CH 17 INVESTMENTS SELF-STUDY QUESTIONS

(note from Dr. N: I have deleted questions for you to omit, but did not renumber the remaining questions)

1. Trading securities are reported on the balance sheet at fair value.
   A. True
   B. False

3. Debt securities may be classified as:
   A. held-to-maturity.
   B. trading.
   C. available-for-sale.
   D. All of these.

4. Held-to-maturity securities are reported at their:
   A. historical cost.
   B. amortized cost.
   C. fair value.
   D. face value.

5. A correct valuation is
   A. available-for-sale securities at amortized cost.
   B. held-to-maturity securities at amortized cost.
   C. trading securities at amortized cost.
   D. none of these.

6. Unrealized holding gains or losses which are recognized in income are from securities classified as
   A. held-to-maturity.
   B. available-for-sale.
   C. trading.
   D. All of the above.

7. Debt securities that are bought and held primarily for sale in the near term are reported at:
   A. cost.
   B. amortized cost.
   C. net realizable value.
   D. fair value.

8. Unrealized gains and losses on held-to-maturity securities are:
   A. reported on the balance sheet.
   B. reported on the income statement.
   C. not reported because these securities are reported at their amortized cost.
   D. None of these.
9. Unrealized holding gains or losses are recognized as other comprehensive income for:
   A. available-for-sale securities.
   B. held-to-maturity securities.
   C. long-term securities.
   D. trading securities.

10. Investments in debt securities should be recorded on the date of acquisition at
    A. lower of cost or market.
    B. market value.
    C. market value plus brokerage fees and other costs incidental to the purchase.
    D. face value plus brokerage fees and other costs incidental to the purchase.

11. A requirement for a security to be classified as held-to-maturity is
    A. ability to hold the security to maturity.
    B. positive intent.
    C. the security must be a debt security.
    D. All of these are required.

12. The holding period for trading securities is generally less than three months.
    A. True
    B. False

14. Yellowtail Company’s trading securities portfolio which is appropriately included in current assets is as follows:

<table>
<thead>
<tr>
<th>December 31, 2012</th>
<th>Cost</th>
<th>Fair Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arlington Corp.</td>
<td>$453,000</td>
<td>$423,000</td>
<td>$(30,000)</td>
</tr>
<tr>
<td>Downs, Inc.</td>
<td>242,000</td>
<td>265,000</td>
<td>23,000</td>
</tr>
<tr>
<td></td>
<td>$695,000</td>
<td>$688,000</td>
<td>$ (7,000)</td>
</tr>
</tbody>
</table>

   Ignoring income taxes, what amount should be reported as a charge against income in Yellowtail’s 2012 income statement if 2012 is Yellowtail’s first year of operation?
   A. $0.
   B. $7,000.
   C. $23,000.
   D. $30,000.

15. During 2012, Moxey Company purchased 10,000 shares of Hanover Corp. common stock for $415,000 as an available-for-sale investment. The fair value of these shares was $389,000 at December 31, 2012. During 2013, Moxey sold all of the Hanover stock for $426,000. Moxey Company should report a realized gain on the sale of stock in 2013 of
   A. $11,000.
   B. $25,000.
   C. $26,000.
   D. $37,000.
16. When an available-for-sale equity security is sold, the gain (loss) on sale is the difference between the net proceeds from the sale and the security's:
   A. book value.
   B. cost.
   C. fair value.
   D. par value.

17. On its December 31, 2012, balance sheet, Draper Co. reported its investment in trading securities, which had cost $300,000, at fair value of $275,000. At December 31, 2013, the fair value of the securities was $292,500. What should Draper report on its 2013 income statement as a result of the increase in fair value of the investments in 2013?
   A. $0.
   B. Unrealized loss of $7,500.
   C. Realized gain of $17,500.
   D. Unrealized gain of $17,500.

21. The unrealized holding gain or loss on trading securities is reported as:
   A. other comprehensive income.
   B. a separate component of stockholders' equity.
   C. part of net income.
   D. an addition to (deduction from) the trading securities account balance.

22. During 2012, Martin Company purchased 17,000 shares of Mount Vernon Corp. common stock for $382,500 as an available-for-sale investment. The fair value of these shares was $373,150 at December 31, 2012. Martin sold all of the Mount Vernon stock for $27.25 per share on December 3, 2013, incurring $15,000 in brokerage commissions. Martin Company should report a realized gain on the sale of stock in 2013 of
   A. $65,750.
   B. $75,100.
   C. $80,750.
   D. $90,100.

23. An unrealized holding gain on a company's available-for-sale securities should be reflected in the current financial statements as
   A. an extraordinary item shown as a direct increase to retained earnings.
   B. a current gain resulting from holding securities.
   C. a note or parenthetical disclosure only.
   D. other comprehensive income and included in the equity section of the balance sheet.

24. Under the equity method, dividends received by the investor are reported as dividend revenue on the income statement.
   A. True
   B. False

25. Investments are reported at market value on the balance sheet under the equity method.
   A. True
   B. False
ADDITIONAL SELF-STUDY QUESTIONS

1. Holdings between 20% and 50% of another company’s voting stock are accounted for using the equity method.
   A. True
   B. False

2. Mitchell Company owns 40,000 of the 100,000 outstanding shares of Pitts Inc. common stock. During 2013, Pitts earns $640,000 and pays cash dividends of $480,000. If the beginning balance in Mitchell’s investment account was $430,000, the balance at December 31, 2013 should be
   A. $366,000.
   B. $430,000.
   C. $494,000.
   D. $686,000.

3. Examples of the ability to exercise significant influence over an investee include all of the following except:
   A. material intercompany transactions.
   B. interchange of managerial personnel.
   C. technological dependency.
   D. All of the options are examples of significant influence.

5. When an investor company owns 25% of an investee company’s common stock, the investor is said to have:
   A. little or no influence over the investee company.
   B. a controlling interest over the investee company.
   C. a significant influence over the investee company.
   D. a minor influence over the investee company.

6. Under the equity method, if an investee company generates net income, the investor company:
   A. does not recognize any share of the net income.
   B. records its proportionate share of the net income as dividend income.
   C. records its proportionate share as an increase in its investment account.
   D. records its proportionate share as an unrealized gain.

8. An ownership interest of 30% of the common stock of another corporation should be accounted for using the:
   A. consolidated method.
   B. cost method.
   C. equity method.
   D. fair value method.

9. Gise Corporation purchased 35,000 shares of common stock of the Wagner Corporation for $52 per share on January 2, 2010. During 2012, Wagner Corporation had 140,000 shares of common stock outstanding, paid cash dividends of $88,000, and reported net income of $320,000. Gise Corporation should report revenue from investment for 2012 in the amount of
   A. $0.
   B. $22,000.
   C. $58,000.
   D. $80,000.
16. Companies base impairment for debt and equity securities on a(n)
   A. discounted cash flow test.
   B. fair value test.
   C. equity test.
   D. intrinsic value test.

18. Which of the following statements related to impairments of investments is not correct?
   A. A bankruptcy being experienced by an investee is an example of a permanent loss in value.
   B. If the decline in value is considered temporary, the cost of the individual security is written down to a new cost basis.
   C. The amount of any write-down in value is accounted for as a realized loss.
   D. Subsequent increases/decreases in the fair value of impaired available-for-sale securities are included as other comprehensive income.

22. When an investment in a held-to-maturity security is transferred to an available-for-sale security, the carrying value assigned to the available-for-sale security should be
   A. its original cost.
   B. its fair value at the date of the transfer.
   C. the lower of its original cost or its fair value at the date of the transfer.
   D. the higher of its original cost or its fair value at the date of the transfer.

25. Transfers between categories of investments are accounted for at:
   A. fair value.
   B. book value.
   C. cost.
   D. amortized cost.

SOLUTIONS

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<thead>
<tr>
<th>Self-study</th>
<th>Additional self-study</th>
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