

c2

Student: _____

1. Which of the following types of share investment does NOT qualify as a strategic investment?
 - A.
 - B.
 - C.
 - D.
2. A significant influence investment is one that:
 - A.
 - B.
 - C.
 - D.
3. What is the dominant factor used to distinguish portfolio investments from significant influence investments?
 - A.
 - B.
 - C.
 - D.
4. Which of the following statements is TRUE under IFRS 9?
 - A.
 - B.
 - C.
 - D.
5. Gains and losses on fair value through profit or loss (FVTPL) securities:
 - A.
 - B.
 - C.
 - D.

6. How are realized gains from the sale of investments accounted for at fair value through Other Comprehensive Income (FVTOCI) accounted for under IFRS 9?
- A.
B.
C.
D.
7. 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.
B.
C.
D.
8. What percentage of ownership is used as a guideline to determine that significant influence exists under IAS 28 *Investments in Associates and Joint Ventures*?
- A.
B.
C.
D.
9. Which of the following methods uses procedures closest to those used in preparing consolidated financial statements?
- A.
B.
C.
D.
10. Which of the following is NOT a possible indicator of significant influence?
- A.
B.
C.
D.

11. Which of the following statements is CORRECT?
- A.
 - B.
 - C.
 - D.
12. The difference between the investor's cost and the investor's percentage of the carrying value of the net identifiable assets of the associate is known as:
- A.
 - B.
 - C.
 - D.
13. Any unallocated positive acquisition differential is normally:
- A.
 - B.
 - C.
 - D.
14. 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.
 - B.
 - C.
 - D.
15. The _____ investment must be shown as a current asset, whereas the other investments could be current or non-current, depending on management's intention.
- A.
 - B.
 - C.
 - D.

16. When analyzing and interpreting financial statements, although the reporting methods show different values for liquidity, solvency, and profitability, the real economic situation is _____ for the four different methods.
- A.
B.
C.
D.
17. Reporting in accordance with the Accounting Standards for Private Enterprises (ASPE) is permitted in certain instances for:
- A.
B.
C.
D.
18. When reporting under the Accounting Standards for Private Enterprises (ASPE) which method must be used to report investments where the investor has significant influence over the investee?
- A.
B.
C.
D.
- On January 1, 2016, 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
2016	\$50,000
2017	\$70,000
2018	\$30,000

19. Which of the following journal entries would have to be made to record X's purchase of Y's shares?
- A.
- B.
- C.
- D.
20. Which of the following journal entries would have to be made to record X's share of Y's net income for 2016?
- A.
- B.
- C.
- D.
21. Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2016?
- A.
- B.
- C.
- D.

22. Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2017?
- A.
- B.
- C.
- D.
23. Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2018?
- A.
- B.
- C.
- D.
24. What would be the carrying value of X's Investment in Y at the end of 2018?
- A.
- B.
- C.
- D.

On January 1, 2016, 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
2016	\$50,000	\$20,000
2017	\$70,000	\$80,000
2018	\$30,000	\$60,000

25. Which of the following journal entries would have to be made to record X's purchase of Y's shares?
- A.
 - B.
 - C.
 - D.
26. Which of the following journal entries would have to be made to record X's share of Y's net income for 2016?
- A.
 - B.
 - C.
 - D.

27. Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2016?
- A.
 - B.
 - C.
 - D.
28. Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2017?
- A.
 - B.
 - C.
 - D.
29. Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2018?
- A.
 - B.
 - C.
 - D.

30. What would be the carrying value of X's Investment in Y at the end of 2018?
- A.
B.
C.
D.
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.
B.
C.
D.
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.
B.
C.
D.
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.
B.
C.
D.

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.
B.
C.
D.
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.
B.
C.
D.
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.
B.
C.
D.
37. Under which method of accounting for investments are investments required to be included in current assets?
- A.
B.
C.
D.

Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2016, for a cash consideration of \$200,000. During 2016, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2016, shares of Stamp Company were trading for \$11 each.

38. 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 2016?

A.

B.

C.

D.

39. 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, 2016?

A.

B.

C.

D.

40. 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, 2016?

A.

B.

C.

D.

41. 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 2016?
- A.
- B.
- C.
- D.
42. 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, 2016?
- A.
- B.
- C.
- D.
43. 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, 2016?
- A.
- B.
- C.
- D.

44. 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 2016?
- A.
- B.
- C.
- D.
45. 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, 2016?
- A.
- B.
- C.
- D.
46. 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, 2016?
- A.
- B.
- C.
- D.

47. 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 2016?
- A.
- B.
- C.
- D.
48. 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, 2016?
- A.
- B.
- C.
- D.
49. 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, 2016?
- A.
- B.
- C.
- D.

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.
- B.
- C.
- D.

51. On January 1, 2017, 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 2017 and 2018 were \$100,000 and \$200,000 respectively. Mark paid dividends in the amount of \$20,000 and \$10,000 during 2017 and 2018, respectively.

Required:
Calculate the balance in Joyce's Investment account as at December 31, 2018.

52.

X purchased 40% of Y on January 1, 2016 for \$400,000. Y paid dividends of \$50,000 in each year. Y's income statements for 2016 and 2017 showed the following.

	2016
Income (loss) before income taxes	\$100,000
Income tax expense (recovery)	40,000
Net income (loss)	\$ 60,000
Other comprehensive income	20,000
Comprehensive income (loss)	\$ 80,000

At December 31, 2016, the fair value of the investment was \$440,000 and at December 31, 2017, the fair value of the investment was \$420,000.

Required:

Prepare X's journal entries for 2016 and 2017, assuming that this is a Portfolio Investment and is accounted for at fair value through profit and loss.

53.

X purchased 40% of Y on January 1, 2016 for \$400,000. Y paid dividends of \$50,000 in each year. Y's income statements for 2016 and 2017 showed the following:

	2016
Income (loss) before income taxes	\$100,000
Income tax expense (recovery)	40,000
Net income (loss)	\$ 60,000
Other comprehensive income	20,000
Comprehensive income (loss)	\$ 80,000

At December 31, 2016, the fair value of the investment was \$440,000 and at December 31, 2017, the fair value of the investment was \$420,000.

Required:

Prepare X's journal entries for 2016 and 2017, assuming that this is a significant influence investment.

54.

Telnor Corporation (whose year end is December 31 of each year) has made a series of investments in Pineapple Corp., one of their major customers. The management of Telnor has been impressed by the products produced and sold by Pineapple and their market success. These investments are only going to be held for a short period of time. The market price of Pineapple stock on December 31, 2018 and 2019 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 2018 and 2019:

<u>Date</u>	<u>No. Of Shares</u>
March 31, 2018	1,000
June 30, 2018	1,000
September 30, 2018	1,000
September 30, 2019	(3,000)

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

Required:

- (a) Prepare the journal entries to record the transactions in 2018 and 2019 with respect to Telnor's investment in Pineapple.
- (b) How would Telnor disclose the investment in Pineapple on its balance sheet?

55.

Telnor Corporation (whose year end is December 31 of each year) has made a series of investments in Pineapple Corp., one of their major customers. The management of Telnor has been impressed by the products produced and sold by Pineapple and their market success. These investments are only going to be held for a short period of time. The market price of Pineapple stock on December 31, 2018 and 2019 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 2018 and 2019:

<u>Date</u>	<u>No. Of Shares</u>
March 31, 2018	1,000
June 30, 2018	1,000
September 30, 2018	1,000
September 30, 2019	(3,000)

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

Required:

- (a) Prepare the journal entries to record the transactions in 2018 and 2019 with respect to Telnor's investment in Pineapple.
- (b) How would Telnor disclose the investment in Pineapple on its balance sheet?

56.

Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2016, for a cash consideration of \$200,000. During 2016, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2016, shares of Stamp Company were trading for \$11 each.

During 2017, 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, 2017, Posthorn Corporation sold 5,000 shares of Stamp Company for a consideration of \$12 per share. At the end of 2017, the share price of Stamp Company had fallen to \$6 per share. The average of market analysts' forecasts was that the share price could be expected to rise to \$8 per share over the next five years. (Assume that the future recoverable value of the shares is assessed to be \$8 per share.)

Required:

Provide journal entries for Posthorn Corporation for all transactions relating to its investment in Stamp Company for the year 2017 if it accounts for its investment in Stamp Company as a fair value through profit and loss investment.

57.

On January 1, 2016, 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, 2016.

On January 1, 2017, 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:

	Profits
2016	400,000
2017	540,000

Required:

With respect to this investment, prepare Black's journal entries for both 2016 and 2017.

58.

Dragon Corporation acquired a 7% interest in the outstanding shares of Slayer Inc. on January 1, 2016 at a cost of \$200,000. Dragon Corporation was a private company and reported in compliance with the Accounting Standards for Private Enterprises (ASPE) and accounted for Slayer Inc., whose shares were not publicly traded, using the cost method. Slayer reported net income and made dividend payments to its shareholders as noted below. On December 31, 2018 Slayer declared bankruptcy as a result of a series of losses as noted.

	<u>Income</u>
2016	50,000
2017	(10,000)
2018	(40,000)

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.

59.

Ronen Corporation owns 35% of the outstanding voting shares of Western Communications Inc. over which it exerts significant influence. The carrying value of its investment as at October 31, 2016 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?

60.

Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2016, for a cash consideration of \$200,000. During 2016, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2016, shares of Stamp Company were trading for \$11 each.

During 2017, 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, 2017, Posthorn Corporation sold 5,000 shares of Stamp Company for a consideration of \$12 per share. At the end of 2017, the share price of Stamp Company had fallen to \$6 per share. The average of market analysts' forecasts was that the share price could be expected to rise to \$8 per share over the next five years. (Assume that the future recoverable value of the shares is assessed to be \$8 per share.)

Required:

Provide journal entries for Posthorn Corporation for all transactions relating to its investment in Stamp Company for the year 2017 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, 2017 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, 2018, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

Zebrafish earned income of \$150,000 in 2017 and \$180,000 in 2018 (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 2017 and \$12.50 at the end of 2018.

Required:

Prepare dated journal entries for Ocean Enterprises for 2017 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, 2017 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, 2018, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

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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 2017 and \$12.50 at the end of 2018.

Required:

Prepare dated journal entries for Ocean Enterprises for 2018 to account for its investment in Zebrafish and any related income therefrom.

63.

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Zebrafish earned income of \$150,000 in 2017 and \$180,000 in 2018 (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 2017 and \$12.50 at the end of 2018.

Required:

Prepare dated journal entries for Ocean Enterprises for 2017 to account for its investment in Zebrafish and any related income therefrom.

64.

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Zebrafish earned income of \$150,000 in 2017 and \$180,000 in 2018 (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 2017 and \$12.50 at the end of 2018.

Required:

Prepare dated journal entries for Ocean Enterprises for 2018 to account for its investment in Zebrafish and any related income therefrom.

65.

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

c2 Key

1. Which of the following types of share investment does NOT qualify as a strategic investment?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #1

Learning Objective: 02-01 Describe the main changes in the reporting of equity investments over the past 12 years.
Topic: 02-01 Equity InvestmentsThe Big Picture

2. A significant influence investment is one that:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #2

Learning Objective: 02-04 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting an Investment in Associate

3. What is the dominant factor used to distinguish portfolio investments from significant influence investments?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #3

Learning Objective: 02-01 Describe the main changes in the reporting of equity investments over the past 12 years.
Topic: 02-01 Equity InvestmentsThe Big Picture

4. Which of the following statements is TRUE under IFRS 9?

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #4

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

5. Gains and losses on fair value through profit or loss (FVTPL) securities:

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #5

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

6. How are realized gains from the sale of investments accounted for at fair value through Other Comprehensive Income (FVTOCI) accounted for under IFRS 9?

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #6

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

7. 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.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #7

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

8. What percentage of ownership is used as a guideline to determine that significant influence exists under IAS 28 *Investments in Associates and Joint Ventures*?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #8

Learning Objective: 02-04 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting an Investment in Associate

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

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #9

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-10 Example

10. Which of the following is NOT a possible indicator of significant influence?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #10

Learning Objective: 02-04 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting an Investment in Associate

11. Which of the following statements is CORRECT?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #11

Learning Objective: 02-04 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting an Investment in Associate

12. The difference between the investor's cost and the investor's percentage of the carrying value of the net identifiable assets of the associate is known as:

- A.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #12

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-11 Acquisition Costs Greater than Carrying Amounts

13. Any unallocated positive acquisition differential is normally:

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #13

Learning Objective: 02-04 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting an Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics
Topic: 02-08 Complexities Associated with the Equity Method
Topic: 02-09 Other Changes in Associate's Equity

14. 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.
- B.**
- C.
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #14

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-12 Unrealized Profits

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

- A.**
- B.
- C.
- D.

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

Accessibility: Keyboard Navigation

Bloom's: Knowledge

Difficulty: Easy

Gradable: automatic

Hilton - Chapter 02 #15

Learning Objective: 02-05 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

Topic: 02-19 Analysis and Interpretation of Financial Statements

16.

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

A.

B.

C.

D.

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

Accessibility: Keyboard Navigation

Bloom's: Knowledge

Difficulty: Easy

Gradable: automatic

Hilton - Chapter 02 #16

Learning Objective: 02-05 Evaluate relevant factors to determine whether an investor has significant influence over an investee.

Topic: 02-19 Analysis and Interpretation of Financial Statements

17.

Reporting in accordance with the Accounting Standards for Private Enterprises (ASPE) is permitted in certain instances for:

A.

B.

C.

D.

Accessibility: Keyboard Navigation

Bloom's: Knowledge

Difficulty: Easy

Gradable: automatic

Hilton - Chapter 02 #17

Learning Objective: 02-06 Analyze and interpret financial statements involving investments in equity securities.

Topic: 02-19 Analysis and Interpretation of Financial Statements

18.

When reporting under the Accounting Standards for Private Enterprises (ASPE) which method must be used to report investments where the investor has significant influence over the investee?

- A.
- B.
- C.**
- D.

Accessibility: Keyboard Navigation

Bloom's: Knowledge

Difficulty: Easy

Gradable: automatic

Hilton - Chapter 02 #18

Learning Objective: 02-06 Analyze and interpret financial statements involving investments in equity securities.

Topic: 02-19 Analysis and Interpretation of Financial Statements

On January 1, 2016, 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
2016	\$50,000
2017	\$70,000
2018	\$30,000

Hilton - Chapter 02

19.

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

- A.**
- B.
- C.
- D.

Bloom's: Application

Difficulty: Easy

Gradable: automatic

Hilton - Chapter 02 #19

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

Topic: 02-05 Cost Method of Reporting an Equity Investment

20. Which of the following journal entries would have to be made to record X's share of Y's net income for 2016?

A.

B.

C.

D.

Bloom's: Knowledge

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #20

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

Topic: 02-05 Cost Method of Reporting an Equity Investment

21. Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2016?

A.

B.

C.

D.

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

Bloom's: Knowledge

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #21

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

Topic: 02-05 Cost Method of Reporting an Equity Investment

22.

Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2017?

A.

B.

C.

D.

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

Bloom's: Application

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #22

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

Topic: 02-05 Cost Method of Reporting an Equity Investment

23.

Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2018?

A.

B.

C.

D.

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

Bloom's: Application

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #23

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

Topic: 02-05 Cost Method of Reporting an Equity Investment

24. What would be the carrying value of X's Investment in Y at the end of 2018?
- A.**
B.
C.
D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #24

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

On January 1, 2016, 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
2016	\$50,000	\$20,000
2017	\$70,000	\$80,000
2018	\$30,000	\$60,000

Hilton - Chapter 02

25. Which of the following journal entries would have to be made to record X's purchase of Y's shares?
- A.**
B.
C.
D.

Bloom's: Application
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #25

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

26.

Which of the following journal entries would have to be made to record X's share of Y's net income for 2016?

A.

B.

C.

D.

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

Bloom's: Application

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #26

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

Topic: 02-06 Equity Method of Reporting an Investment in Associate

Topic: 02-07 Illustration of Equity Method Basics

27.

Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2016?

A.

B.

C.

D.

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

Bloom's: Application

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #27

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

Topic: 02-06 Equity Method of Reporting an Investment in Associate

Topic: 02-07 Illustration of Equity Method Basics

28.

Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2017?

A.

B.

C.

D.

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

Bloom's: Application

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #28

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

Topic: 02-06 Equity Method of Reporting an Investment in Associate

Topic: 02-07 Illustration of Equity Method Basics

29.

Which of the following journal entries would have to be made to record X's share of Y's dividends paid for 2018?

A.

B.

C.

D.

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

Bloom's: Application

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #29

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

Topic: 02-06 Equity Method of Reporting an Investment in Associate

Topic: 02-07 Illustration of Equity Method Basics

30. What would be the carrying value of X's Investment in Y at the end of 2018?

- A.
- B.**
- C.
- D.

*Bloom's: Application
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #30*

*Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Learning Objective: 02-04 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-06 Equity Method of Reporting an Investment in Associate
Topic: 02-07 Illustration of Equity Method Basics*

31. If an investor's ownership interest in a significant influence investment increases or decreases, how are changes from accounting at fair value to the use of the Equity Method (or vice-versa) to be handled?

- A.
- B.
- C.
- D.**

*Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #31*

*Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-13 Changes To and From the Equity Method*

32. When an investment is accounted for using the Equity Method, how are the investor's share of the investee's income from non-operating sources (such as gains or losses from discontinued operations) to be accounted for by the investor?

- A.
- B.
- C.**
- D.

*Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #32*

*Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-09 Other Changes in Associate's Equity*

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.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #33

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

34. If an investment accounted for using the equity method suffers an impairment loss and the value in use of the investment subsequently recovers, what accounting entry should be made?

- A.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #34

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-15 Impairment Losses

35. If an investor is reporting in compliance with the International Financial Reporting Standards 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.
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #35

Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-18 Presentation and Disclosure Requirements

36. How does the accounting for Other Comprehensive Income differ between the International Financial Reporting Standards (IFRS) and the Accounting Standards for Private Enterprises (ASPE)?

- A.
- B.
- C.
- D.**

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #36

Learning Objective: 02-06 Analyze and interpret financial statements involving investments in equity securities.
Topic: 02-19 Analysis and Interpretation of Financial Statements

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

- A.**
- B.
- C.
- D.

Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Easy
Gradable: automatic
Hilton - Chapter 02 #37

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2016, for a cash consideration of \$200,000. During 2016, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2016, shares of Stamp Company were trading for \$11 each.

Hilton - Chapter 02

38.

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 2016?

A.

B.

C.

D.

Bloom's: Knowledge

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #38

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

Topic: 02-02 Investments Measured at Fair Value

Topic: 02-03 Illustration

Topic: 02-04 Investments Not Measured at Fair Value

39.

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, 2016?

A.

B.

C.

D.

Bloom's: Knowledge

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #39

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

Topic: 02-02 Investments Measured at Fair Value

Topic: 02-03 Illustration

Topic: 02-04 Investments Not Measured at Fair Value

40. 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, 2016?

- A.
- B.
- C.
- D.

*Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #40*

*Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value*

41. 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 2016?

- A.
- B.
- C.
- D.

*Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #41*

*Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value*

42.

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, 2016?

A.

B.

C.

D.

Bloom's: Knowledge

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #42

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

Topic: 02-02 Investments Measured at Fair Value

Topic: 02-03 Illustration

Topic: 02-04 Investments Not Measured at Fair Value

43.

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, 2016?

A.

B.

C.

D.

Bloom's: Knowledge

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #43

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

Topic: 02-02 Investments Measured at Fair Value

Topic: 02-03 Illustration

Topic: 02-04 Investments Not Measured at Fair Value

44.

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 2016?

A.

B.

C.

D.

Bloom's: Knowledge

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #44

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

Learning Objective: 02-04 Prepare journal entries to account for investments under the cost and equity methods.

Topic: 02-06 Equity Method of Reporting an Investment in Associate

Topic: 02-07 Illustration of Equity Method Basics

45.

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, 2016?

A.

B.

C.

D.

Bloom's: Knowledge

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #45

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

Topic: 02-06 Equity Method of Reporting an Investment in Associate

Topic: 02-07 Illustration of Equity Method Basics

46. 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, 2016?

- A.
- B.
- C.
- D.

*Accessibility: Keyboard Navigation
Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #46*

*Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment*

47. 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 2016?

- A.
- B.
- C.
- D.

*Bloom's: Knowledge
Difficulty: Moderate
Gradable: automatic
Hilton - Chapter 02 #47*

*Learning Objective: 02-03 Prepare journal entries to account for investments under the cost and equity methods.
Topic: 02-05 Cost Method of Reporting an Equity Investment*

48. 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, 2016?

A.

B.

C.

D.

Bloom's: Knowledge

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #48

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

Topic: 02-05 Cost Method of Reporting an Equity Investment

49. 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, 2016?

A.

B.

C.

D.

Accessibility: Keyboard Navigation

Bloom's: Knowledge

Difficulty: Moderate

Gradable: automatic

Hilton - Chapter 02 #49

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

Learning Objective: 02-04 Prepare journal entries to account for investments under the cost and equity methods.

Topic: 02-06 Equity Method of Reporting an Investment in Associate

Topic: 02-07 Illustration of Equity Method Basics

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.

B.

C.

D.

Accessibility: Keyboard Navigation

Bloom's: Knowledge

Difficulty: Moderate

51.

On January 1, 2017, 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 2017 and 2018 were \$100,000 and \$200,000 respectively. Mark paid dividends in the amount of \$20,000 and \$10,000 during 2017 and 2018, respectively.

Required:

Calculate the balance in Joyce's Investment account as at December 31, 2018.

Joyce Inc.
Investment in Mark Account
As at December 31, 2018

Acquisition cost:
Pro-rata share of Mark's 2017 Net Income
Pro-rata share of Mark's 2017 Dividends
Pro-rata share of Mark's 2018 Net Income
Pro-rata share of Mark's 2018 Dividends
Investment in Mark Inc. as at December 31, 2018

Bloom's: Application
Difficulty: Moderate
Gradable: manual
Hilton - Chapter 02 #51

52.

X purchased 40% of Y on January 1, 2016 for \$400,000. Y paid dividends of \$50,000 in each year. Y's income statements for 2016 and 2017 showed the following.

	2016
Income (loss) before income taxes	\$100,000
Income tax expense (recovery)	40,000
Net income (loss)	\$ 60,000
Other comprehensive income	20,000
Comprehensive income (loss)	\$ 80,000

At December 31, 2016, the fair value of the investment was \$440,000 and at December 31, 2017, the fair value of the investment was \$420,000.

Required:

Prepare X's journal entries for 2016 and 2017, assuming that this is a Portfolio Investment and is accounted for at fair value through profit and loss.

2016:	Debit
Investment in Y	\$400,000
Cash	
To record X's purchase of Y	
Cash	\$20,000
Dividend Revenue	
To record receipt of Dividends from Y - 2016	
Investment in Y	\$40,000
Investment revaluation gain (net income)	
To record revaluation at December 31, 2016	
2017:	Debit
Cash	\$20,000
Dividend Revenue	
To record receipt of Dividends from Y - 2017	
Investment revaluation loss (net income)	\$20,000
Investment in Y	
To record revaluation at December 31, 2017	

Bloom's: Application

Difficulty: Moderate

Gradable: manual

Hilton - Chapter 02 #52

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

Topic: 02-02 Investments Measured at Fair Value

Topic: 02-03 Illustration

Topic: 02-04 Investments Not Measured at Fair Value

53.

X purchased 40% of Y on January 1, 2016 for \$400,000. Y paid dividends of \$50,000 in each year. Y's income statements for 2016 and 2017 showed the following:

	2016
Income (loss) before income taxes	\$100,000
Income tax expense (recovery)	40,000
Net income (loss)	\$ 60,000
Other comprehensive income	20,000
Comprehensive income (loss)	\$ 80,000

At December 31, 2016, the fair value of the investment was \$440,000 and at December 31, 2017, the fair value of the investment was \$420,000.

Required:

Prepare X's journal entries for 2016 and 2017, assuming that this is a significant influence investment.

2016:	Debit
Investment in Y	\$400,000
Cash	
To record X's purchase of Y.	
Investment in Y	\$32,000
Investment Income	
Other comprehensive income	
Income tax expense	\$16,000
To record 2016 Net Income and Unusual Gain	
Cash	\$20,000
Investment in Y	
To record receipt of Dividends from Y - 2016	
2017:	Debit
Investment Income	\$24,000
Other comprehensive income	
Income tax recovery	
Investment in Y	
To record 2017 Net Loss	
Cash	\$20,000
Investment in Y	
To record receipt of Dividends from Y - 2017	

Bloom's: Application

Difficulty: Moderate

Gradable: manual

Hilton - Chapter 02 #53

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

Topic: 02-05 Cost Method of Reporting an Equity Investment

54.

Telnor Corporation (whose year end is December 31 of each year) has made a series of investments in Pineapple Corp., one of their major customers. The management of Telnor has been impressed by the products produced and sold by Pineapple and their market success. These investments are only going to be held for a short period of time. The market price of Pineapple stock on December 31, 2018 and 2019 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 2018 and 2019:

Date	No. Of Shares
March 31, 2018	1,000
June 30, 2018	1,000
September 30, 2018	1,000
September 30, 2019	(3,000)

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

Required:

- Prepare the journal entries to record the transactions in 2018 and 2019 with respect to Telnor's investment in Pineapple.
- How would Telnor disclose the investment in Pineapple on its balance sheet?

Date	No. Of Shares	Total
March 31, 2018	1,000	1,000
June 30, 2018	1,000	2,000
September 30, 2018	1,000	3,000

Unrealized gain at December 31, 2018 (3,000 x \$200) - \$375,000 = \$225,000.

(a)

03.31.2018

06.30.2018
12.31.2018
12.31.2018
12.31.2018
09.30.2019

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

Bloom's: Application

Difficulty: Difficult

Gradable: manual

Hilton - Chapter 02 #54

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

Topic: 02-02 Investments Measured at Fair Value

Topic: 02-03 Illustration

Topic: 02-04 Investments Not Measured at Fair Value

55.

Telnor Corporation (whose year end is December 31 of each year) has made a series of investments in Pineapple Corp., one of their major customers. The management of Telnor has been impressed by the products produced and sold by Pineapple and their market success. These investments are only going to be held for a short period of time. The market price of Pineapple stock on December 31, 2018 and 2019 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 2018 and 2019:

Date	No. Of Shares
March 31, 2018	1,000
June 30, 2018	1,000
September 30, 2018	1,000
September 30, 2019	(3,000)

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

Required:

- Prepare the journal entries to record the transactions in 2018 and 2019 with respect to Telnor's investment in Pineapple.
- How would Telnor disclose the investment in Pineapple on its balance sheet?

Date	No. Of Shares	Total
March 31, 2018	1,000	1,000
June 30, 2018	1,000	2,000
September 30, 2018	1,000	3,000

Unrealized gain at December 31, 2018 (3,000 * \$200) - \$375,000 = \$225,000

(a)

03.31.2018

06.30.2018
12.31.2018
12.31.2018
12.31.2018
09.30.2019

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

Bloom's: Application

Difficulty: Difficult

Gradable: manual

Hilton - Chapter 02 #55

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

Topic: 02-02 Investments Measured at Fair Value

Topic: 02-03 Illustration

Topic: 02-04 Investments Not Measured at Fair Value

56.

Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2016, for a cash consideration of \$200,000. During 2016, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2016, shares of Stamp Company were trading for \$11 each.

During 2017, 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, 2017, Posthorn Corporation sold 5,000 shares of Stamp Company for a consideration of \$12 per share. At the end of 2017, the share price of Stamp Company had fallen to \$6 per share. The average of market analysts' forecasts was that the share price could be expected to rise to \$8 per share over the next five years. (Assume that the future recoverable value of the shares is assessed to be \$8 per share.)

Required:

Provide journal entries for Posthorn Corporation for all transactions relating to its investment in Stamp Company for the year 2017 if it accounts for its investment in Stamp Company as a fair value through profit and loss investment.

June 30, 2017	Cash
	Dividend income
	(To record dividend paid on June 30, 2017)
July 2, 2017	Cash
	Investment in Stamp Company
	Gain on sale of investment
	(To record sale of shares on July 2, 2017; carrying value was \$11 per share)
Dec 31, 2017	Investment revaluation loss (FVTPL)
	Investment in Stamp Company
	(To revalue investment to fair value at year-end)

Bloom's: Create
Difficulty: Moderate
Gradable: manual

Hilton - Chapter 02 #56

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

Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

57.

On January 1, 2016, 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, 2016.

On January 1, 2017, 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:

	Profits
2016	400,000
2017	540,000

Required:

With respect to this investment, prepare Black's journal entries for both 2016 and 2017.

The 15 per cent purchase should be recorded under the fair value method. Black's journal entries during 2016 are as follows:

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

Purchase 30 per cent of the shares of White
Investment in White
Investment Income
45% of \$540,000 profit for 2017
Cash
Investment in White
45% x \$250,000 dividends for 2017

Bloom's: Application

Difficulty: Moderate

Gradable: manual

Hilton - Chapter 02 #57

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

Topic: 02-05 Cost Method of Reporting an Equity Investment

58.

Dragon Corporation acquired a 7% interest in the outstanding shares of Slayer Inc. on January 1, 2016 at a cost of \$200,000. Dragon Corporation was a private company and reported in compliance with the Accounting Standards for Private Enterprises (ASPE) and accounted for Slayer Inc., whose shares were not publicly traded, using the cost method. Slayer reported net income and made dividend payments to its shareholders as noted below. On December 31, 2018 Slayer declared bankruptcy as a result of a series of losses as noted.

	<u>Income</u>
2016	50,000
2017	(10,000)
2018	(40,000)

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)

1.1.2016	Investment in Slayer
	Cash
	To record Dragon's investment in Slayer
31.12.2016	Cash
	Dividend Income
	To record dividend income
31.12.2017	Cash
	Dividend Income
	To record dividend income
31.12.2018	Cash
	Dividend Income
	To record dividend income
31.12.2018	Loss on Investment
	Investment in Slayer
	To write off investment after impairment

(b) General Ledger
Investment in Slayer

January 1, 2016 - investment
December 31, 2018 - impairment

Bloom's: Application

Difficulty: Moderate

Gradable: manual

Hilton - Chapter 02 #58

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

Topic: 02-05 Cost Method of Reporting an Equity Investment

59.

Ronen Corporation owns 35% of the outstanding voting shares of Western Communications Inc. over which it exerts significant influence. The carrying value of its investment as at October 31, 2016 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.

(b)

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

Bloom's: Create

Difficulty: Moderate

Gradable: manual

Hilton - Chapter 02 #59

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

Topic: 02-05 Cost Method of Reporting an Equity Investment

60.

Posthorn Corporation acquired 20,000 of the 100,000 outstanding common shares of Stamp Company on January 1, 2016, for a cash consideration of \$200,000. During 2016, Stamp Company had net income of \$120,000 and paid dividends of \$80,000. At the end of 2016, shares of Stamp Company were trading for \$11 each.

During 2017, 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, 2017, Posthorn Corporation sold 5,000 shares of Stamp Company for a consideration of \$12 per share. At the end of 2017, the share price of Stamp Company had fallen to \$6 per share. The average of market analysts' forecasts was that the share price could be expected to rise to \$8 per share over the next five years. (Assume that the future recoverable value of the shares is assessed to be \$8 per share.)

Required:

Provide journal entries for Posthorn Corporation for all transactions relating to its investment in Stamp Company for the year 2017 if it accounts for its investment in Stamp Company using the equity method.

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

Purchase consideration
Share of 2016 net income
Share of 2016 dividends

[illegible]

Dec 31, 2017

At January 1, 2017
Share of Jan to July 2017 net income
Share of 2017 dividends
Less: sale of 5,000 shares
Share of July to Dec 2017 loss
Impairment loss

Bloom's: Create

Difficulty: Difficult

Gradable: manual

Hilton - Chapter 02 #60

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

Topic: 02-05 Cost Method of Reporting an Equity Investment

61.

Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. on January 1, 2017 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, 2018, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

Zebrafish earned income of \$150,000 in 2017 and \$180,000 in 2018 (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 2017 and \$12.50 at the end of 2018.

Required:

Prepare dated journal entries for Ocean Enterprises for 2017 to account for its investment in Zebrafish and any related income therefrom.

January 1, 2017	Investment in Zebrafish
	Cash
	(To record initial investment in 15,000 shares of Zebrafish)
June 30, 2017	Cash
	Dividend income
	(To record receipt of dividend at June 30, 2017)
Dec 31, 2017	Cash
	Dividend income
	(To record receipt of dividend at Dec 31, 2017)
	Investment in Zebrafish
	Investment revaluation gain
	(To revalue shares to \$11 to year-end)

Bloom's: Create

Difficulty: Moderate

Gradable: manual

Hilton - Chapter 02 #61

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

Topic: 02-02 Investments Measured at Fair Value

Topic: 02-03 Illustration

Topic: 02-04 Investments Not Measured at Fair Value

62.

Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. on January 1, 2017 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, 2018, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

Zebrafish earned income of \$150,000 in 2017 and \$180,000 in 2018 (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 2017 and \$12.50 at the end of 2018.

Required:

Prepare dated journal entries for Ocean Enterprises for 2018 to account for its investment in Zebrafish and any related income therefrom.

January 1, 2018	Investment in Zebrafish
	Cash
	(To record second purchase of shares in Zebrafish)
June 30, 2018	Cash
	Dividend income
	(To record receipt of dividend at June 30, 2018)
July 1, 2018	Cash
	Investment in Zebrafish
	Gain on sale of shares (FVTPL)
	(To record sale of 12,500 shares for \$12 per share)
Dec 31, 2018	Cash
	Dividend income
	(To record receipt of Dec 31, 2018 dividend)
	Investment in Zebrafish
	Investment revaluation gain
	(To revalue shares to \$12.50 per share)

Bloom's: Create
Difficulty: Moderate
Gradable: manual

Hilton - Chapter 02 #62

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

63.

Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. on January 1, 2017 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, 2018, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

Zebrafish earned income of \$150,000 in 2017 and \$180,000 in 2018 (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 2017 and \$12.50 at the end of 2018.

Required:

Prepare dated journal entries for Ocean Enterprises for 2017 to account for its investment in Zebrafish and any related income therefrom.

January 1, 2017	Investment in Zebrafish
	Cash
	(To record initial investment in 15,000 shares of Zebrafish)
June 30, 2017	Cash
	Dividend income
	(To record receipt of dividend at June 30, 2017)
Dec 31, 2017	Cash
	Dividend income
	(To record receipt of dividend at Dec 31, 2017)
	Investment in Zebrafish
	Investment revaluation gain (OCI)
	(To revalue shares to \$11 at year-end)

Bloom's: Create
 Difficulty: Moderate
 Gradable: manual

Hilton - Chapter 02 #63

64.

Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. on January 1, 2017 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, 2018, Ocean Enterprises sold half their holding in Zebrafish for proceeds of \$150,000.

Zebrafish earned income of \$150,000 in 2017 and \$180,000 in 2018 (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 2017 and \$12.50 at the end of 2018.

Required:

Prepare dated journal entries for Ocean Enterprises for 2018 to account for its investment in Zebrafish and any related income therefrom.

January 1, 2018	Investment in Zebrafish
	Cash
	(To record second purchase of shares in Zebrafish)
June 30, 2018	Cash
	Dividend income
	(To record receipt of dividend at June 30, 2018)
July 1, 2018	Investment in Zebrafish
	Investment revaluation gain (OCI)
	(To revalue holding to \$12 per share on date of sale)
	Cash
	Investment in Zebrafish
	(To record sale of 12,500 shares for \$12 each)
	Investment gain (OCI)
	Retained earnings
	(To transfer realized gain to retained earnings)
Dec 31, 2018	Cash
	Dividend income
	(To record receipt of Dec 31, 2018 dividend)
	Investment in Zebrafish

	Investment revaluation gain (OCI)
	(To revalue shares to \$12.50 per share)

Bloom's: Create
Difficulty: Difficult
Gradable: manual
Hilton - Chapter 02 #64

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

65.

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

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

Bloom's: Create
Difficulty: Difficult
Gradable: manual
Hilton - Chapter 02 #65

Learning Objective: 02-02 Distinguish between the various types of equity investments measured at fair value.
Topic: 02-02 Investments Measured at Fair Value
Topic: 02-03 Illustration
Topic: 02-04 Investments Not Measured at Fair Value

c2 Summary