



## FINAL EXAM

# Course # 171036 Accounting For Investments

based on the electronic .pdf file(s):

**Accounting For Investments**  
by: Delta CPE, 2014, 100 pages



5 CPE Credit Hours  
Accounting & Auditing

A P E X C P E . C O M . . . . . 800.273.9619 . . . . . support@apexcpe.com

*This exam sheet is made available for your convenience in answering questions while offline. Please note that you will still need to enter your answers on the online exam sheet for grading. Instructions are provided at the end of this document.*

## Chapter 0 - Course Material

1. The amount by which the fair value of an equity security exceeds its cost should be accounted for in the financial statements when the security is classified as
  - Neither Trading nor Available-for-Sale
  - Available-for-sale, but not for Trading
  - Both Trading and Available-for-Sale
  - Trading, but not Available-for-Sale
  
2. Unrealized holding gains or losses which are recognized in income are from securities classified as
  - Held-to-maturity.
  - Available-for-sale.
  - Trading.
  - None of these.
  
3. Trading securities are recorded in the balance sheet under \_\_\_\_\_ at \_\_\_\_\_.
  - Current assets; fair market value.
  - Current assets; amortized cost.
  - Noncurrent assets; fair market value.
  - Noncurrent assets; acquisition cost.
  
4. Unrealized holding gains or losses which are recognized in income are from securities classified as
  - Held-to-maturity.
  - Available-for-sale.
  - Trading.
  - None of these.
  
5. Nola Co. has a portfolio of marketable equity securities that it does not intend to sell in the near term. How should Nola classify these securities, and how should it report unrealized gains and losses from these securities?
  - Classify as Trading securities; Report as a component of income from continuing operations
  - Classify as Available-for-sale securities; Report as Other comprehensive income (OCI)
  - Classify as Trading securities; Report as Other comprehensive income (OCI)
  - Classify as Available-for-sale securities; Report as a component of income from continuing operations
  
6. A correct valuation is
  - Available-for-sale at amortized cost.
  - Held-to-maturity at amortized cost.
  - Held-to-maturity at fair value.
  - None of these.

7. Securities acquired by a corporation which are accounted for by recognizing unrealized holding gains or losses and are included as other comprehensive income and as a separate component of stockholders' equity are
- Held-to-maturity securities.
  - Trading securities.
  - Available-for-sale securities.
  - Never-sell securities
8. At December 31, 2X13, Atlanta Co. has a stock portfolio (of available-for-sales securities) valued at \$33,000. Its cost was \$40,000. If the valuation allowance has a credit balance of \$2,000, which of the following journal entries is required at December 31, 2X13?
- Debit Valuation allowance \$7,000; Credit Unrealized gain \$7,000
  - Debit Valuation allowance \$5,000; Credit Unrealized gain \$5,000
  - Debit Unrealized loss \$7,000; Credit Valuation allowance \$7,000
  - Debit Unrealized loss \$5,000; Credit Valuation allowance \$5,000
9. A requirement for a security to be classified as held-to-maturity is
- Ability to hold the security to maturity.
  - Positive intent.
  - The security must be a debt security.
  - All of these are required.
10. Debt securities that are accounted for at amortized cost, not fair value, are
- Held-to-maturity debt securities.
  - Trading debt securities.
  - Available-for-sale debt securities.
  - Never-sell debt securities.
11. An investor purchased a bond as a long-term investment between interest dates at a premium. At the purchase date, the nominal rate of the bond is
- The same as the market rate.
  - The same as the market rate plus accrued interest.
  - More than the market rate.
  - Less than the market rate.
12. Use of the effective-interest method in amortizing bond premiums and discounts results in
- A greater amount of interest income over the life of the bond issue than would result from use of the straight-line method.
  - A varying amount being recorded as interest income from period to period.
  - A variable rate of return on the book value of the investment.
  - A smaller amount of interest income over the life of the bond issue than would result from use of the straight-line method.
13. Equity securities acquired by a corporation which are accounted for by recognizing unrealized holding gains or losses as other comprehensive income and as a separate component of stockholders' equity are
- Available-for-sale securities where a company has holdings of less than 20%.

- Trading securities where a company has holdings of less than 20%.
- Securities where a company has holdings of between 20% and 50%.
- Securities where a company has holdings of more than 50%.

14. Which of the following is correct about the effective-interest method of amortization?

- Under the effective interest method, yield is based on the simple yield formula.
- Amortization of a discount decreases from period to period.
- Amortization of a premium decreases from period to period.
- The effective-interest method produces a constant rate of return on the book value of the investment from period to period.

15. An investor purchased a bond classified as a long-term investment between interest dates at a discount. The yield is

- Greater than the nominal interest rate.
- Less than the nominal interest rate.
- The same as the nominal interest rate.
- The same as the inflation rate.

16. Watt Co. purchased \$300,000 of bonds for \$315,000. If Watt intends to hold the securities to maturity, the entry to record the investment includes

- A debit to Held-to-Maturity Securities at \$300,000.
- A credit to Premium on Investments of \$15,000.
- A debit to Held-to-Maturity Securities at \$315,000.
- None of these.

17. Valet Corp. began operations in 2X13. An analysis of Valet's equity securities portfolio acquired in 2X13 shows the following totals at December 31, 2X13 for trading and available-for-sale securities: Trading Securities aggregate cost = \$90,000, aggregate fair value = \$65,000; Available-for-Sale Securities aggregate cost = \$110,000, aggregate fair value = \$95,000. What amount should Valet report in its 2X13 income statement for unrealized holding loss?

- \$40,000.
- \$10,000.
- \$15,000.
- \$25,000.

18. Impairments are

- Based on discounted cash flows for securities.
- Recognized as a realized loss if the impairment is judged to be temporary.
- Based on fair value for available-for-sale investments and on negotiated values for held-to-maturity investments.
- Evaluated at each reporting date for every investment.

19. The purchase and sale of available-for-sale, held-to-maturity, and equity method securities are reported in the \_\_\_\_\_ section of the statement of cash flows.

- Investing Activities.
- Operating Activities.
- Financing Activities.

Direct Activities.

20. A reclassification adjustment is reported in the

Income statement as an Other Revenue or Expense.

Stockholders' equity section of the balance sheet.

Statement of comprehensive income as other comprehensive income.

Statement of stockholders' equity.

21. Transfers between categories

Result in companies omitting recognition of fair value in the year of the transfer.

Are accounted for at fair value for all transfers.

Are considered unrealized and unrecognized if transferred out of held-to-maturity into trading.

Will always result in an impact on net income.

22. When an investment in an available-for-sale security is transferred to trading because the company anticipates selling the stock in the near future, the carrying value assigned to the investment upon entering it in the trading portfolio should be

Its original cost.

Its fair value at the date of the transfer.

The higher of its original cost or its fair value at the date of the transfer.

The lower of its original cost or its fair value at the date of the transfer.

23. All of the following are requirements for disclosures about investments in equity and debt securities except

Valuation basis used.

Total portfolio market value.

Combining or netting the fair value of equity and debt securities.

Method used to determine cost (e.g., FIFO, average cost, specific identification) in computing the realized gain or loss on sale of securities.

24. Factors indicating an other-than-temporary impairment of a security's value has taken place do NOT include:

Issuer's financial health.

Issuer's long-term profit prospects.

Investee's cash position.

Credit rating of the security and any credit downgrading.

25. Santo Corporation declares and distributes a cash dividend that is a result of current earnings. How will the receipt of those dividends affect the investment account of the investor under each of the following accounting methods?

No effect under Fair Value Method, Decrease under Equity Method

Increase under Fair Value Method, Decrease under Equity Method

No effect under Fair Value Method, No effect under Equity Method

Decrease under Fair Value Method, No effect under Equity Method

26. When a company holds between 20% and 50% of the outstanding stock of an investee, which of the following statements applies?

- The investor should always use the equity method to account for its investment.
- The investor should use the equity method to account for its investment.
- The investor must use the fair value method unless it can clearly demonstrate the ability to exercise "significant influence" over the investee.
- The investor should always use the fair value method to account for its investment.

27. Which one of the following is NOT required for footnote disclosure about the equity method?

- A statement that the equity method is being used.
- Investor's strategic management policies.
- Identification of investee along with percent owned.
- Quoted market price of investee's stock.

Instructions for Submitting Answers Online:

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- Find this course and click the "Go to Course" link.
- Step 2 on the Course Syllabus page is "Take the Final Exam". Click the "Begin Final Exam" link.
- Enter your answers on the online exam sheet.
- Click the "Grade Exam" button at the bottom of the page. Your exam will be graded automatically. If your score exceeds 70%, a "Create Certificate" button will display. Otherwise, you may continue to retake the exam until you pass.
- A short evaluation page will display. Please provide your feedback for the course.
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