Zebrafish and any related income therefrom.

65. One of the changes introduced in IFRS9 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.

c2 Key

1. (p. 55) Which of the following statements pertaining to joint ventures is TRUE?

- A.** A joint venture must have a contractual arrangement establishing joint control over the venture.
- B. It must be accounted for using the Cost Method.
- C. It must be reported at fair value with revaluations through net income.
- D. One of the parties of the joint venture must have unilateral control over the venture.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #1

Learning Objective: 02-01 Describe the broad relationship between all the relevant standards from Part I of the CICA Handbook that make up the "big picture."

2. (p. 58) Which of the following statements is TRUE under IFRS 9?

- A. All unrealized gains and losses on equity investments flow through Other Comprehensive Income.
- B. Unrealized gains and losses on FVTPL securities are included in Other Comprehensive Income.
- C.** Unrealized gains and losses on equity investments may be included in Other Comprehensive Income only if a decision to do so is made when the investment is acquired.
- D. Other Comprehensive Income is included in Retained Earnings.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #2

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

3. (p. 57) Under which of the following scenarios would a Foreign Currency translation definitely NOT be required?

- A. The investee is located in a different country.
- B. The investee prepares its financial statements in a foreign currency.
- C. The investing company has borrowings denominated in a foreign currency.
- D.** The investee prepares its financial statements using the same currency as the investing company.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #3

Learning Objective: 02-01 Describe the broad relationship between all the relevant standards from Part I of the CICA Handbook that make up the "big picture."

4. (p. 70) Reporting in accordance with the Accounting Standards for Private Enterprises is permitted in certain instances for:

- A. privately held companies.
- B. publicly held companies.
- C. all Canadian companies.
- D. Canadian companies consolidating its foreign subsidiaries.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #4

Learning Objective: 02-07 Identify some of the differences between IFRSs and ASPE for investments in equity securities.

5. (p. 52) 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.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #5

Learning Objective: 02-01 Describe the broad relationship between all the relevant standards from Part I of the CICA Handbook that make up the "big picture."

6. (p. 61) What percentage of ownership is used as a guideline to determine that significant influence exists under IAS 28?

- A. 20% or more.
- B. Less than 20%.
- C. Between 20% and 50%.
- D. 25% or more.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #6

Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

7. (p. 58) Gains and losses on fair-value-through-profit-or-loss 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.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #7

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

8. (p. 64) Which of the following methods uses procedures closest to those used in preparing consolidated financial statements?

- A. Fair Value Through Profit or Loss.
- B. The Cost Method.
- C. Fair Value Through Other Comprehensive Income.
- D.** The Equity Method.

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #8

Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

9. (p. 55) 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.

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #9

Learning Objective: 02-01 Describe the broad relationship between all the relevant standards from Part I of the CICA Handbook that make up the "big picture."

10. (p. 61) 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 policymaking 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.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #10

Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

11. (p. 52) What is the dominant factor used to distinguish portfolio 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 relationship with the investee.
- D. The percentage of equity held by the investor.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #11

Learning Objective: 02-01 Describe the broad relationship between all the relevant standards from Part I of the CICA Handbook that make up the "big picture."

12. (p. 61) Which of the following statements is CORRECT?

- A. Control 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 still possible if the Investor owns less than 20% of the voting shares of the Associate.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #12

Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

13. (p. 64) 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.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #13

Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

14. (p. 64) 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.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #14

Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

15. (p. 67) When using the cost method of accounting, which method should be used to determine the carrying value of shares sold when a portion of the shares making up an investment is sold?

- A.** Average cost.
- B. Specific cost.
- C. Last in, first out.
- D. First in, first out.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #15

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

16. (p. 65) When are gains on intercompany transfers of assets between an investor and a significant influence investment recognized as part of the investment income accounted for by the parent 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.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #16

Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

17. (p. 58) How are realized gains from the sale of investments accounted for at fair value through Other Comprehensive Income 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 to Retained Earnings without going through net income.
 - D. They are transferred to Contributed Surplus.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #17

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

18. (p. 70) When reporting under the Accounting Standards for Private Enterprises 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 either the cost or equity method 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.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #18

Learning Objective: 02-07 Identify some of the differences between IFRSs and ASPE for investments in equity securities.

19. (p. 60) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$30,000	\$60,000

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

	Debit	Credit
Investment in Y	\$100,000	
<u>A.</u> Cash		\$100,000
Investment in Y	\$12,000	
B. Cash		\$12,000
Investment in Y	\$100,000	
C. Goodwill		\$100,000
D. No entry required.		

Bloom's Level: Apply

Difficulty: Easy

Hilton - Chapter 02 #19

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

20. (p. 60) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2010?

	Debit	Credit
Investment in Y	\$6,000	
A. Investment Income		\$6,000
Investment in Y	\$50,000	
B. Investment Income		\$50,000
Investment in Y	\$12,000	
C. Investment Income		\$12,000
<u>D.</u> No entry required.		

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #20

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

21. (p. 60) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2010?

- | | Debit | Credit |
|---------------------------|--------------|---------------|
| Cash | \$2,400 | |
| <u>A.</u> Dividend Income | | \$2,400 |
| Cash | \$2,400 | |
| B. Investment in Y | | \$2,400 |
| Investment in Y | \$2,400 | |
| C. Dividend Income | | \$2,400 |
| D. No entry required. | | |

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #21

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

22. (p. 60) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2011?

	Debit	Credit
Cash	\$9,600	
<u>A.</u> Dividend Income		\$9,600
Cash	\$9,600	
B. Investment in Y		\$9,600
Cash	\$9,600	
Dividend Income		\$8,400
C. Investment in Y		\$1,200
D. No entry required.		

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #22

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

23. (p. 60) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2012?

- A. Investment in Y \$7,200
 Dividend Income \$7,200
- B. Cash \$7,200
 Investment in Y \$7,200
- C. Cash \$7,200
 Dividend Income \$7,200
- D. No entry required.

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #23

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

24. (p. 60) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$30,000	\$60,000

What would be the carrying value of X's Investment in Y at the end of 2012?

- A. \$100,000
 B. \$98,800
 C. \$90,000
 D. \$91,200

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #24

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

25. (p. 61-62) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$30,000	\$60,000

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

	Debit	Credit
Investment in Y	\$100,000	
<u>A.</u> Cash		\$100,000
Investment in Y	\$12,000	
B. Cash		\$12,000
Investment in Y	\$100,000	
C. Goodwill		\$100,000
D. No entry required.		

Bloom's Level: Apply

Difficulty: Easy

Hilton - Chapter 02 #25

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

26. (p. 61-62) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2010?

- | | Debit | Credit |
|-----------------------------|--------------|---------------|
| Investment in Y | \$12,500 | |
| <u>A.</u> Investment Income | | \$12,500 |
| Investment in Y | \$7,500 | |
| B. Investment Income | | \$7,500 |
| Investment in Y | \$12,000 | |
| C. Investment Income | | \$12,000 |
| D. No entry required. | | |

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #26

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

27. (p. 61-62) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2010?

	Debit	Credit
Cash	\$5,000	
A. Dividend Income		\$5,000
Cash	\$5,000	
<u>B.</u> Investment in Y		\$5,000
Investment in Y	\$5,000	
C. Dividend Income		\$5,000
D. No entry required.		

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #27

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

28. (p. 61-62) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2011?

- | | Debit | Credit |
|---------------------------|--------------|---------------|
| Cash | \$20,000 | |
| A. Dividend Income | | \$20,000 |
| Cash | \$20,000 | |
| B. Investment in Y | | \$20,000 |
| Cash | \$20,000 | |
| Dividend Income | | \$17,500 |
| C. Investment in Y | | \$ 2,500 |
| D. No entry required. | | |

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #28

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

29. (p. 61-62) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$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 2012?

	Debit	Credit
Cash	\$15,000	
A. Dividend Income		\$15,000
Cash	\$15,000	
B. Investment in Y		\$15,000
Cash	\$15,000	
Dividend Income		\$12,500
C. Investment in Y		\$ 2,500
D. No entry required.		

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #29

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

30. (p. 61-62) On January 1, 2010, 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
2010	\$50,000	\$20,000
2011	\$70,000	\$80,000
2012	\$30,000	\$60,000

What would be the carrying value of X's Investment in Y at the end of 2012?

- A. \$100,000
- B. \$97,500**
- C. \$98,800
- D. \$91,200

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #30

Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

31. (p. 65) 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.**

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #31

Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

32. (p. 63) 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 combined with 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 a note to the financial statements.

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #32

Learning Objective: 02-04 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

33. (p. 67) If the Investor sells part of its stake in an Associate, accounted for using the equity method, which method is used to calculate the gain or loss on the sale of these shares?
- A. The average carrying value of the Investment.**
 - B. FIFO.
 - C. LIFO.
 - D. Specific Identification.

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #33

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

34. (p. 66) 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. None; once an investment has been written down, it cannot subsequently be written up.

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. 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.

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #34

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

35. (p. 67) If an investor is reporting in compliance with the International Financial Reporting Standards 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.

B. The investment must be reported at fair value through other comprehensive income.

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.

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #35

Learning Objective: 02-05 State the main disclosure requirements related to an investment in associate.

36. (p. 71) 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.

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #36

Learning Objective: 02-07 Identify some of the differences between IFRSs and ASPE for investments in equity securities.

37. (p. 58) Under which method of accounting for investments are investments required to be included in current assets?

- A. Fair value through profit or loss.
- B. Fair value through other comprehensive income.
- C. Equity method.
- D. Cost method.

Bloom's Level: Remember

Difficulty: Easy

Hilton - Chapter 02 #37

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

38. (p. 58-59) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what entry will the company make to record the dividends received from Stamp Company for 2010?

- | | | | |
|-----------|-----------------------------|----------|----------|
| | Cash | \$16,000 | |
| <u>A.</u> | Dividend Income | | \$16,000 |
| | Cash | \$16,000 | |
| B. | Investment in Stamp Company | | \$16,000 |
| | Investment in Stamp Company | \$16,000 | |
| C. | Dividend Income | | \$16,000 |
| D. | No entry required. | | |

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #38

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

39. (p. 58-59) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what entry will the company make to record the revaluation of the investment at December 31, 2010?

- | | | | |
|-----------|--|----------|----------|
| | Investment in Stamp Company | \$20,000 | |
| A. | Investment revaluation gain (net income) | \$20,000 | |
| | Investment in Stamp Company | \$20,000 | |
| | Investment revaluation gain (OCI) | | \$20,000 |
| B. | Investment revaluation loss (net income) | \$20,000 | |
| | Investment in Stamp Company | | \$20,000 |
| C. | | | |
| D. | No entry required | | |

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #39

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

40. (p. 58-59) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what will the balance in the Investment in Stamp Company be at December 31, 2010?

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

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #40

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

41. (p. 58-59) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what entry will the company make to record the dividends received from Stamp Company for 2010?

- | | | | |
|-----------|-----------------------------|----------|----------|
| | Cash | \$16,000 | |
| A. | Dividend Income | | \$16,000 |
| | Cash | \$16,000 | |
| B. | Investment in Stamp Company | | \$16,000 |
| | Investment in Stamp Company | \$16,000 | |
| C. | Dividend Income | | \$16,000 |
| D. | No entry required. | | |

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #41

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

42. (p. 58-59) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what entry will the company make to record the revaluation of the investment at December 31, 2010?

- | | | | |
|-----------|--|----------|----------|
| | Investment in Stamp Company | \$20,000 | |
| A. | Investment revaluation gain (net income) | | \$20,000 |
| | Investment in Stamp Company | \$20,000 | |
| B. | Investment revaluation gain (OCI) | | \$20,000 |
| | Investment revaluation loss (net income) | \$20,000 | |
| C. | Investment in Stamp Company | | \$20,000 |
| D. | No entry required | | |

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #42

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

43. (p. 58-59) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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, what will the balance in the Investment in Stamp Company be at December 31, 2010?

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

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #43

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

44. (p. 62) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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 2010?

- | | | | |
|-----------|-----------------------------|----------|----------|
| | Cash | \$16,000 | |
| A. | Dividend Income | | \$16,000 |
| | Cash | \$16,000 | |
| B. | Investment in Stamp Company | | \$16,000 |
| | Investment in Stamp Company | \$16,000 | |
| C. | Dividend Income | | \$16,000 |
| D. | No entry required. | | |

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #44

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

45. (p. 62) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, 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 revaluation of the investment at December 31, 2010?

- | | | | |
|------------------|--|----------|----------|
| | Investment in Stamp Company | \$20,000 | |
| A. | Investment revaluation gain (net income) | | \$20,000 |
| | Investment in Stamp Company | \$20,000 | |
| B. | Investment revaluation gain (OCI) | | \$20,000 |
| | Investment revaluation loss (net income) | \$20,000 | |
| C. | Investment in Stamp Company | | \$20,000 |
| <u>D.</u> | No entry required | | |

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #45

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

46. (p. 62) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

If Posthorn Corporation accounts for its investment in Stamp Company using the equity method, what will the balance in the Investment in Stamp Company be at December 31, 2010?

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

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #46

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

47. (p. 60) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

If Posthorn Corporation accounts for its investment in Stamp Company using the cost method, what entry will the company make to record the dividends received from Stamp Company for 2010?

- | | | | |
|-----------|-----------------------------|----------|----------|
| | Cash | \$16,000 | |
| A. | Dividend Income | | \$16,000 |
| | Cash | \$16,000 | |
| | Investment in Stamp Company | | \$16,000 |
| B. | Investment in Stamp Company | \$16,000 | |
| | Dividend Income | | \$16,000 |
| C. | | | |
| D. | No entry required. | | |

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #47

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

48. (p. 60) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

If Posthorn Corporation accounts for its investment in Stamp Company using the cost method, what entry will the company make to record the revaluation of the investment at December 31, 2010?

- | | | | |
|-----------|--|----------|----------|
| | Investment in Stamp Company | \$20,000 | |
| A. | Investment revaluation gain (net income) | | \$20,000 |
| | Investment in Stamp Company | \$20,000 | |
| B. | Investment revaluation gain (OCI) | | \$20,000 |
| | Investment revaluation loss (net income) | \$20,000 | |
| C. | Investment in Stamp Company | | \$20,000 |
| D. | No entry required | | |

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #48

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

49. (p. 60) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

If Posthorn Corporation accounts for its investment in Stamp Company using the cost method, what will the balance in the Investment in Stamp Company be at December 31, 2010?

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

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #49

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

50. (p. 71) Under which standards is it appropriate to record losses in excess of the investor's interest in an associate company because the associate is imminently expected to return to profitability?

- A. Only under IFRS.
- B. Only under US GAAP.
- C. Only under ASPE.
- D.** Under US GAAP and ASPE, but not IFRS.

Bloom's Level: Remember

Difficulty: Moderate

Hilton - Chapter 02 #50

Learning Objective: 02-07 Identify some of the differences between IFRSs and ASPE for investments in equity securities.

51. (p. 61-62) On January 1, 2011, 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 2011 and 2012 were \$100,000 and \$200,000 respectively. Mark paid dividends in the amount of \$20,000 and \$10,000 during 2011 and 2012, respectively.

Required:

Calculate the balance in Joyce's Investment account as at December 31, 2012.

Joyce Inc.
Investment in Mark Account
As at December 31, 2012

Cost:	\$600,000
Pro-rata share of Mark's 2011 Net Income	\$25,000
Pro-rata share of Mark's 2011 Dividends	(\$5,000)
Pro-rata share of Mark's 2012 Net Income	\$50,000
Pro-rata share of Mark's 2012 Dividends	(\$2,500)
Investment in Mark Inc. as at December 31, 2012	\$667,500

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #51

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

52. (p. 62) X purchased 40% of Y of Y on January 1, 2012 for \$400,000. Y paid dividends of \$50,000 in each year. Y's income statements for 2012 and 2013 showed the following:

	2012	2013
Income (loss) before income taxes	\$100,000	(\$60,000)
Income tax expense (recovery)	<u>40,000</u>	<u>(15,000)</u>
Net income (loss)	\$ 60,000	(\$45,000)
Other comprehensive income	<u>20,000</u>	<u>25,000</u>
Comprehensive income (Loss)	<u>\$ 80,000</u>	<u>(\$20,000)</u>

At December 31, 2012, the fair value of the investment was \$440,000 and at December 31, 2013, the fair value of the investment was \$420,000.

Prepare X's journal entries for 2012 and 2013, assuming that this is a significant influence investment.

2012:	Debit	Credit
Investment in Y	\$400,000	
Cash		\$400,000
To record X's purchase of Y.		

Investment in Y	\$32,000	
Investment Income		\$40,000
Other comprehensive income		\$ 8,000
Income tax expense	\$16,000	
To record 2012 Net Income and Extraordinary Gain		

Cash	\$20,000	
Investment in Y		\$20,000
To record receipt of Dividends from Y – 2012		

2013:	Debit	Credit
Investment Income	\$24,000	
Other comprehensive income		\$10,000
Income tax recovery		\$ 6,000
Investment in Y		\$ 8,000
To record 2013 Net Loss		

Cash	\$20,000	
Investment in Y		\$20,000
To record receipt of Dividends from Y – 2013		

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #52

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

53. (p. 58-59) X purchased 40% of Y of Y on January 1, 2012 for \$400,000. Y paid dividends of \$50,000 in each year. Y's income statements for 2012 and 20103 showed the following:

	2012	2013
Income (loss) before income taxes	\$100,000	(\$60,000)
Income tax expense (recovery)	<u>40,000</u>	<u>(15,000)</u>
Net income (loss)	\$ 60,000	(\$45,000)
Other comprehensive income	<u>20,000</u>	<u>25,000</u>
Comprehensive income (Loss)	<u>\$ 80,000</u>	<u>(\$20,000)</u>

At December 31, 2012, the fair value of the investment was \$440,000 and at December 31, 2013, the fair value of the investment was \$420,000.

Prepare X's journal entries for 2012 and 2013, assuming that this is a Portfolio Investment and is accounted for at fair value through profit and loss.

2012:	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 – 2012		
 Investment in Y	 \$40,000	
Investment revaluation gain (net income)		\$40,000
To record revaluation at December 31, 2012		
 2013:	 Debit	 Credit
Cash	\$20,000	
Dividend Revenue		\$20,000
To record receipt of Dividends from Y – 2013		
 Investment revaluation loss (net income)	 \$20,000	
Investment in Y		\$20,000
To record revaluation at December 31, 2013		

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #53

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

54. (p. 58-59, 62) On January 1, 2009, Black Corporation purchased 15 per cent of the outstanding shares of White Corporation for \$498,000. From Black's perspective, White was a FVTPL investment. The fair value of Black's investment was \$520,000 at December 31, 2009.

On January 1, 2010, 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:

	<u>Profits</u>	<u>Dividends</u>
2009	400,000	240,000
2010	540,000	250,000

Required:

With respect to this investment, prepare Black's journal entries for both 2009 and 2010.

The 15 per cent purchase should be recorded under the fair value method. Black's journal entries during 2009 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 2010		
 Cash	112,500	
Investment in White		112,500
45% x \$250,000 dividends for 2010		

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #54

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

55. (p. 60) Dragon Corporation acquired a 7% interest in the outstanding shares of Slayer Inc. on January 1, 2010 at a cost of \$200,000. Dragon Corporation was a private company and reported in compliance with the Accounting Standards for Private Enterprises 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 at noted below. On December 31, 2012 Slayer declared bankruptcy as a result of a series of losses as noted.

	<u>Income</u>	<u>Dividends</u>
2010	50,000	20,000
2011	(10,000)	20,000
2012	(40,000)	20,000

Required:

- (a) Prepare the journal entries that Dragon would make in each year.
 (b) Prepare the general ledger account for Dragon's investment in Slayer.

(a)

1.1.2010	Investment in Slayer	200,000	
	Cash		200,000
	To record Dragon's investment in Slayer		
31.12.2010	Cash	1,400	
	Dividend Income		1,400
	To record dividend income		
31.12.2011	Cash	1,400	
	Dividend Income		1,400
	To record dividend income		
31.12.2012	Cash	1,400	
	Dividend Income		1,400
	To record dividend income		
31.12.2012	Loss on Investment	200,000	
	Investment in Slayer		200,000
	To write off investment after impairment		

(b)

General Ledger			
<u>Investment in Slayer</u>			
	Dr	Cr	Balance
January 1, 2010-investment	200,0000		200,000
December 31, 2012-impairment		200,000	0

Bloom's Level: Apply

Difficulty: Moderate

Hilton - Chapter 02 #55

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

56. (p. 58-59) 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, 2008 and 2009 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 2008 and 2009:

<u>Date</u>	<u>No. Of Shares</u>	<u>Total</u>	<u>Cost (Per share)</u>
March 31, 2008	1,000	1,000	\$75
June 30, 2008	1,000	2,000	\$125
September 30, 2008	1,000	3,000	\$175
September 30, 2009	(3,000)	0	\$240

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

(a) Prepare the journal entries to record the transactions in 2008 and 2009 with respect to Telnor's investment in Pineapple.

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

<u>Date</u>	<u>No. Of Shares</u>	<u>Total</u>	<u>Cost (Per share)</u>	<u>Total Cost</u>
March 31, 2008	1,000	1,000	\$75	\$ 75,000
June 30, 2008	1,000	2,000	\$125	\$ 200,000
September 30, 2008	1,000	3,000	\$175	\$ 375,000

Unrealized gain at December 31, 2008 $(3,000 * \$200) - \$375,000 = \$225,000$

(a)

03.31.2008	Investment in Pineapple Cash To record investment	75,000	75,000
06.30.2008	Investment in Pineapple Cash To record investment	125,000	125,000
12.31.2008	Investment in Pineapple Cash To record investment	175,000	175,000
12.31.2008	Investment in Pineapple Investment revaluation gain (FVTPL) To record unrealized gain	225,000	225,000
12.31.2008	Cash Dividend Income To record dividend income	3,000	3,000
09.30.2009	Cash Gain on sale Investment in Pineapple To record disposal of Pineapple shares	720,000	120,000 600,000

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

Bloom's Level: Apply

Difficulty: Hard

Hilton - Chapter 02 #56

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

57. (p. 58-59) 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, 2008 and 2009 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 2008 and 2009:

<u>Date</u>	<u>No. Of Shares</u>	<u>Total</u>	<u>Cost (Per share)</u>
March 31, 2008	1,000	1,000	\$75
June 30, 2008	1,000	2,000	\$125
September 30, 2008	1,000	3,000	\$175
September 30, 2009	(3,000)	0	\$240

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

(a) Prepare the journal entries to record the transactions in 2008 and 2009 with respect to Telnor's investment in Pineapple.

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

<u>Date</u>	<u>No. Of Shares</u>	<u>Total</u>	<u>Cost (Per share)</u>	<u>Total Cost</u>
March 31, 2008	1,000	1,000	\$75	\$ 75,000
June 30, 2008	1,000	2,000	\$125	\$ 200,000
September 30, 2008	1,000	3,000	\$175	\$ 375,000

Unrealized gain at December 31, 2008 (3,000 * \$200) - \$375,000 =\$225,000

(a)

03.31.2008	Investment in Pineapple	75,000	
	Cash		75,000
	To record investment		
06.30.2008	Investment in Pineapple	125,000	
	Cash		125,000
	To record investment		
12.31.2008	Investment in Pineapple	175,000	
	Cash		175,000
	To record investment		
12.31.2008	Investment in Pineapple	225,000	
	Investment revaluation gain (OCI)		225,000
	To record unrealized gain		
12.31.2008	Cash	3,000	
	Dividend Income		3,000
	To record dividend income		
09.30.2009	Cash	720,000	
	Gain on sale (OCI)		120,000
	Investment in Pineapple		600,000
	To record disposal of Pineapple shares		
	Realized gain on sale (OCI)	345,000	
	Retained earnings		345,000
	To transfer realized gain from OCI 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.

Bloom's Level: Apply

Difficulty: Hard

Hilton - Chapter 02 #57

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

58. (p. 65) 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, 2009 was \$3,750,000. Ronen has now designated its investment in Western as 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 any retained investment and any proceeds from disposing of the part interest in the associate; and
2. The carrying amount of the investment at the date when significant influence was lost.

Loss on investment	1,750,000	
Investment in Western Communications		1,750,000

- (b) Recording loss on change from significant influence to FVTPL

Bloom's Level: Create

Difficulty: Moderate

Hilton - Chapter 02 #58

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

59. (p. 58-59) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

During 2011, 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, 2011, Posthorn Corporation sold 5,000 shares of Stamp Company for a consideration of \$12 per share. At the end of 2011, 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.)

Provide journal entries for Posthorn Corporation for all transactions relating to its investment in Stamp Company for the year 2011 if it accounts for its investment in Stamp Company as a fair value through profit and loss investment.

June 30, 2011	Cash	\$8,000	
	Dividend income		\$8,000
	(To record dividend paid on June 30, 2011)		
July 2, 2011	Cash	\$60,000	
	Investment in Stamp Company		\$55,000
	Gain on sale of investment		\$ 5,000
	(To record sale of shares on July 2, 2011; carrying value was \$11 per share)		
Dec 31, 2011	Investment revaluation loss (FVTPL)	\$75,000	
	Investment in Stamp Company		
\$75,000	(To revalue investment to fair value at year-end)		

Bloom's Level: Create

Difficulty: Moderate

Hilton - Chapter 02 #59

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

60. (p. 62) Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2010, for a cash consideration of \$200,000. During 2010, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2010, shares of Stamp Company were trading for \$11 each.

During 2011, 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, 2011, Posthorn Corporation sold 5,000 shares of Stamp Company for a consideration of \$12 per share. At the end of 2011, 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.)

Provide journal entries for Posthorn Corporation for all transactions relating to its investment in Stamp Company for the year 2011 if it accounts for its investment in Stamp Company using the equity method.

The investment account balance at December 31, 2010 would be as follows:

Purchase consideration	\$200,000
Share of 2010 net income	24,000
Share of 2010 dividends	<u>(16,000)</u>
	<u>\$208,000</u>

June 30, 2011 Investment in Stamp Company \$16,000
 Investment income (equity method) \$16,000
 (To record share of net income for first six months of 2011)

Cash \$8,000
 Investment in Stamp Company \$8,000
 (To record dividend paid on June 30, 2011)

July 2, 2011 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
 $5,000/20,000 \times [208,000 + 16,000 - 8,000]$)

Dec 31, 2011 Investment loss (equity method) \$21,000
 Investment in Stamp Company \$21,000
 (To record share of loss for last six months of 2011 {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 @ \$8]
 Carrying value was \$141,000 before write-down:

At January 1, 2011	\$208,000
Share of Jan to July 2011 net income	16,000
Share of 2011 dividends	<u>(8,000)</u>
	216,000
Less: sale of 5,000 shares	<u>(54,000)</u>
	162,000
Share of July to Dec 2011 loss	<u>(21,000)</u>
	141,000
Impairment loss	<u>(21,000)</u>
	<u>\$120,000</u>

Bloom's Level: Create

Difficulty: Hard

Hilton - Chapter 02 #60

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.

61. (p. 58-59) Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. on January 1, 2011 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, 2012, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

Zebrafish earned income of \$150,000 in 2011 and \$180,000 in 2012 (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 as a fair value through profit and loss investment. The company's shares were trading for \$11 at the end of 2011 and \$12.50 at the end of 2012.

Prepare dated journal entries for Ocean Enterprises for 2011 to account for its investment in Zebrafish and any related income therefrom.

January 1, 2011	Investment in Zebrafish	\$150,000	
	Cash		\$150,000
	(To record initial investment in 15,000 shares of Zebrafish)		
June 30, 2011	Cash	\$9,000	
	Dividend income		\$9,000
	(To record receipt of dividend at June 30, 2011)		
Dec 31, 2011	Cash	\$9,000	
	Dividend income		\$9,000
	(To record receipt of dividend at Dec 31, 2011)		
	Investment in Zebrafish	\$15,000	
	Investment revaluation gain		\$15,000
	(To revalue shares to \$11 at year-end)		

Bloom's Level: Create

Difficulty: Moderate

Hilton - Chapter 02 #61

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

62. (p. 58-59) Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. on January 1, 2011 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, 2012, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

Zebrafish earned income of \$150,000 in 2011 and \$180,000 in 2012 (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 as a fair value through profit and loss investment. The company's shares were trading for \$11 at the end of 2011 and \$12.50 at the end of 2012.

Prepare dated journal entries for Ocean Enterprises for 2012 to account for its investment in Zebrafish and any related income therefrom.

January 1, 2012	Investment in Zebrafish	\$110,000	
	Cash		\$110,000
	(To record second purchase of shares in Zebrafish)		
June 30, 2012	Cash	\$15,000	
	Dividend income		\$15,000
	(To record receipt of dividend at June 30, 2012)		
July 1, 2012	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, 2012	Cash	\$7,500	
	Dividend income		\$7,500
	(To record receipt of Dec 31, 2012 dividend)		
	Investment in Zebrafish	\$18,750	
	Investment revaluation gain		\$18,750
	(To revalue shares to \$12.50 per share)		

Bloom's Level: Create

Difficulty: Moderate

Hilton - Chapter 02 #62

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

63. (p. 58-59) Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. on January 1, 2011 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, 2012, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

Zebrafish earned income of \$150,000 in 2011 and \$180,000 in 2012 (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 elected when it first acquired its initial investment in Zebrafish to account for this investment through other comprehensive income. The company's shares were trading for \$11 at the end of 2011 and \$12.50 at the end of 2012.

Prepare dated journal entries for Ocean Enterprises for 2011 to account for its investment in Zebrafish and any related income therefrom.

January 1, 2011	Investment in Zebrafish	\$150,000	
	Cash		\$150,000
	(To record initial investment in 15,000 shares of Zebrafish)		
June 30, 2011	Cash	\$9,000	
	Dividend income		\$9,000
	(To record receipt of dividend at June 30, 2011)		
Dec 31, 2011	Cash	\$9,000	
	Dividend income		\$9,000
	(To record receipt of dividend at Dec 31, 2011)		
	Investment in Zebrafish	\$15,000	
	Investment revaluation gain (OCI)		\$15,000
	(To revalue shares to \$11 at year-end)		

Bloom's Level: Create

Difficulty: Moderate

Hilton - Chapter 02 #63

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

64. (p. 58-59) Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. on January 1, 2011 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, 2012, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

Zebrafish earned income of \$150,000 in 2011 and \$180,000 in 2012 (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 elected when it first acquired its initial investment in Zebrafish to account for this investment through other comprehensive income. The company's shares were trading for \$11 at the end of 2011 and \$12.50 at the end of 2012.

Prepare dated journal entries for Ocean Enterprises for 2012 to account for its investment in Zebrafish and any related income therefrom.

January 1, 2012	Investment in Zebrafish	\$110,000	
	Cash		\$110,000
	(To record second purchase of shares in Zebrafish)		
June 30, 2012	Cash	\$15,000	
	Dividend income		\$15,000
	(To record receipt of dividend at June 30, 2012)		
July 1, 2012	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)		
	Investment gain (OCI)	\$20,000	
	Retained earnings		\$20,000
	(To transfer realized gain to retained earnings)		
Dec 31, 2012	Cash	\$7,500	
	Dividend income		\$7,500
	(To record receipt of Dec 31, 2012 dividend)		
	Investment in Zebrafish	\$6,250	
	Investment revaluation gain (OCI)		\$6,250
	(To revalue shares to \$12.50 per share)		

Bloom's Level: Create

Difficulty: Hard

Hilton - Chapter 02 #64

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

65. (p. 58) One of the changes introduced in IFRS9 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.

Bloom's Level: Create

Difficulty: Hard

Hilton - Chapter 02 #65

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.

c2 Summary

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