MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

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

   Answer: C

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

   Answer: B

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

   Answer: C

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

   Answer: B

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

   Answer: C

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) They are transferred to Retained Earnings without going through net income.
B) They are transferred to net income in the period of the sale.
C) They remain in Accumulated Other Comprehensive Income.
D) They are transferred to Contributed Surplus.
Answer: A

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) Specific cost. B) Last in, first out. C) Average cost. D) First in, first out.
Answer: C

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

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

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

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

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) the Acquisition Differential.
B) Goodwill.
C) the Excess Book Value.
D) the Fair Value Increment.

Answer: A

13) Any unallocated positive acquisition differential is normally:

A) expensed during the year following the acquisition.
B) charged to Retained Earnings.
C) pro-rated across the Associate's identifiable net assets.
D) recorded as Goodwill.

Answer: 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) They are never recognized.
B) In the period(s) when the assets are sold to third parties or consumed.
C) In the period when the intercompany transfer takes place.
D) They are recognized only when the investment is sold.

Answer: B

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) FVTPL
B) cost method
C) FVTOCI
D) equity method

Answer: A

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

A) completely different
B) exactly the same
C) almost similar except for the fair value methods
D) almost similar except for the equity method

Answer: B

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

A) all Canadian companies.
B) privately held companies.
C) publicly held companies.
D) Canadian companies consolidating their foreign subsidiaries.

Answer: B

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

A) It may use the cost method for some such investments and the equity method for other such investments.

B) It must use the cost method to report all such investments.

C) It must use the equity method to report all such investments.

D) It may use the cost method, equity method, or at fair value but must account for all such investments by the same method.

Answer: 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	**Dividends**
2016	$50,000	$20,000
2017	$70,000	$80,000
2018	$30,000	$60,000

19) 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	$12,000	
Cash		$12,000

B)

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

C)

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

D) No entry required.

Answer: C

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)

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

B)

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

C)

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

D) No entry required.

Answer: 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)

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

B)

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

C)

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

D) No entry required.

Answer: B

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)

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

B)

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

C)

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

D) No entry required.

Answer: C

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)

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

B)

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

C)

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

D) No entry required.

Answer: A

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

A) $91,200 B) $98,800 C) $100,000 D) $90,000

Answer: C

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 f 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)

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

B)

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

C)

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

D) No entry required.

Answer: C

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)

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

B)

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

C)

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

D) No entry required.

Answer: A

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)

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

B)

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

C)

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

D) No entry required.

Answer: C

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)

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

B)

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

C)

	Debit	Credit
Cash	$20,000	
Dividend Income		$20,000

D) No entry required.

Answer: A

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)

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

B)

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

C)

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

D) No entry required.

Answer: A

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

A) $98,800 B) $97,500 C) $100,000 D) $91,200

Answer: B

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.

Answer: 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) 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.
B) No specific accounting treatment is required. These items simply have to be disclosed in a note to the financial statements.
C) Any such gains or losses are to be charged directly to Retained Earnings net of tax.
D) 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.

Answer: A

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) FIFO.
B) The average carrying amount of the Investment.
C) LIFO.
D) Specific Identification.

Answer: B

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 revalued to fair value with the revaluation gain going to other comprehensive income, even if the recorded gain will exceed the original impairment loss.
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 written up in value but not more than the amount of the impairment loss that was recorded at the time of impairment.

Answer: 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) The investment must be reported at fair value through profit and loss.
B) The investment must be reported using the equity method with the fair value disclosed in the notes to the financial statements.
C) The investment must be reported at fair value through other comprehensive income.
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.

Answer: B

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) The Accounting Standards for Private Enterprises do not recognize Other Comprehensive Income.
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) 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.

Answer: A

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

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

Answer: B

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)

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

B)

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

C)

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

D) No entry required.

Answer: B

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)

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

B)

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

C)

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

D) No entry required.

Answer: B

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) $200,000 B) $240,000 C) $220,000 D) $208,000

Answer: C

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)

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

B)

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

C)

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

D) No entry required.

Answer: C

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)

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

B)

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

C)

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

D) No entry required.

Answer: B

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) $208,000 B) $200,000 C) $240,000 D) $220,000

Answer: 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)

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

B)

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

C)

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

D) No entry required.

Answer: A

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)

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

B)

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

C)

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

D) No entry required.

Answer: 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) $240,000 B) $200,000 C) $220,000 D) $208,000

Answer: B

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)

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

B)

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

C)

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

D) No entry required.

Answer: A

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)

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

B)

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

C)

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

D) No entry required.

Answer: 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) $200,000 B) $220,000 C) $208,000 D) $240,000

Answer: C

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) Either under IFRS or ASPE.

C) Under ASPE, but not IFRS. D) Neither under IFRS nor ASPE.

Answer: C

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

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.

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

Acquisition cost:	$600,000
Pro-rata share of Mark's 2017 Net Income	$25,000
Pro-rata share of Mark's 2017 Dividends	($5,000)
Pro-rata share of Mark's 2018 Net Income	$50,000
Pro-rata share of Mark's 2018 Dividends	($2,500)
Investment in Mark Inc. as at December 31, 2018	**$667,500**

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	2017
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, 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.

Answer:

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

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	**2017**
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, 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 investmen

Answer:

2016:	**Debit**	**Credit**
Investment in Y	$400,000	
Cash		$400,000
To record X's purchase of Y.		
Investment in Y	$32,000	
Investment Income		$40,000
Other comprehensive income		$ 8,000
Income tax expense	$16,000	
To record 2016 Net Income and Unusual Gain		
Cash	$20,000	
Investment in Y		$20,000
To record receipt of Dividends from Y - 2016		
2017:	**Debit**	**Credit**
Investment Income	$24,000	
Other comprehensive income		$10,000
Income tax recovery		$ 6,000
Investment in Y		$ 8,000
To record 2017 Net Loss		
Cash	$20,000	
Investment in Y		$20,000
To record receipt of Dividends from Y - 2017		

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	Total	Cost (per share)
March 31, 2018	1,000	1,000	$75

June 30, 2018	1,000	2,000	$125
September 30, 2018	1,000	3,000	$175
September 30, 2019	(3,000)	0	$240

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?

Answer:

Date	No. Of Shares	Total	Cost (per share)	Total Cost
March 31, 2018	1,000	1,000	$75	$ 75,000
June 30, 2018	1,000	2,000	$125	$200,000
September 30, 2018	1,000	3.000	$175	$375,000

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

(a)

03.31.2018	Investment in Pineapple	75,000	
	Cash		75,000
	To record investment		
06.30.2018	Investment in Pineapple	125,000	
	Cash		125,000
	To record investment		
12.31.2018	Investment in Pineapple	175,000	
	Cash		175,000
	To record investment		
12.31.2018	Investment in Pineapple	225,000	
	Investment revaluation gain (FVTPL)		225,000
	To record unrealized gain		
12.31.2018	Cash	3,000	
	Dividend Income		3,000
	To record dividend income		
09.30.2019	Cash	720,000	

	Gain on sale		120,000
	Investment in Pineapple		600,000
	To record disposal of Pineapple shares		

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

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	Total	Cost (per share)
March 31, 2018	1,000	1,000	$75
June 30, 2018	1,000	2,000	$125
September 30, 2018	1,000	3,000	$175
September 30, 2019	(3,000)	0	$240

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?

Answer:

Date	No. Of Shares	Total	Cost (per share)	Total Cost
March 31, 2018	1,000	1,000	$75	$ 75,000
June 30, 2018	1,000	2,000	$125	$200,000
September 30, 2018	1,000	3.000	$175	$375,000

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

(a)

03.31.2018	Investment in Pineapple	75,000	
	Cash		75,000
	To record investment		
06.30.2018	Investment in Pineapple	125,000	

	Cash		125,000
	To record investment		
12.31.2018	Investment in Pineapple	175,000	
	Cash		175,000
	To record investment		
12.31.2018	Investment in Pineapple	225,000	
	Investment revaluation gain (OCI)		225,000
	To record investment		
12.31.2018	Cash	3,000	
	Dividend Income		3,000
	To record dividend income		
09.30.2019	Cash	720,000	
	Gain on sale (OCI)		120,000
	Investment in Pineapple		600,000
	To record disposal of Pineapple shares		
	Realized gain on sale (OCI)	345,000	
	Retained earnings		345,000
	To transfer realized gain from OCI to Retained Earnings		

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

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 pric 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.

Answer:

June 30, 2017	Cash	$ 8,000	
	Dividend income		$ 8,000
	(To record dividend paid on June 30, 2017)		
July 2, 2017	Cash	$60,000	
	Investment in Stamp Company		$55,000
	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)	$75,000	
	Investment in Stamp Company		$75,000
	(To revalue investment to fair value at year-end)		

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	Dividends
2016	400,000	240,000
2017	540,000	250,000

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

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

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

Investment in White	1,040,000	
Cash		1,040,000
Purchase 30 per cent of the shares of White		
Investment in White	243,000	
Investment Income		243,000
45% of $540,000 profit for 2017		
Cash	112,500	
Investment in White		112,500
45% × $250,000 dividends for 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 at noted below. On December 31, 2018 Slayer declared bankruptcy as a result of a series of losses as noted.

	Income	Dividends
2016	50,000	20,000
2017	(10,000)	20,000
2018	(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.

Answer: (a)

1.1.2016	Investment in Slayer	200,000	
	Cash		200,000
	To record Dragon's investment in Slayer		
31.12.2016	Cash	1,400	
	Dividend Income		1,400
	To record dividend income		
31.12.2017	Cash	1,400	
	Dividend Income		1,400
	To record dividend income		
31.12.2018	Cash	1,400	
	Dividend Income		1,400
	To record dividend income		
31.12.2018	Loss on Investment	200,000	
	Investment in Slayer		200,000
	To write off investment after impairment		

(b) General Ledger
Investment in Slayer

	Dr	Cr	Balance
January 1, 2016 - investment	200,000		$200,000
December 31, 2018 - impairment		200,000	$0

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?

Answer: (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		1,750,000
Recording loss on change from significant influence to FVTPL		

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.

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

Purchase consideration	$200,000
Share of 2016 net income	24,000
Share of 2016 dividends	(160,000)
	$208,000

June 30, 2017	Investment in Stamp Company	$16,000	
	Investment income (equity method)		$16,000
	(To record share of net income for first six months of 2017)		
	Cash	$8,000	
	Investment in Stamp Company		$8,000
	(To record dividend paid on June 30, 2017)		
July 2, 2017	Cash	$60,000	
	Investment in Stamp Company		$54,000
	Gain on sale of shares		$ 6,000
	(To record sale of shares; carrying value of shares sold is 5,000/20,000 × [$208,000 + $16,000 - $8,000])		
Dec 31, 2017	Investment loss (equity method)	$21,000	
	Investment in Stamp Company		$21,000
	(To record share of loss for last six months of 2017 [15% of $140,000])		
	Investment impairment loss	$21,000	
	Investment in Stamp Company		$21,000
	(To write investment down to $120,000 [i.e. 15,000 shares at $8]; Carrying value was $141,000 before write-down)		

At January 1, 2017	$208,000
Share of Jan to July 2017 net income	16,000

Share of 2017 dividends	(8,000)
	216,000
Less: sale of 5,000 shares	(54,000)
	162,000
Share of July to Dec 2017 loss	(21,000)
	141,000
Impairment loss	(21,000)
	$120,000

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.

Answer:

January 1, 2017	Investment in Zebrafish	$150,000	
	Cash		$150,000
	(To record initial investment in 15,000 shares of Zebrafish)		
June 30, 2017	Cash	$9,000	
	Dividend income		$9,000
	(To record receipt of dividend at June 30, 2017)		
Dec 31, 2017	Cash	$9,000	
	Dividend income		$9,000
	(To record receipt of dividend at Dec 31, 2017)		

	Investment in Zebrafish	$15,000	
	Investment revaluation gain		$15,000
	(To revalue shares to $11 to year-end)		

62) Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. or 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 Zebrafis and any related income therefrom.

Answer:

January 1, 2018	Investment in Zebrafish	$110,000	
	Cash		$110,000
	(To record second purchase of shares in Zebrafish)		
June 30, 2018	Cash	$15,000	
	Dividend income		$15,000
	(To record receipt of dividend at June 30, 2018)		
July 1, 2018	Cash	$150,000	
	Investment in Zebrafish		$137,500
	Gain on sale of shares (FVTPL)		12,500
	(To record sale of 12,500 shares for $12 per share)		
Dec 31, 2018	Cash	$7,500	
	Dividend income		$7,500

	(To record receipt of Dec 31, 2018 dividend)		
	Investment in Zebrafish	$18,750	
	Investment revaluation gain		$18,750
	(To revalue shares to $12.50 per share)		

63) Ocean Enterprises Inc. acquired 15% of the 100,000 outstanding common shares of Zebrafish Ltd. or 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 comprehensi 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 Zebrafis and any related income therefrom.

Answer:

January 1, 2017	Investment in Zebrafish	$150,000	
	Cash		$150,000
	(To record initial investment in 15,000 shares of Zebrafish)		
June 30, 2017	Cash	$9,000	
	Dividend income		$9,000
	(To record receipt of dividend at June 30, 2017)		
Dec 31, 2017	Cash	$9,000	
	Dividend income		$9,000
	(To record receipt of dividend at Dec 31, 2017)		
	Investment in Zebrafish	$15,000	

	Investment revaluation gain (OCI)		$15,000
	(To revalue shares to $11 at year-end)		

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.

Answer:

January 1, 2018	Investment in Zebrafish	$110,000	
	Cash		$110,000
	(To record second purchase of shares in Zebrafish)		
June 30, 2018	Cash	$15,000	
	Dividend income		$15,000
	(To record receipt of dividend at June 30, 2018)		
July 1, 2018	Investment in Zebrafish	$25,000	
	Investment revaluation gain (OCI)		$25,000
	(To revalue holding to $12 per share on date of sale)		
	Cash	$150,000	
	Investment in Zebrafish		$150,000
	(To record sale of 12,500 shares for $12 each)		
	Investment gain (OCI)	$20,000	

	Retained earnings		$20,000
	(To transfer realized gain to retained earnings)		
Dec 31, 2018	Cash	$7,500	
	Dividend income		$7,500
	(To record receipt of Dec 31, 2018 dividend)		
	Investment in Zebrafish	$6,250	
	Investment revaluation gain (OCI)		$6,250
	(To revalue shares to $12.50 per share)		

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.

Answer: 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.