

**CHAPTER 4**  
**INVESTMENTS IN EQUITY SECURITIES**

**PROBLEMS**

**4-1. (Victoria Corporation)**

Year 1			
(a)	Equity Investments – FVPL	150,000	
	Other Expenses	3,750	
	Cash		153,750
(b)	Equity Investments – FVPL	30,000	
	Unrealized Gains on Equity Investments – Profit or Loss		30,000
	180,000-150,000		
Year 2			
(a)	Cash	94,000	
	Gain on Sale of Equity Investments – FVPL		4,000
	Equity Investments – FVPL		90,000
	500 x 190 = 95,000		
	95,000 – 1,000 = 94,000		
	94,000 – (1/2 180,000) = 4,000		
(b)	Equity Investments – FVPL	6,000	
	Unrealized Gains on Equity Investments – Profit or Loss		6,000
	500 x 192 = 96,000		
	96,000 – 90,000 = 6,000		

**4-2. (Victory Company)**

Year 1			
(a)	Equity Investments at FV through OCI	153,750	
	Cash		153,750
	(1,000 x 150) + 3,750		
(b)	Equity Investments at FV through OCI	26,250	
	Unrealized Gains and Losses on Equity Investments - OCI		26,250
	180,000 – 153,750		
Year 2			
(a)	Equity Investments at FV through OCI	10,000	
	Unrealized Gains and Losses on Equity Investments - OCI		10,000
	190,000 – 180,000		
	Cash	94,000	
	Loss on Sale of Equity Investments	1,000	
	Equity Investments at FV through OCI		95,000
(b)	Equity Investments at FV through OCI	1,000	
	Unrealized Gains and Losses on Equity Investments - OCI		1,000
	96,000 – 95,000		

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**4-3. (A Company)**

a.	Cash	18,000	
	Dividend Revenue		18,000
	2,400 shares x 7.50		
b.	Memo entry. Received additional 600 shares of B Corp. ordinary shares as bonus issue on 2,400 shares previously held.		
c.	Equity Investments - A Preference	150,000	
	Dividend Revenue		150,000
	600 x 250 = 150,000		
d.	Memo entry. Received additional shares of B Corp. ordinary shares on a 4-for-1 stock split of the 2,400 shares previously held. Total shares now held: 9,600.		
e.	Equity Investments - C Ordinary	20,000	
	Dividend Revenue		20,000
	2,400/6 = 400 shares x 50		

**4-4. (Inn Corporation)**

(a)	December 31, Year 2 ledger balance (30,000 shares x 65)	<u>P1,950,000</u>
	Year 3	
	Memo: Received 6,000 shares of NPA Co. ordinary as 20% bonus issue on the 30,000 shares previously held.	
	Cash (15,000 x 70)	1,050,000
	Equity Investments – FVPL	812,500
	Gain on Sale of Equity Investments	237,500
	1,950,000 x 15,000/36,000 = 812,500	
	1,050,000 – 812,500 = 237,500	
	Equity Investments – FVPL	374,500
	Unrealized Gain on Equity Investments at FVPL	374,500
	21,000 x 72	1,512,000
	1,950,000 – 812,500	<u>1,137,500</u>
	Unrealized gain	<u>374,500</u>
(b)	Gain on sale	P237,500
	Unrealized gain on equity investments at FVPL	<u>374,500</u>
	Total amount reported in profit or loss	<u>P612,000</u>
(c)	Equity Investments at Fair Value	<u>P1,512,000</u>

**4-5. (Inn Corporation)**

(a)	December 31, Year 2 ledger balance (30,000 x P65)	P1,950,000
	Cost	<u>1,800,000</u>
	Unrealized Gain or Loss on Equity Investments - OCI	<u>P 150,000</u>
	Year 3	
	Memo: Received 6,000 shares of NPA Co. ordinary as 20% bonus	

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issue on the 30,000 shares previously held.

Equity Investments at Fair Value through OCI	237,500	
Unrealized Gain or Loss on Equity Investments – OCI		237,500
15,000 sh x 70	1,050,000	
1,950,00 x 15/36	<u>812,500</u>	
Unrealized gain	<u>237,500</u>	
Cash (15,000 x 70)	1,050,000	
Equity Investments at FV through OCI		1,050,000
Unrealized Gain or Loss on Equity Investments – OCI	300,000	
Retained Earnings		300,000
237,500 + (150,000 x 15/36)		
Equity Investments at FV through OCI	374,500	
Unrealized Gain on Equity Investments at FV through OCI		374,500
21,000 x 72 =	1,512,000	
1,950,000 x 21/36	<u>1,137,500</u>	
Change in FV	<u>374,500</u>	

**ALTERNATIVE ENTRIES FOR YEAR 3**

Memo: Received 6,000 shares of NPA Co. ordinary as 20% bonus issue on the 30,000 shares previously held.

Equity Investments at Fair Value through OCI	570,000	
Unrealized Gain or Loss on Equity Investments – OCI		570,000
36,000 sh x 70	2,520,000	
Previous FV	<u>1,950,000</u>	
Unrealized gain (100%)	<u>570,000</u>	
Cash (15,000 x 70)	1,050,000	
Equity Investments at FV through OCI		1,050,000
Unrealized Gain or Loss on Equity Investments – OCI	300,000	
Retained Earnings		300,000
(570,000 + 150,000) x 15/36		
Equity Investments at FV through OCI	42,000	
Unrealized Gain on Equity Investments at FV through OCI		42,000
21,000 x (72 – 70)		

(b) None

(c) Equity Investments at Fair Value through OCI P1,512,000

(d) Unrealized Gain or Loss in Equity , 12/31/ Year 3  
 (150,000 + 570,000 – 300,000 + 42,000)  
 or (150,000 + 237,500 – 300,000 + 374,500) P 462,000

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Fair value, December 31, Year 3	P1,512,000
Cost (1,800,000 x 21,000/36,000)	<u>1,050,000</u>
Unrealized Gain (Loss) in Equity	<u>P 462,000</u>

**4-6. (Gypsy Corporation)**

(a) P0. No gain or loss is reported in profit or loss.

(b) Cumulative balance of Unrealized Gains and Losses  
(in equity) - see below P 35,000

	<u># of</u> <u>shares</u>	<u>Cost</u>	<u>FV, 12/31/</u> <u>Year 3</u>	<u>Unrealized</u> <u>Gain (Loss)</u>
Monterey Preference	3,500	P133,000	P135,000	P 2,000
Garcia Ordinary	1,000	180,000	190,000	10,000
Barney Corporation	3,000	<u>177,000</u>	<u>200,000</u>	<u>23,000</u>
		<u>P490,000</u>	<u>P525,000</u>	<u>P35,000</u>

**4-7. (Melody Corporation)**

(a) Unrealized Gains or Losses on Equity Investments through OCI

Fair value (1,250 x 85)	P106,250
Cost	<u>110,000</u>
Unrealized Loss, end of Year 1	<u>P 3,750</u>

Total FV, Dec. 31, Year 2 (2,000 x 90)	P180,000
Total cost (110,000 + 60,000)	<u>170,000</u>
Cumulative balance, end of Year 2	<u>P 10,000</u>

(b) Amount taken to OCI

Fair value (1,250 x 85)	P106,250
Cost	<u>110,000</u>
Unrealized Loss for Year 1	<u>P 3,750</u>

Fair value (2,000 x 90)	P180,000
Carrying value/Cost (106,250+60,000)	<u>166,250</u>
Unrealized gain for Year 2	<u>P 13,750</u>

(c) Memo: Received 2,000 stock rights from Music, Inc. for the purchase of one share for every five rights submitted at P80 per share.

Equity Investments at FV through OCI	30,000	
Cash		24,000
Investment Income		6,000
300 x 100 = 30,000		
300 x 80 = 24,000		
Cash	2,250	
Investment Income		2,250
500 x 4.50		
Equity Investments at FV through OCI	15,400	
Unrealized Gains and Losses on		
Equity Investments – OCI		15,400
2,300 x 98 = 225,400		
225,400 – (180,000 + 30,000)=15,400		

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**4-8. (Anti Corporation)**

(a)	Cash	50,000	
	Investment Income (10,000 x 5)		50,000
(b)	Equity Investments at FVPL (2,000 x 75)	150,000	
	Cash (2,000 x 50)		100,000
	Investment Income		50,000
	Equity Investments at FVPL	90,000	
	Unrealized Gain on Equity Investments at FVPL		90,000
	Market value (12,000 shares x 78)	936,000	
	Carrying value before this adjustment (660,000 + 150,000)	<u>810,000</u>	
	Unrealized gain	<u>126,000</u>	

**4-9. (Tolits Corporation)**

(a)			
Year 2			
a.	Equity Investments at FV through OCI-Diana Ordinary	54,000	
	Cash		54,000
b.	Memorandum entry. Received 500 additional shares of Diana ordinary shares as a result of 2-for-1 split.		
c.	Equity Investments at FV through OCI – Smith Preference	121,200	
	Cash		121,200
	(1,000 x 120) + 1,200		
d.	Equity Investments at FV through OCI - Diana Ordinary	6,000	
	Unrealized Gains and Losses on Equity Investments at FV - OCI		6,000
	15,000/250 = 60; 54,000/1,000 = 54		
	(60 – 54) x 1,000 shares = 6,000		
	Cash	15,000	
	Equity Investments at FV through OCI – Diana Ordinary		15,000
e.	Memorandum entry. Received 750 stock rights from Diana for the purchase of one share for every two rights submitted at P55 per share.		
f.	Equity Investments at FV through OCI – Diana		

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	Ordinary	13,725	
	Cash		12,375
	Investment Income		1,350
	$60\% \times 750 = 450; 450/2 = 225 \text{ shares}$		
	$225 \times 61 = 13,725; 225 \times 55 = 12,375$		
	$225 \times (61 - 55) = 1,350$		
	Cash	900	
	Investment Income		900
g.	Equity Investments at FV through OCI – Diana		
	Ordinary	675	
	Unrealized Gains and Losses on Equity		
	Investments at FV - OCI		675
	$225 \times (64 - 61) = 675$		
	Cash (100 x 64)	6,400	
	Equity Investments at FV through OCI –		
	Diana Ordinary		6,400
h.	Cash (1,000 x 100 x 8%)	8,000	
	Dividend Revenue		8,000
i.	Unrealized Gains and Losses on Equity		
	Investments - OCI	4,950	
	Equity Investments at FV through OCI – Diana		
	ordinary	1,250	
	Equity Investments at FV through OCI - Smith		6,200
		<u>Market</u>	<u>CV</u>
			<u>Unreal</u>
	Diana 1 (875 sh)	54,250	53,000*
	Smith (1,000 x 115)	<u>115,000</u>	<u>121,200</u>
	Total	<u>169,250</u>	<u>174,200</u>
	*Original Diana shares	500 shares at P108	P54,000
	2-for-1 split	500 shares	-
		1,000 shares at P54	P54,000
	Adjust prior to sale		6,000
	Balance	1,000 shares at P60	P60,000
	Sale	(250 shares)	15,000
	Balance	750 shares at P60	P45,000
	Exercise of rights	225 shares at P61	13,725
	Adjust prior to sale		675
	Sale	(100 shares at P64)	6,400
	Balance	875 shares	P53,000
(b)	Investment income from stock rights(1,350 + 900)	P 2,250	
	Dividends revenue	8,000	
	Total income	<u>P10,250</u>	

**4-10. (Carlo Company)**

Year 2			
Apr. 1	Cash (5,000 x 25)	125,000	
	Loss on Sale of Equity Investments	14,000	
	Equity Investments at FVPL – Avi Ordinary		139,000
May 15	Equity Investments at FV through OCI – Ghio		
	Preference	30,550	
	Cash (600 x 50) + 550		30,550

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July 10	Memorandum entry. Received 4,000 additional shares of Darrel ordinary representing a 20% bonus issue. Shares now held are 24,000.		
Nov. 30	Cash (1 x 24,000) Dividend Revenue	24,000	24,000
Dec. 31	Unrealized Loss on Equity Investments – Profit or Loss Equity Investments at FVPL – Avi Ordinary 5,000 x 26 = 130,000; 130,000 – 139,000	9,000	9,000
31	Equity Investments at FV through OCI - Darrel Equity Investments at FV through OCI - Ghio Unrealized Gains and Losses on Equity Investments – OCI	110,000 650	110,650

	<u>FV</u>	<u>CV</u>	<u>Change in FV</u>
Darrel	480,000	370,000	110,000
Ghio	31,200	30,550	650
Total	<u>511,200</u>	<u>400,550</u>	<u>110,650</u>

**4-11. (Hostel Company)**

(a)	1.	Investment in Associates Cash	2,000,000	2,000,000
	2.	Investment in Associates (20% x 1.5M) Share in Profit of Associates	300,000	300,000
	3.	Memo. Received 2,000 additional shares of Atlanta ordinary as 10% bonus issue. Shares now held are 22,000.		
	4.	Investment in Associates (20% x 3M) Share in Profit of Associates	600,000	600,000
	5.	Cash (20% x 1M) Investment in Associates	200,000	200,000
(b)		Investment cost		P2,000,000
		Share in profit – 2019		300,000
		Share in profit – 2020		600,000
		Share in dividends		<u>(200,000)</u>
		Carrying amount, December 31, 2020		<u>P2,700,000</u>

**4-12. (Byron, Inc.)**

2019				
Jan. 1	1	Investment in Associates – Pirates Ordinary Cash	5,160,000	5,160,000
Dec. 31		Investment in Associates – Pirates Ordinary	1,080,000	

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	Share in Profit of Associates 30% x 3,600,000		1,080,000
31	Cash (30% x 400,000) Investment in Associates – Pirates Ordinary	120,000	120,000

**4-13. (Barbie, Inc.)**

(a)			
2019			
Mar. 1	Investment in Associates – Kitchie Cash	1,365,000	1,365,000
Dec. 31	Cash (30% x 800,000) Investment in Associates – Kitchie	240,000	240,000
31	Investment in Associates – Kitchie Share in Profit of Associates (1.2M x 10/12) x 30%	300,000	300,000
31	Share in Profit of Associates – Kitchie Investment in Associates – Kitchie Amortization of undervaluation of assets (30% x 750,000)/5 yrs. = 45,000 45,000 x 10/12 = 37,500 50,000 x 30% = 15,000 37,500 + 15,000 = 52,500	52,500	52,500
(b)	Acquisition cost, March 1, 2019	P1,365,000	
	Cash dividends received	( 240,000)	
	Share in reported profit of associate	300,000	
	Adjustment in reported profit	<u>( 52,500)</u>	
	Investment carrying value, December 31, 2019	<u>P1,372,500</u>	
	Income reported by Barbie from its investment in associates: (300,000 – 52,500)		<u>P 247,500</u>

**4-14. (Richmonde Corporation)**

(a)			
Year 1			
Jan. 1	Equity Investments at FV through OCI – Pen Cash	900,000	900,000
Dec. 31	Cash Dividend Revenue 10% x 2,000,000	200,000	200,000
31	Equity Investments at FV through OCI – Pen Unrealized Gains and Losses on Equity Investments – OCI 1,380,000 – 900,000	480,000	480,000
Year 2			
Jan. 1	Investment in Associates – Pen, Inc. (at FV) Equity Investments at FV through OCI – Pen  Unrealized Gains and Losses on Equity	1,380,000	1,380,000

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	Investments at FV - OCI	480,000	
	Retained Earnings		480,000
1	Investment in Associates – Pen, Inc.	2,600,000	
	Cash		2,600,000
Dec. 31	Investment in Associates – Pen, Inc.	1,950,000	
	Share in Profit of Associates (30% x 6,500,000)		1,950,000
31	Cash	900,000	
	Investment in Associates (30% x 3,000,000)		900,000
(b)	Cost transferred from Equity Investments at FV		1,380,000
	Additional investment		2,600,000
	Share in profit		1,950,000
	Cash dividends received		<u>(900,000)</u>
	Carrying amount, December 31, Year 2		<u>5,030,000</u>

**4-15. (E Corporation)**

(a)			
Year 1			
Jan. 1	Investment in Associates – F Company	8,250,000	
	Cash (50,000 x 165)		8,250,000
Aug. 1	Cash	210,000	
	Investment in Associates – F Company		210,000
Dec. 31	Investment in Associates – F Company	170,000	
	Share in Profit of Associates		170,000
	25% x 680,000		
Year 2			
Dec. 31	Cash	240,000	
	Investment in Associates – F Company		240,000
31	Investment in Associates – F Company	250,000	
	Share in Profit of Associates – F Company		250,000
	25% x 1,000,000		
Year 3			
Jan. 2	Cash (20,000 x 175)	3,500,000	
	Investment in Associates – F Company		3,288,000
	Gain on Sale of Investment in Associates		212,000
	Acquisition cost	8,250,000	
	Share in profit (Year1)	170,000	
	Cash dividends received (Year1)	(210,000)	
	Cash dividends received (Year2)	(240,000)	
	Share in profit (Year 2)	<u>250,000</u>	
	Investment carrying amount	8,220,000	
	Portion sold	<u>20/50</u>	
	CV of investment sold	<u>3,288,000</u>	
2	Equity Investments at FV through OCI	5,250,000	
	Investment in Associates – F Company		4,932,000

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	Investment Income	318,000
	30,000 x 175 = 5,250,000	
	8,220,000 – 3,288,000 = 4,932,000	
	5,250,000 – 4,932,000 = 318,000	
Dec. 31	Cash	120,000
	Dividend Revenue	120,000
31	Equity Investments at FV through OCI	450,000
	Unrealized Gains and Losses on Equity Investments – OCI	450,000
	30,000 x (190 - 175)	

		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
(b)	Cost/Carrying Value, beg of year	P8,250,000	P8,210,000	
	Income from associates	170,000	250,000	
	Cash dividends received	<u>(210,000)</u>	<u>(240,000)</u>	
	Carrying value, end of year	<u>P8,210,000</u>	<u>P8,220,000</u>	
	Market value 30,000 x 190			<u>P5,700,000</u>

**4-16.**

- |            |                |                |
|------------|----------------|----------------|
| 1. A and B | 6. C           | 11. A          |
| 2. A       | 7. A           | 12. B          |
| 3. B and C | 8. A, B, and C | 13. A and B    |
| 4. A       | 9. C           | 14. A, B and C |
| 5. C       | 10. B          | 15. B          |
| 6. C       |                |                |

**MULTIPLE CHOICE QUESTIONS**

**Theory**

MC1	B	MC6	A	MC11	D
MC2	B	MC7	B	MC12	C
MC3	A	MC8	A	MC13	C
MC4	A	MC9	A	MC14	C
MC5	D	MC10	B		

**Problems**

MC15	<b>B</b>	Total market, December 31, 2020	P535,000
		Total market, December 31, 2019	<u>525,000</u>
		<b>Gain reported in 2020 profit or loss</b>	<b><u>P 10,000</u></b>
MC16	<b>C</b>	Market value, December 31, 2020	P2,100,000
		Market value, December 31, 2019	<u>1,750,000</u>
		<b>Unrealized loss taken to 2020 profit or loss</b>	<b><u>P 350,000</u></b>
MC17	<b>C</b>	Market value, December 31, 2020	P2,100,000
		Investment cost on January 1, 2019 (2.0M + 50,000)	<u>2,050,000</u>
		<b>Unrealized gain (cumulative) reported in statement of financial position, December 31, 2020</b>	<b><u>P 50,000</u></b>



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		<b>Cumulative other comprehensive income, December 31, 2019</b>	<b><u>P115,000</u></b>
MC28	<b>C</b>	Acquisition cost (10,000 x 150) Share in profit (20% x 3M) Cash dividends received (10,000 x 50) <b>Investment carrying value, December 31, 2019</b>	P1,500,000 600,000 <u>(500,000)</u> <b><u>P1,600,000</u></b>
MC29	<b>D</b>	Dividend revenue (1.50 x 100,000) Unrealized gain taken to profit or loss (100,000 x 68) - 6,000,000 <b>Total amount recognized in profit or loss</b>	P150,000 <u>800,000</u> <b><u>P950,000</u></b>
MC30	<b>B</b>	Share in profit of associate (20% x 1.0M) =	<b><u>P200,000</u></b>
MC31	<b>B</b>	Acquisition cost Dividends received (3.00 x 40,000) Share in reported profit (25% x 640,000) <b>Investment carrying value, December 31, 2020</b>	P1,200,000 <u>(120,000)</u> <u>160,000</u> <b><u>P1,240,000</u></b>
MC32	<b>B</b>	Share in reported income (40% x 450,000) Adjustment for excess of fair value over book value of depreciable assets (150,000 ÷ 12) <b>Adjusted income from investment</b>	P180,000 <u>(12,500)</u> <b><u>P167,500</u></b>
MC33	<b>A</b>	Cost of investment (25,000 x 180) Share in income (2,400,000 – 480,000) x 25% Dividends received (60,000 + 60,000) <b>Carrying value, December 31, 2019</b>	P4,500,000 480,000 <u>(120,000)</u> <b><u>P4,860,000</u></b>
MC34	<b>A</b>	CV at date of reclassification is equal to FV (15,000 x 200)	<b><u>P3,000,000</u></b>
MC35	<b>B</b>	Selling price (10,000 x 200) Carrying amount of investment sold (4,860,000 x 10,000/25,000) <b>Gain on sale</b>	P2,000,000 <u>1,944,000</u> <b><u>P 56,000</u></b>
MC36	<b>A</b>	No income is recognized upon receipt of bonus issue.	<b><u>P0</u></b>
MC37	<b>C</b>	Fair market value of original shares (10%) Additional acquisition on December 31, 2020 <b>Investment amount, December 31, 2020</b>	P 650,000 <u>1,300,000</u> <b><u>P1,950,000</u></b>
MC38	<b>B</b>	Share in reported profit (40% x 1.2M) Adjustment for excess in fair value of plant (40% x 900,000) ÷ 18 Adjustment for excess in fair value of inventory (40% x 100,000) <b>Adjusted share in profit</b>	P480,000 <u>(20,000)</u> <u>(40,000)</u> <b><u>P420,000</u></b>
MC39	<b>C</b>	Acquisition cost ,000,000 + 420,000 – (40% x 200,000) = 4,340,000 Adjusted share in profit Cash dividends received (40% x 200,000) <b>Investment carrying value, December 31, 2020</b>	P4,000,000 420,000 <u>(80,000)</u> <b><u>P4,340,000</u></b>
MC40	<b>B</b>	Share in reported profit (20% x 5.5M) Adjustment for excess in fair value of inventory (20% x 1,000,000) <b>Adjusted share in profit</b>	P1,100,000 <u>(200,000)</u> <b><u>P 900,000</u></b>
MC41	<b>B</b>	Investment acquisition cost Adjusted share in profit Cash dividends received (20% x 1,500,000) <b>Investment carrying value, December 31, 2020</b>	P3,700,000 900,000 <u>(300,000)</u> <b><u>P4,300,000</u></b>