PRACTICAL ACCOUNTING 1 – REVIEW
INVESTMENTS

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Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

1. On January 1, 2020, Mae Company purchased marketable equity securities to be held as "trading" for P3,700,000. The entity also paid commission, taxes and other transaction cost amounting to P250,000. The securities had market value of 4,000,000 on December 31, 2020 and the transaction cost that would be incurred on sale is estimated at 150,000. No securities were sold during 2020. What amount of unrealized gain or loss on these securities should be reported in the 2020 income statement?
   a. P450,450 **c. P300,000**
   b. P555,000 d. P250,000

FV – 12/31/20	4,000,000
Less: Initial CA (FV 1/1/20)	3,700,000
Unrealized gain	₱300,000

2. During 2020, Mel Company purchased marketable equity securities as a trading investment. For the year ended December 31, 2020, the entity recognized an unrealized loss of P150, 000. There were no security transactions during 2021. The information on December 31, 2021 is as follows:

Security	Cost	Market value
A	3,000,000	2,000,000
B	2,000,000	2,500,000

In the 2021 income statement, what amount should be reported as unrealized gain or loss?
   a. Unrealized gain ofP350,000 c. Unrealized loss of P500,000
   b. Unrealized loss of P350,000 d. Unrealized gain of P500,000

FV 1/1/21	4,500,000	
Less: FV 12/31/20	4,850,000	
Unrealized loss more than one year	(₱350,000)	
FV 12/31/20	4,850,000	
Less: Initial CA	5,000,000	
Unrealized loss in the initial year		(150,000)

3. Lara Company purchased the following securities during 2020:

	Classification	Cost	Market Value 12/31/2020
Security a	trading	900,000	1,500,000
Security b	trading	1,000,000	2,000,000

On July 31, 2021, the entity sold all the shares of Security B for a total of 1,700,000. On December 31, 2021, the shares of Security A had market value of 600,000. What is the gain or loss on the sale of Security B on July 31, 2021?
   a. P300, 000 gain c. P100, 000 gain
   b. P300, 000 losses d. P100, 000 loss

SP	1,700,000
Less: C.A. (last MV)	2,000,000
Loss on sale	(₱300,000)

4. Carla Company acquired a financial instrument for 3,000,000 on March 31, 2021. The financial instrument is classified as financial asset at fair value through other comprehensive income. The direct acquisition cost incurred amounted to 500,000. On December 31, 2021, the fair value of instrument was 5,600,000. What gain should be recognized in other comprehensive income for the year-ended December 31, 2021?
   a. P1,780,000 **c. P2,100,000**
   b. P2,400,000 d. P0

PV 12/31/21	5,600,000
Initial CA (3,000,000 + 500,000)	(3,500,000)
Unrealized gain	₱2,100,000

5. During 2020, Gil Company purchased marketable equity securities to be measured at fair value through other comprehensive income. On December 31, 2020, the balance in the unrealized loss on these securities was P200,000. There were no security transactions during 2021. Pertinent data on December 31, 2021 are as follows:

Security	Cost	Market Value
X	2,100,000	1,600,000
Y	1,850,000	2,000,000
Z	1,050,000	900,000

In the statement of changes in equity for 2021, what amount should be included as cumulative unrealized loss as component of other comprehensive income?
   a. 500,000 b. 300,000
   c. 200,000 d. 0

2020:	Unrealized loss	(200,000)
2021:	Initial loss 2020	200,000
	Initial loss 2021	300,000
	Cumulative loss	₱500,000
	FV 12/31/21	4,500,000
	Less: Orig. cost	(5,000,000)
	Cumulative loss	(₱500,000)

6. During 2020, Toronto Company purchased marketable equity securities as short-term investment to be measured at fair value through other comprehensive income. The cost and market value on December 31, 2020 were as follows:

Security	Cost	Market value
1,000 shares - A	300,000	350,000
10,000 shares - B	1,700,000	1,550,000
20,000 shares - C	3,150,000	2,950,000

The entity sold 10,000 shares of B on January 5, 2021 for P150 per share and incurred P50,000 in brokerage commission and taxes. What amount should be reported as loss on sale of equity securities in 2021?
   a. 200,000 b. 100,000
   c. 250,000 d. 50,000
   e. 0

SP (1,500,000 – 54,000)	1,450,000
Less: Orig. cost	(1,700,000)
Retained earnings	₱ 0

7. During 2020, Jerome Company bought the shares of another entity classified as long term investment at cost:

June 1	20,000 shares @P100	2,000,000
December 1	30,000 shares @P120	3,600,000
		5,600,000

The transactions for 2021 are:

January 10	Received cash dividend at P10 per share.
January 20	Received 20% stock dividend
December 10	Sold 30,000 shares at P125 per share

What is the gain on the sale of the investment assuming the FIFO approach?

a. 1,150,000 b. 950,000
c. 150,000 d. 550,000
e. 0

2020		**Shares**	**Cost**
June 1	Lot 1	20,000	2,000,000
	SD 20%	4,000	0
		24,000	2,000,000
Dec. 1	Lot 2	30,000	3,600,000
	SD 20%	6,000	0
		36,000	3,600,000

Jan. 10, 2021

Cash	500,000	
Dividend income (50,000 * 10)		500,000

Jan. 20, 2021
Memo: Received 20% stock dividend

Dec. 10, 2021

SP (30,000 * 125)		3,750,000
Cost: FIFO		
Lot 1	2,000,000	
Lot 2 (3,600,000 * 6/36)	600,000	(2,600,000)
Gain		₱1,150,000

8. On January 1, 2020 Santos Company purchased 100,000 ordinary shares at P80 per share. On September 30, 2020 the entity received 100,000 stock rights to purchase an additional 100,000 shares at P90 per share. The stock rights had an expiration date of February 1, 2021. On September 30, 2020, each share had a market value of P114 and the stock right had a market value of P8. What amount should be reported on September 30, 2020 as investment in stock rights?

a. 800,000 b. 400,000
c. 100,000 d. 600,000

9. On July 1, 2021, Slave Company paid P1,198,000 for 10% bonds with a face amount of P1,000,000 to be held as financial assets at amortized cost. Interest is paid on June 30 and December 31. The bonds were purchased to yield 8%. The entity uses the effective interest method. What is the carrying amount of the bond investment on December 31, 2021?

a. 1,207,900 b. 1,198,000
c. 1,195,920 d. 1,193,050

Date	SR (5%)	ER (4%)	Amortization	CA
7/1/21	0	0	0	1,198,000
12/31/21	50,000	47920	2,080	1,195,920

Investment in bonds	1,198,000	
Cash		1,198,000
Cash	50,000	
Interest income		50,000
Interest income	2,080	
Investment in bonds		2,080

10. The Jerome Company purchases PHP20,000 of bonds. The asset has been designated as one at fair value through profit and loss. One year later, 10% of the bonds are sold for PHP4,000. Total cumulative gains previously recognized in Jerome's financial statements in respect of the asset are PHP1,000. What is the amount of the gain on disposal to be recognized in profit or loss?
a. PHP1,900 b. PHP900
c. PHP2,000 d. PHP1,000

Selling price	4,000
Carrying amount (last MV) [(20,000 + 1,000) * 10%]	(2,100)
Gain	₱1,900

11. On April 1, 2021, Joshtin Company purchased 30% of the outstanding ordinary shares of an associate for P4,000,000. On this date, the investee's net assets totaled P8,000,000 and Joshtin Company cannot attribute the excess of cost of the investment over the equity in the investee's net assets to any particular factor. The investee reported net income of P1,000,000 for 2021.

What is the maximum amount which could be included in Joshtin Company's 2021 income before tax to reflect its equity earnings of the investee?
a. 275,000 **b. 225,000**
c. 300,000 d. 405,000

Share in NI (1,000,000 * 30% * 9/12)	225,000
Amortization	0
Inc. before tax	225,000

12. On January 1, 2021, Joshtin Company purchased 40% of the outstanding ordinary shares of an investee paying P2,560,000 when the carrying amount of the net assets of the investee equaled P5,000,000. The difference was attributed to equipment which had a carrying amount of P1,200,000 and a fair market value of P2,000,000, and to building with a carrying amount of P1,000,000 and a fair market value of P1,600,000. The remaining useful life of the equipment and building was 4 years and 12 years, respectively. During 2021, the investee reported net income of P1,600,000 and paid dividends of P1,000,000.

What is the carrying amount of the investment in associate on December 31, 2021?
a. 2,550,000 **b. 2,700,000**
c. 2,800,000 d. 3,050,000

Purchased price	2,560,000	
CA acq. (5,000,000 * 40%)	(2,000,000)	
Excess payment	560,000	
Eqpmt. (800,000 * 40%)	(320,000) / 4	80,000
Bldg. (600,000 *40%)	(240,000) / 12	20,000
	0	100,000

Acq.	2,560,000
Share in NI (1,600,000 * 40%)	640,000
Total	3,200,000
Less: Dividend (1,000,000 * 40%)	(400,000)
Amortization	(100,000)
C.A. – Inv. in Associate	₱2,700,000

13. Moss Corp. owns 20% of Dubro Corp.'s preferred stock and 80% of its common stock. Dubro's stock outstanding at December 31, year 1, is as follows:

10% cumulative preferred stock 100,000 Common stock 700,000 Dubro reported net income of 60,000 for the year ended December 31, year 1. What amount should Moss record as equity in earnings of Dubro for the year ended December 31, year 1?

a. 42,000 b. 48,000
c. 48,400 d. 50,000

14. Wood Co. owns 2,000 shares of Arlo, Inc.'s 20,000 shares of 100 par, 6% cumulative, nonparticipating preferred stock and 1,000 shares (2%) of Arlo's common stock. During year 2, Arlo declared and paid dividends of 240,000 on preferred stock. No dividends had been declared or paid during year 1. In addition, Wood received a 5% common stock dividend from Arlo when the quoted market price of Arlo's common stock was 10 per share. What amount should Wood report as dividend income in its year 2 income statement?

a. 12,000 b. 12,500
c. 24,000 d. 24,500

15. Carsen Company purchased 200,000 of 10% bonds of Garrison Co. on January 1, 2021, paying 211,950. The bonds mature January 1, 2028; interest is payable each July 1 and January 1. The discount of 11,950 provides an effective yield of 9%. Carsen's objective is to hold the bonds to collect the contractual cash flows. Carsen Company uses the effective interest method.

1. On July 1, 2021, Carsen Company should decrease its Held-for-collection Debt Investments account for the Garrison Co. bonds by:

a. 462. b. 808.
c. 924. d. 1,598.

2. For the year ended December 31, 2021, Carsen Company should report interest revenue from the Garrison Co. bonds at:

a. 20,000. b. 19,037.
c. 19,055. d. 19,076.

Date	SR (5%)	ER (4.5%)	Amortization	CA
1/1/21	0	0	0	211,950
7/1/21	10,000	9,538	462	211,488
1/1/22	10,000	9,517	483	211,005
		19,055		

16. Bear Co. purchased 500,000 of bonds at par. Bear management has an active trading business model for this investment. At December 31, Bear received annual interest of 20,000, and the fair value of the bonds was 470,400. In Bear Co.'s year-end statement of financial position, what amount will be reported for the bond investment and how much total income/loss will be reported on its income statement?

	Statement of financial position	Income statement
a.	500,000	20,000
b.	470,400	20,000
c.	**470,400**	**(9,600)**
d.	470,400	49,600

FV 12/31	470,400
Initial CA	(500,000)
Unrealized loss	(29,600)
Interest income	20,000
Total I/S	(₱9,600)

17. Polska, Inc. purchased 400 ordinary shares of Millay Manufacturing as a trading investment for 26,400. During the year, Millay Manufacturing paid a cash dividend of 6.50 per share. At year-end, Milay Manufacturing shares were selling for 69.00 per share. On the income statement for the year ended December 31, what is the total amount of unrealized gain/loss and dividend revenue reported by Polska, Inc.?

a. 2,600 b. 1,200
c. 1,400 **d. 3,800**

18. On its December 31, 2020 balance sheet, Calhoun Company appropriately reported a 10,000 debit balance in its Securities Fair Value Adjustment account. There was no change during 2021 in the composition of Calhoun's portfolio of equity securities held as available-for-sale securities. The following information pertains to that portfolio:

Security	Cost	Fair value at 12/31/2021
X	125,000	160,000
Y	100,000	95,000
Z	175,000	125,000
	400,000	380,000

1. What amount of unrealized loss on these securities should be included in Calhoun's equity section of the statement of financial position at December 31, 2021?
   a. 30,000. b. 20,000.
   c. 10,000. d. 0.

2. The amount of unrealized loss to appear as a component of comprehensive income for the year ending December 31, 2021 is
   a. 30,000. b. 20,000.
   c. 10,000. d. 0.

19. Blanco Company purchased 200 of the 1,000 outstanding ordinary shares of Darby Company's for 300,000 on January 2, 2021. During 2021, Darby Company declared dividends of 50,000 and reported earnings for the year of 200,000.

1. If Blanco Company used the fair value method of accounting for its investment in Darby Company, its Equity Investments account on December 31, 2021 should be
   a. 290,000. b. 330,000.
   c. 300,000. d. 340,000.

2. If Blanco Company uses the equity method of accounting for its investment in Darby Company, its Equity Investments account at December 31, 2021 should be
   a. 290,000. b. 300,000.
   c. 330,000. d. 340,000.

20. Jeffrey Company bought 20% of Cooper Corporation's ordinary shares on January 1, 2021 for P11,400,000. Carrying amount of Cooper's net assets at purchase date totaled P50,000,000. Fair value and carrying amounts were the same for all items except for plant and inventory, for which fair values exceed their carrying amounts by P10,000,000 and P2,000,000 respectively. The plant has a 5-year life. All inventory was sold during 2021. During 2021, Cooper reported profit of P30,000,000 and paid a P10,000,000 cash dividend.

Based on the above information, answer the following:

1. What amount should Jeffrey report as net income related to this investment in 2021?
   a. P5,200,000 c. P5,400,000
   b. P6,200,000 d. P4,200,000

Purchased price	11,400,000	
CA acq. (50,000,000 * 20%)	10,000,000	
Excess payment	1,400,000	
Plant (10,000,000 * 20%)	(2,000,000) / 5	400,000
Inventory (2,000,000 * 20%)	(400,000)	400,000
Excess FV	(1,000,000)	800,000

Share in NI	6,000,000
Amortization	(800,000)
Gain	1,000,000
Income	₱6,200,000

2. The carrying amount of Investment in Cooper Corporation as of December 31, 2021
   a. P14,600,000 c. P13,600,000
   b. P14,800,000 **d. P15,600,000**

Acquisition	11,400,000
Income (30,000,000 * 20%)	6,000,000
Gain	1,000,000
Total	18,400,000
Less: Dividend (10,000,000 * 20%)	(2,000,000)
Amortization	(800,000)
Carrying amount	₱15,600,000

21. On January 2, 2021, Jerome Company purchased 40,000 shares of Jostine stock at P100 per share. Brokerage fees amounted to P120,000. A P5 dividend per share of Jostine stock had been declared on December 15, 2020, to be paid on March 31, 2021 to stockholders of record on January 31, 2021. No other transactions occurred in 2021 affecting the investment in Jostine stock.
The cost of the investment is
a. 4,120,000 b. 4,000,000
c. 3,920,000 d. 3,800,000

22. Grant, Inc. acquired 30% of South Co.'s voting stock for 200,000 on January 2, year 1. Grant's 30% interest in South gave Grant the ability to exercise significant influence over South's operating and financial policies. During year 1, South earned 80,000 and paid dividends of 50,000. South reported earnings of 100,000 for the six months ended June 30, year 2, and 200,000 for the year ended December 31, year 2. On July 1, year 2, Grant sold half of its stock in South for 150,000 cash. South paid dividends of 60,000 on October 1, year 2. Grant does not elect the fair value option to report this investment.

Q1. Before income taxes, what amount should Grant include in its year 1 income statement as a result of the investment?
a. 15,000 **b. 24,000**
c. 50,000 d. 80,000
Q2. In Grant's December 31, year 1 balance sheet, what should be the carrying amount of this investment?
a. 200,000 **b. 209,000**
c. 224,000 d. 230,000

Q3. In its year 2 income statement, what amount should Grant report as gain from the sale of half of its investment?
a. 24,500 **b. 30,500**
c. 35,000 d. 45,500

Share in NI (80,000 * 30%)	₱24,000

Acquisition	200,000
Income	24,000
Total	224,000
Less: Dividend (50,000 * 20%)	(15,000)
CA 12/31/yr1	209,000
Income: Jan. – June (100,000 * 30%)	30,000
CA 7/1/yr2	₱239,000

SP	150,000
C.A. (239,000 * ½)	(119,500)
Gain	₱30,500

23. On March 4, year 1, Evan Co. purchased 1,000 shares of LVC common stock at 80 per share. On September 26, year 1, Evan received 1,000 stock rights to purchase an additional 1,000 shares at 90 per share. The stock rights had an expiration date of February 1, year 2. On September 30, year 1, LVC's common stock had a market value, ex-rights, of 95 per share and the stock rights had a market value of 5 each. What amount should Evan report on its September 30, year 1 balance sheet as the cost of its investment in stock rights?
a. 4,000 **b. 5,000**
c. 10,000 d. 15,000

24. Kaila Company purchased 50,000 shares on January 15, 2021 representing 5% ownership interest. The entity received a stock dividend of 30% on March 31, 2021 when the market price of the share is 50. The investee paid a cash dividend of 5 on December 15, 2021. What amount should be reported as dividend income for 2021?

    a. 0 b. 175,000
    c. 300,000 **d. 325,000**

25. On January 1, 2021 Raine Company purchased 10,000 ordinary shares at P90 per share. On December 31, 2021, the entity received 4,000 shares of the investee in lieu of cash dividend of P10 per share. On this date, the investee's share has a quoted market price of P50 per share. What amount should be reported as dividend income for 2021?

    a. 120,000 **b. 200,000**
    c. 20,000 d. 0

26. During 2020, Shawn Company purchased 9,000 ordinary shares of Hurontario Company for P16 per share, 6,000 ordinary shares of Eglinton Company for P33 per share and P120,000 of treasury notes at 101. These investments are intended to be held as ready sources of cash and are classified as held for trading.

    Also in 2020, Shawn purchased 10,500 ordinary shares of Dundas Company for P29 per share. The securities are classified as available for sale.

    During 2020, Shawn received the following interest and dividend payment on its investments:

Hurontario Company	P1 per share dividend
Eglinton Company	P3 per share dividend
Dundas Company	P2 per share dividend
Treasury notes	6% annual interest earned for 6 months

    Fair values of the securities at December 31, 2020, were as follows:

Hurontario Company	P20 per share
Eglinton Company	P22 per share
Dundas Company	P26 per share
Treasury notes	102

    On March 23, 2021, the 6,000 ordinary shares of Eglinton were sold for P17 per share. On June 30, 2021, the treasury notes were sold 100.5 plus accrued interest.

    Fair values of remaining securities at December 31, 2021, are as follows:

Hurontario Company	P20 per share
Dundas Company	P33 per share

    Based on the above and the result of your audit, determine the following:

    1. Total dividend income in 2020
       a. P48,000 c. P27,000
       b. P21,000 d. P 0

    2. Carrying amount of Trading Securities as of December 31, 2020
       a. P434,400 c. P463,200
       b. P342,000 d. P717,900

    3. Unrealized loss to be recognized in 2020 profit or loss
       a. P49,800 c. P27,600
       b. P28,800 d. P 0

    4. Total realized loss on sale of securities in 2021
       a. P96,600 c. P29,400
       b. P 5,400 **d. P31,800**

5. Net unrealized gain in accumulated other comprehensive income in equity as of December 31, 2021
   a. P42,000 c. P63,000
   b. P73,500 d. P 0

27. On June 1, 2019, Edna Corporation purchased as a long term investment 4,000 of the P1,000 face value, 8% bonds of Mayet Corporation. The bonds were purchased to yield 10% interest. Interest is payable semi-annually on December 1 and June 1. The bonds mature on June 1, 2025. Edna uses the effective interest method of amortization. On November 1, 2020, Edna sold the bonds for a total consideration of P3,925,000. Edna intended to hold these bonds until they matured, so year-to-year market fluctuations were ignored in accounting for bonds.

QUESTIONS:

Based on the above and the result of your audit, answer the following: *(Round off present value factors to four decimal places)*

1. The purchase price of the bonds on June 1, 2019 is
   a. P3,645,328 c. P3,696,736
   b. P3,691,132 d. P3,624,596

2. The interest income for the year 2019 is
   a. P215,850 **c. P212,829**
   b. P215,521 d. P211,612

3. The carrying amount of the investment in bonds as of December 31, 2019 is
   a. P3,725,919 c. P3,719,986
   b. P3,649,541 **d. P3,671,491**

4. The interest income for the year 2020 is
   a. P306,608 c. P311,218
   b. P310,715 d. P304,748

5. The gain on sale of investment in bonds on November 1, 2020 is
   a. P21,196 c. P 27,632
   b. P80,235 d. P104,045

Principal (4,000,000 * 0.5568)	2,227,200
Interest (160,000 * 8.8633)	1,418,128
Initial CA	₱3,645,328

Date	SR (4%)	ER (5%)	Amortization	CA
6/1/19	0	0	0	3,645,328
12/1/19	160,000	182,266	22,266	3,667,994
6/1/20	160,000	183,380	23,380	3,690,974
12/1/20	160,000	184,549	24,549	3,715,523

June 1to Dec. 1	182,266
Dec. (183,380 * 1/6)	30,563
Interest income	₱212,829

C.A. 12/1/19	3,667,994
Amortization (23,380 * 1/6)	(3,897)
C.A. 12/31/19	₱3,671,491

Jan. 1 to June 1, 2020 (183,380 * 5/6)	152,817
June 1 to Nov. 1, 2020 (184,549 * 5/6)	153,791
Interest income 2020	₱306,608

C.A. 6/1/2020	3,690,974
Amortization – June 1 to Nov. 1 (24,549 * 5/6)	20,458
C.A. 11/1/2020	3,711,432

Selling price [3,925,000 – (160,000 * 5/6)]	3,791,667
Carrying amount	(3,711,432)
Gain	₱80,235