

Student name: _____

Complete the following matrix by writing a brief explanation in each cell to indicate the appropriate approach for long-term investments.

Measurement and Reporting Method	Outstanding Common Stock Owned (%)	Level of Ownership: Degrees of Influence or Control
A. Fair value		
B. Equity		
C. Consolidated statements		

Required:

- A. Discuss the similarities of accounting for available-for-sale and trading debt securities portfolios.
- B. Discuss the differences encountered in accounting for available-for-sale and trading debt securities portfolios.

On January 1, 2023, Heitzman Company purchased the following shares of stock as a long-term investment:

Corporation	Shares	Percent Outstanding	Cost per Share
Maars	10,000 common (no par)	5%	\$ 25
Nassif	2,000 preferred (par \$10)	2%	\$ 50

The fair values of the stocks subsequently were as follows:

	December 31, 2023	December 31, 2024
Maars Corporation common stock	\$ 24.00	\$ 27.50
Nassif Corporation preferred stock	51.00	50.50

Required:

Calculate the amount of unrealized gain or loss Heitzman would report on its income statement at both December 31, 2023 and December 31, 2024.

On January 1, 2024, as a long-term investment, Claw Company purchased 2,000 of the 20,000 outstanding voting common shares of Paw Corporation at \$29 per share. Paw reported 2024 net income of \$130,000 and declared and paid cash dividends of \$15,000. The market price of the Paw stock at the end of 2024 was \$30 per share. Calculate the carrying value of Claw's investment at the end of 2024.

On January 31, 2023, McBurger Corporation purchased the following shares of voting common stock as long-term investments. None of these holdings amounted to more than 5% of the respective company's outstanding voting shares. The accounting period ends December 31.

Stock	Cost	Market December 31, 2023	Market December 31, 2024
Orange Corporation	\$ 15,000	\$ 12,000	\$ 14,000
Bailey Corporation	\$ 13,000	\$ 12,000	\$ 13,000

All of the Bailey Corporation stock was sold for \$13,500 on January 12, 2025.

Required:

Prepare the required journal entries at the following dates: January 31, 2023, December 31, 2023, December 31, 2024 and January 12, 2025.

On March 1, 2023, Young Company paid cash to purchase the following stocks as long-term investments:

Old Corporation common stock (par \$5), 2,000 shares at \$5 per share (10% of outstanding shares)

ABC Corporation common stock (par \$10), 3,000 shares at \$25 per share (15% of outstanding shares)

XYZ Corporation common stock (par \$10), 3,000 shares at \$20 per share (10% of outstanding shares)

The market prices per share at December 31, end of the accounting period, were as follows:

Stock	December 31, 2023	December 31, 2024
Old common	\$ 6	\$ 7
ABC common	\$ 24	\$ 25
XYZ common	\$ 21	\$ 17

Required:

Prepare the required journal entries at the following dates: March 1, 2023, December 31, 2023 and December 31, 2024.

On January 1, 2024, Presto Corporation purchased, as a long-term investment, 5,000 shares of the outstanding voting common stock of Shazam Corporation at \$30 per share. During 2024, the following events occurred at Shazam Corporation:

Net Income reported for 2024	\$ 20,000
Dividends declared and paid (per share)	\$ 0.50
Market price per share of common stock at December 31, 2024	\$ 28.00

Required:

- A. Prepare the journal entry for Presto Corporation to record the investment.
- B. Assume two independent situations, Case A for 5,000 shares as 10% ownership and Case B for 5,000 shares as 40% ownership. For each situation, prepare the following entries:
 1. To recognize net income for 2024.
 2. To record cash dividend declared and received.
 3. To record any adjustment to market price of stock at year-end.

On January 1, 2023, Alden Company acquired 15,000 shares (4%) of the nonvoting preferred stock of Maxim Corporation as a long-term investment for \$225,000. Maxim reported a 2023 net income of \$35,000. On January 2, 2024, Maxim declared and paid a \$10,000 cash dividend on the preferred stock. The fair value of the Maxim stock held by Alden on December 31, 2023, was \$224,000. Alden Company has recorded only the following journal entries:

January 1, 2023:

Account Title	Debit	Credit
Investments	225,000	
Cash		225,000

December 31, 2023 (end of the accounting period):

No entry

January 2, 2024:

Account Title	Debit	Credit
Cash	400	
Dividend revenue		400

Required:

Based on the above information, answer the following questions:

- What method did Alden use to account for the investment?
- Did Alden fail to make an adjusting entry on December 31, 2023?
- What condition, if changed, would require that the equity method be used?
- Assuming the fair value method is used; calculate the valuation of the investment on January 3, 2024.

Orleans Corporation purchased 1,000,000 shares of Creole Corporation's common stock, which constitutes 10% of Creole's voting stock on June 30, 2024 for \$42 per share. Orleans' intent is to keep these shares beyond the current year. On December 20, 2024, Creole paid a \$4,000,000 cash dividend. On December 31, 2024, Creole's stock was trading at \$45 per share and their reported 2024 net income was \$52 million.

Required:

- A. Record the transaction to record the acquisition of Creole Corporation on June 30, 2024.
- B. Record the transaction for the dividend received by Orleans on December 20, 2024.
- C. Record any year-end entries needed by Orleans Corporation.

Describe the difference in accounting for debt investments classified as available-for-sale versus the accounting for equity securities.

On December 31, 2024, Jean World Corporation recorded the following journal entry relating to its investment in 9,000 shares of common stock of Soda Corporation.

Date	Account Title	Debit	Credit
12/31/2024:	Investments	54,000	
	Equity in investee earnings		54,000

At the end of 2024, Soda Corporation reported net income of \$120,000. Earlier in the year, Soda declared and paid dividends of \$18,000.

Required:

- A. What method is being used to account for this investment?
- B. What is the total number of shares outstanding of Soda's common stock?

As a long-term investment, Vine Company purchased 10,000 of the 25,000 outstanding voting shares of Beach Corporation at \$30 per share on January 1, 2024. At the end of 2024, Beach reported net income of \$100,000 and declared and paid dividends of \$15,000. The market price of the Beach stock at the end of 2024 was \$34 per share.

Required:

Calculate the net balance in Vine's investment account at the end of 2024.

Donald Corporation purchased 3,000 shares of the outstanding common voting stock of Apprentice Corporation on January 2, 2024, for \$80 per share. At the date of purchase Apprentice Corporation had outstanding 10,000 shares of common stock with a par value of \$50 per share. During 2024, Apprentice reported net income of \$60,000 and declared and paid a \$5,000 cash dividend. The December 31, 2024, fair value of Apprentice's stock was \$84.

Required:

Prepare the journal entries required for Donald Corporation on January 2, 2024 and December 31, 2024.

Required:

- A. Discuss the criteria for applying the equity method of accounting for long-term investments.
- B. Discuss the rationale for the equity method procedures of accounting for long-term investments.

On March 31, 2024, Kudos Corporation paid \$20,000,000 for 2,000,000, \$1 par value, shares of the voting stock of NutriBar Corporation. This investment represented 40% of NutriBar's outstanding shares. On December 12, 2024, NutriBar declared and paid a \$1,000,000 cash dividend and reported net income for the year ended 2024 of \$10,000,000. On December 31, 2024, NutriBar's stock was trading at \$11.50 per share.

Required:

- A. Record the journal entry on Kudos' book for the acquisition of NutriBar on March 31, 2024.
- B. Record the cash dividend received by Kudos on December 12, 2024.
- C. Record any end of year entries needed on Kudos' books.

During 2024, the following items were reported on ShoeCo's statement of cash flows in millions of dollars.

Required:

For each item, identify the type of activity it is (operating, investing, financing) and the effect it would have on the statement of cash flows. The operating activities section is prepared using the indirect method. Enter "+" if the item is added or "-" if the item is subtracted. Do **not** enter dollar amounts.

Purchases of passive equity investments	\$ 64
Dividends received from equity affiliates	10
Equity in investee earnings	38
Debt available-for-sale securities, sales proceeds	27
Loss on sale of debt available-for-sale securities	(6)
Unrealized gain on debt trading securities	15

During 2024, the following items were reported on The Mickey Company's statement of cash flows in millions of dollars.

Required:

For each item, identify the type of activity it is (operating, investing, financing) and the effect it would have on the statement of cash flows. The operating activities section is prepared using the indirect method. Enter "+" if the item is added or "-" if the item is subtracted. Do **not** enter dollar amounts.

Equity in investee earnings	48
Proceeds from the sale of investments	14
Purchases of investments	67
Dividends received from equity investments	36

Discuss how the equity method of accounting for investments prevents managers of the investor corporation from manipulating income related to dividends from the investee.

On January 1, 2024, Fall Corporation acquired 100% of the outstanding voting shares of Foliage Corporation for \$600,000. The book and fair values of Foliage's assets and liabilities as of January 1, 2024 are listed below:

Item	Book Value	Fair value
Equipment	\$ 60,000	\$ 80,000
Trucks	40,000	55,000
Factory	300,000	320,000
Other assets	130,000	100,000
Liabilities	100,000	105,000

What amount of goodwill, if any, will be recorded by Fall Corporation as a result of this investment?

On January 2, 2024, Eagle Company acquired 100% of Solly Company's common stock for \$900,000 cash in a merger transaction. At this date, the book value of all of Solly Company's assets, except a building, was \$700,000. The fair value of these assets without the building was \$800,000. In addition to these assets is a building that has a book value of \$400,000 and a fair value of \$440,000. The book value and fair value of Solly Company's liabilities is \$520,000.

Required:

- A. Prepare a schedule to calculate the goodwill arising from the transaction.
- B. Prepare the journal entry to record the merger on the books of Eagle Company at the acquisition date.

Answer Key

Test name: A Financial Accounting E12

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