02

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.
CUnrealized 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**
A.	Investment in Y	$100,000	
	Cash		$100,000
B.	Investment in Y	$12,000	
	Cash		$12,000
C.	Investment in Y	$100,000	
	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**
A.	Investment in Y	$6,000	
	Investment Income		$6,000
B.	Investment in Y	$50,000	
	Investment Income		$50,000
C.	Investment in Y	$12,000	
	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?

A.

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

B.

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

C.

Investment in Y	$2,400	
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?

A.

	Debit	Credit
Cash	$9,600	
Dividend Income		$9,600

B.

Cash	$9,600	
Investment in Y		$9,600

C.

Cash	$9,600	
Dividend Income		$8,400
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?

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.

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?

A.

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

B.

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

C.

Investment in Y	$100,000	
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?

A.

	Debit	Credit
Investment in Y	$12,500	
Investment Income		$12,500

B.

Investment in Y	$7,500	
Investment Income		$7,500

C.

Investment in Y	$12,000	
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?

A.

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

B.

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

C.

Investment in Y	$5,000	
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?

A.

	Debit	Credit
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?

A.

	Debit	Credit
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?

A.

Cash	$16,000	
Dividend Income		$16,000

B.

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

C.

Investment in Stamp Company	$16,000	
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?

A.

Investment in Stamp Company	$20,000	
Investment revaluation gain (net income)		$20,000

B.

Investment in Stamp Company	$20,000	
Investment revaluation gain (OCI)		$20,000

C.

Investment revaluation loss (net income)	$20,000	
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?

    A.

Cash	$16,000	
Dividend Income		$16,000

    B.

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

    C.

Investment in Stamp Company	$16,000	
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?

    A.

Investment in Stamp Company	$20,000	
Investment revaluation gain (net income)		$20,000

    B.

Investment in Stamp Company	$20,000	
Investment revaluation gain (OCI)		$20,000

    C.

Investment revaluation loss (net income)	$20,000	
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?

A.

Cash	$16,000	
Dividend Income		$16,000

B.

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

C.

Investment in Stamp Company	$16,000	
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?

A.

Investment in Stamp Company	$20,000	
Investment revaluation gain (net income)		$20,000

B.

Investment in Stamp Company	$20,000	
Investment revaluation gain (OCI)		$20,000

C.

Investment revaluation loss (net income)	$20,000	
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?

A.

Cash	$16,000	
Dividend Income		$16,000

B.

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

C.

Investment in Stamp Company	$16,000	
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?

A.

Investment in Stamp Company	$20,000	
Investment revaluation gain (net income)		$20,000

B.

Investment in Stamp Company	$20,000	
Investment revaluation gain (OCI)		$20,000

C.

Investment revaluation loss (net income)	$20,000	
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)	40,000	(15,000)
Net income (loss)	$ 60,000	($45,000)
Other comprehensive income	20,000	25,000
Comprehensive income (Loss)	$ 80,000	($20,000)

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)	40,000	(15,000)
Net income (loss)	$ 60,000	($45,000)
Other comprehensive income	20,000	25,000
Comprehensive income (Loss)	$ 80,000	($20,000)

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

	Profits	Dividends
2009	400,000	240,000
2010	540,000	250,000

Required:

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.

	Income	Dividends
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.

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:

Date	No. Of Shares	Total	Cost (Per share)
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:

Date	No. Of Shares	Total	Cost (Per share)
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. (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?
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:

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.
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.

63. 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.

64. 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.

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.

02 Key

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

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

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

Blooms 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. Reporting in accordance with the Accounting Standards for Private Enterprises is permitted in certain instances for:
(p. 70)
A. privately held companies.
B. publicly held companies.
C. all Canadian companies.
D. Canadian companies consolidating its foreign subsidiaries.

Blooms 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. Which of the following types of share investment does NOT qualify as a strategic investment?
(p. 52)
A. Significant influence investments.
B. Joint Control investments.
C. Investments without significant influence.
D. Controlled investments.

Blooms 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. What percentage of ownership is used as a guideline to determine that significant influence exists under IAS 28?
(p. 61)
A. 20% or more.
B. Less than 20%.
C. Between 20% and 50%.
D. 25% or more.

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

Blooms 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. Which of the following methods uses procedures closest to those used in preparing consolidated financial statements?
(p. 64)
A. Fair Value Through Profit or Loss.
B. The Cost Method.
C. Fair Value Through Other Comprehensive Income.
D. The Equity Method.

Blooms 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. A significant influence investment is one that:
(p. 55)
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.

Blooms 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. Which of the following is NOT a possible indicator of significant influence?
(p. 61)
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.

Blooms 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. What is the dominant factor used to distinguish portfolio investments from significant influence investments?
(p. 52)
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.

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

Blooms 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. 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:
(p. 64)
A. goodwill.
B. the Acquisition Differential.
C. the Fair Value Increment.
D. the Excess Book Value.

Blooms 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. Any unallocated positive acquisition differential is normally:
(p. 64)
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.

Blooms 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. 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?
(p. 67)
A. Average cost.
B. Specific cost.
C. Last in, first out.
D. First in, first out.

Blooms 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. 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?
(p. 65)
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.

Blooms 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. How are realized gains from the sale of investments accounted for at fair value through Other Comprehensive Income accounted for under IFRS 9?
(p. 58)
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.

Blooms 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.

Blooms 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?

A.

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

B.

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

C.

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

D. No entry required.

Blooms 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?

A.

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

B.

Investment in Y	$50,000	
Investment Income		$50,000

C.

Investment in Y	$12,000	
Investment Income		$12,000

D. No entry required.

Blooms 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?

A.

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

B.

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

C.

Investment in Y	$2,400	
Dividend Income		$2,400

D. No entry required.

Blooms 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. 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:

(p. 60)

	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	$9,600	
Dividend Income		$9,600
B. Cash	$9,600	
Investment in Y		$9,600
C. Cash	$9,600	
Dividend Income		$8,400
Investment in Y		$1,200

D. No entry required.

Blooms 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. 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:

(p. 60)

	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.

Blooms 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. 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:

(p. 60)

	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

Blooms 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. 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:

(p. 61-62)

	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?

A.

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

B.

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

C.

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

D. No entry required.

Blooms 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?

A.

	Debit	Credit
Investment in Y	$12,500	
Investment Income		$12,500

B.

Investment in Y	$7,500	
Investment Income		$7,500

C.

Investment in Y	$12,000	
Investment Income		$12,000

D. No entry required.

Blooms 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?

A.

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

B.

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

C.

Investment in Y	$5,000	
Dividend Income		$5,000

D. No entry required.

Blooms 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?

A.

	Debit	Credit
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.

Blooms 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?

A.

	Debit	Credit
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.

Blooms 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

Blooms 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.

Blooms 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.

Blooms 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.

Blooms 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.

Blooms 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.

Blooms 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.

Blooms 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.

Blooms 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?

A.

Cash	$16,000	
Dividend Income		$16,000

B.

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

C.

Investment in Stamp Company	$16,000	
Dividend Income		$16,000

D. No entry required.

Blooms 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?

A.

Investment in Stamp Company	$20,000	
Investment revaluation gain (net income)		$20,000

B.

Investment in Stamp Company	$20,000	
Investment revaluation gain (OCI)		$20,000

C.

Investment revaluation loss (net income)	$20,000	
Investment in Stamp Company		$20,000

D. No entry required

Blooms 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.

Blooms 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?

A.

Cash	$16,000	
Dividend Income		$16,000

B.

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

C.

Investment in Stamp Company	$16,000	
Dividend Income		$16,000

D. No entry required.

Blooms 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?

A.

Investment in Stamp Company	$20,000	
Investment revaluation gain (net income)		$20,000

B.

Investment in Stamp Company	$20,000	
Investment revaluation gain (OCI)		$20,000

C.

Investment revaluation loss (net income)	$20,000	
Investment in Stamp Company		$20,000

D. No entry required

Blooms 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.

Blooms 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?

A.

Cash	$16,000	
Dividend Income		$16,000

B.

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

C.

Investment in Stamp Company	$16,000	
Dividend Income		$16,000

D. No entry required.

Blooms 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?

A.

Investment in Stamp Company	$20,000	
Investment revaluation gain (net income)		$20,000

B.

Investment in Stamp Company	$20,000	
Investment revaluation gain (OCI)		$20,000

C.

Investment revaluation loss (net income)	$20,000	
Investment in Stamp Company		$20,000

D. No entry required

Blooms 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.

Blooms 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?

A.

Cash	$16,000	
Dividend Income		$16,000

B.

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

C.

Investment in Stamp Company	$16,000	
Dividend Income		$16,000

D. No entry required.

Blooms 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?

A.

Investment in Stamp Company	$20,000	
Investment revaluation gain (net income)		$20,000

B.

Investment in Stamp Company	$20,000	
Investment revaluation gain (OCI)		$20,000

C.

Investment revaluation loss (net income)	$20,000	
Investment in Stamp Company		$20,000

D. No entry required

Blooms 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.

Blooms 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. 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?

(p. 71)

A. Only under IFRS.

B. Only under US GAAP.

C. Only under ASPE.

D. Under US GAAP and ASPE, but not IFRS.

Blooms 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.