

BACHELOR of ECONOMICS



**Thammasat University
Faculty of Economics
Bachelor of Economics (International Program)**

AC201 Fundamental Accounting

Semester 2/2013

Course Materials

Topic:

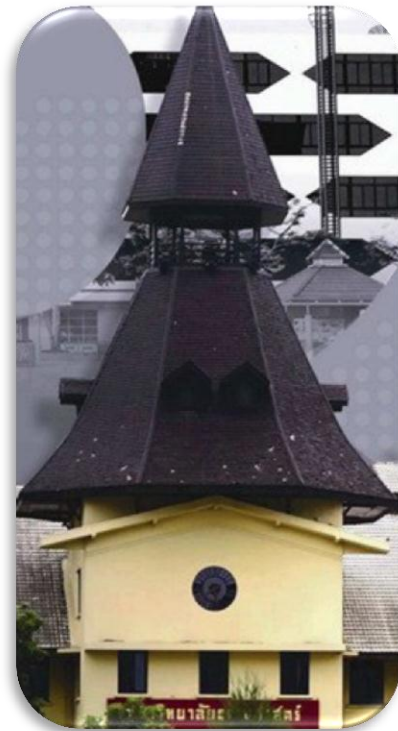
Chapter 12: Reporting and Interpreting
Investments in Other Corporations

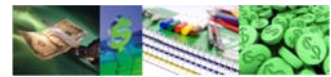
Session:

Session #11

Instructor:

Assistant Professor Dr. Orapan Yolrabil





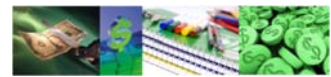
BACHELOR of ECONOMICS



CHAPTER 12: REPORTING AND INTERPRETING INVESTMENTS IN OTHER CORPORATIONS

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Investment in Debt and Equity Securities

- Investments in securities can include both **debt** and **equity** securities.
 - Debt securities** reflect a **creditor** relationship.
 - Equity securities** result an **owner** relationship.



Debt Securities

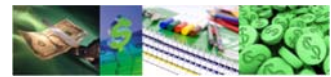
- Financial instruments issued by a company that carry with them a promise of interest payments and the repayment of principal.



Equity Securities

- Shares of ownership in a corporation that can change significantly in value and that provide for a return to investors in the form of dividends.

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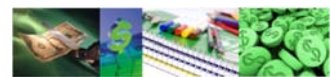
Accounting Basics for Debt Securities

♦ Acquisition:

- Debt securities are recorded at cost when purchased.
 - Music City paid 30,000 Baht on Sept. 1, 20X8, to buy Mega's 7%, two-year bonds payable with a 30,000 Baht par value. The bonds pay interest semiannually on Aug. 31 and Feb. 28.
 - The bonds will be matured on Aug. 31, 20X10.

20X8	Dr. Investments in Mega bonds [A+]	30,000	
Sept. 1	Cr. Cash [A-]		30,000
Purchased bonds for 30,000 Baht			

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Accounting Basics for Debt Securities

♦ Interest earned:

- Interest revenue for investments in debt securities is recorded when earned.
 - On Dec. 31, 20X8, at the end of its accounting period, Music City accrues interest receivable in the adjustment process.

20X8	Dr. Interest receivable [A+]	700	
Dec. 31	Cr. Interest revenue [REV+, E+]		700
Accrued interest earned (30,000 x 7% x 4/12)			

• Interest revenue
• 700 Baht

Statement of
Income



• Investments in
bonds
• 30,000 Baht
• Interest receivable
• 700 Baht

Statement of
Financial
Position



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Accounting Basics for Debt Securities

Interest received:

- On Feb. 28, 20X9, Music City records receipt of semiannual interest for 1,050 Baht.

20X9	Dr. Cash [A+]	1,050	
Feb. 28	Cr. Interest receivable [A-]		700
	Interest revenue [REV+, E+]		350
Received six months' interest on bonds			

Disposition:

- When the bonds mature, the proceeds are recorded.

20X10	Dr. Cash [A+]	30,000	
Aug. 31	Cr. Investment in Mega bonds [A-]		30,000
Received cash from matured bonds			



Accounting Basics for Equity Securities

Acquisition:

- Equity securities are recorded at cost when acquired, including commissions or brokerage fee paid.
 - Music City purchases 1,000 shares of Sage's ordinary share at par value for 86,000 Baht on Oct. 10, 20X8.

20X8	Dr. Investments in Sage stock [A+]	86,000	
Oct. 10	Cr. Cash [A-]		86,000
Purchased 1,000 shares of common stock			



Accounting Basics for Equity Securities

Dividend earned:

- Any cash dividends received are credited to Dividend revenue and reported in the Statement of income.
- On Sept. 30, Music City receives 1,720 Baht cash dividend on shares.

20X8	Dr. Cash [A+]	1,720	
Sept. 30	Cr. Dividend revenue [REV+, E+]		1,720
Received dividend of 1.72 Baht per share			

- Dividend revenue
- 1,720 Baht

Statement of
Income



- Investments in share
- 86,000 Baht

Statement of
Financial
Position



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Accounting Basics for Equity Securities

Disposition:

- When the securities are sold, sale proceeds are compared with the cost, and any gain or loss is recorded.
- On Jan. 20, 20X9, Music City sells 500 shares for 45,000 Baht cash.

20X9	Dr. Cash [A+]	45,000	
Jan. 20	Cr. Investment in Sage stocks [A-]		43,000
	Gain on sale of investment in stocks [REV+, E+]		2,000
Sold 500 shares of common stock (86,000 x 500/1,000)			

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Categories of Investments

Investments in the Securities of Other Companies:

Debt Securities

Equity Securities

Debt Securities

- Passive

<20% of Outstanding share

- Passive

20-50% of Outstanding share

- Significant influence

>50% of Outstanding share

- Control

Passive or noninfluential investment

Investment with significant influence

Investment with control

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Classification and Reporting of Investments

Noninfluential Investments

① Held-to-maturity

Debt only

Debt securities intended to be held until maturity

Amortized cost

② Trading

Debt or Equity

Debt and noninfluential equity securities (<20%) that are actively traded

Market value

③ Available-for-sale

Debt or Equity

Debt and noninfluential equity securities (<20%)

Market value

④ Significant influence

Equity only

Equity securities (20%-50%) with significant influence

Equity method

⑤ Controlling influence

Equity only

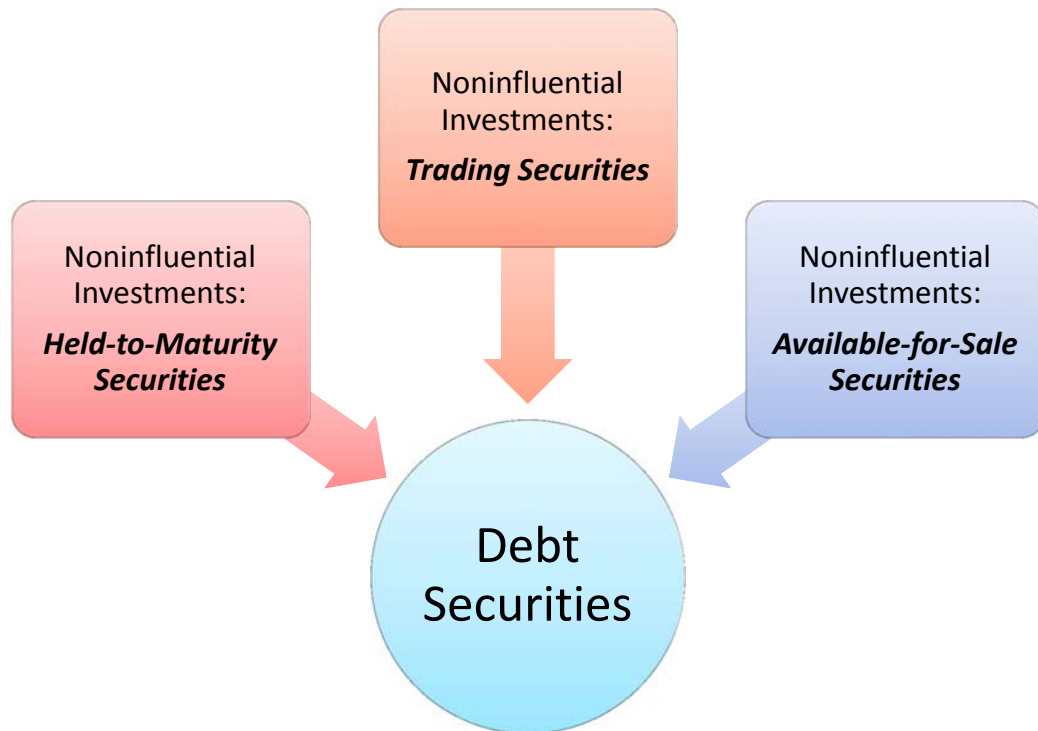
Equity securities (>50%) with controlling influence

Consolidated financial statements

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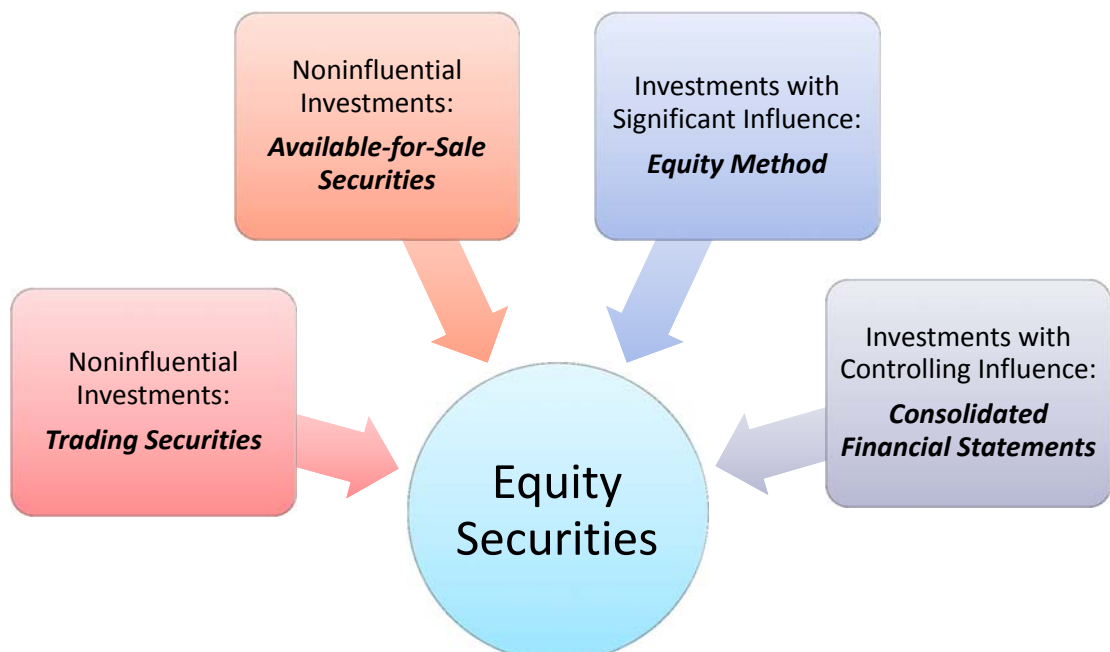
Classification of Investment in Debt Securities



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Classification of Investment in Equity Securities



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Reporting of Noninfluential Investments

- Companies must value and report most noninfluential investments at fair market value.

- The exact requirements depend on whether the investments are classified as

- (1) **held-to-maturity**,
- (2) **trading**, or
- (3) **available-for-sale**.



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① Held-to-Maturity Securities

- Held-to-maturity securities** are debt securities a company intends and is able to hold until maturity. → *Intent* and *Ability*
 - Classification: **Current VS Noncurrent**
 - They are reported in **current assets** if their maturity dates are within one year or the operating cycle, whichever is longer.
 - HTM securities are reported in **long-term assets** when the maturity dates extend beyond one year or the operating cycle, whichever is longer.
 - All HTM securities are recorded **at cost** when purchased, and interest revenue is recorded when earned.
 - The portfolio of HTM securities is reported *at amortized cost*.

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①Held-to-Maturity Securities (Cont.)

◆ Acquisition:

- On Jan. 1, 20X1, Music City purchased a 10%, 5-year, 500,000 Baht bond issued by Phoenix Corp. The interest payments are made *semiannually*. Assume the effective rate is 12%.
 - $N = 10, I = 6\%, PMT = 25,000, FV = 500,000 \rightarrow PV = 463,199$

20X1	Dr. Investments in Phoenix Bonds - HTM [A+]	463,199	
Jan. 1	Cr. Cash [A-]		463,199
Purchased Phoenix bonds to be held as HTM			

Discount on Investment in Bonds
 $= 500,000 - 463,199$
 $= 36,801$

Amortized
over bond's
life

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①Held-to-Maturity Securities (Cont.)

◆ Amortization of Premium or Discount on Investments in Bonds:

• Effective-Interest Amortization:

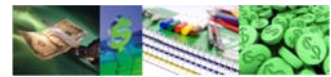
- A method of systematically writing off a bond premium or discount that takes into consideration the time value of money and results in an equal rate of amortization for each period

Preferable

• Straight-Line Amortization:

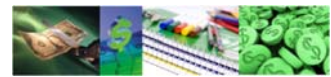
- A method of systematically writing off a bond discount or premium in equal amounts each period until maturity

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①Held-to-Maturity Securities (Cont.)

	A	B	C	D	E	F
Semiannual Interest Period	Carrying Amount at Beginning of Period	Semiannual Interest Revenue at 12% to Be Recorded (12% x 6/12 x A)	Semiannual Cash Interest Receipt at 10% (500,000 x 10% x 6/12)	Amortization of Discount in Investment in Bonds (B-C)	Unamortized Discount at End of Period (E-D)	Carrying Amount at End of Period (A-D)
0					36,801.00	463,199.00
1	463,199.00	27,791.94	25,000.00	2,791.94	34,009.06	465,990.94
2	465,990.94	27,959.46	25,000.00	2,959.46	31,049.60	468,950.40
3	468,950.40	28,137.02	25,000.00	3,137.02	27,912.58	472,087.42
4	472,087.42	28,325.25	25,000.00	3,325.25	24,587.33	475,412.67
5	475,412.67	28,524.76	25,000.00	3,524.76	21,062.57	478,937.43
6	478,937.43	28,736.25	25,000.00	3,736.25	17,326.33	482,673.67
7	482,673.67	28,960.42	25,000.00	3,960.42	13,365.91	486,634.09
8	486,634.09	29,198.05	25,000.00	4,198.05	9,167.86	490,832.14
9	490,832.14	29,449.93	25,000.00	4,449.93	4,717.94	495,282.06
10	495,282.06	29,717.94	25,000.00	4,717.94	-	500,000.00



①Held-to-Maturity Securities (Cont.)

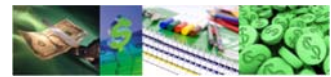
◆ Amortization:

20X1	Dr. Investments in Phoenix Bonds - HTM [A+]	2,792	
Jun. 30	Cash [A+]	25,000	
	Cr. Interest revenue [REV+, E+]		27,792
	Recorded Interest revenue		

Amortization of discount on investment in bonds increases investment in bonds balance.

◆ Disposition:

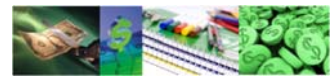
20X5	Dr. Cash [A+]	500,000	
Dec. 31	Cr. Investment in Phoenix Bonds -- HTM [A-]		500,000
	Recorded bonds maturity		



② Trading Securities

- ◆ **Trading securities** are debt and equity securities that the company intends to actively manage and trade for profit.
 - ✱ Frequent purchases and sales are expected and are made to earn profits on short-term price changes.
- ◆ **Valuing and reporting trading securities:**
 - ✱ The entire portfolio of trading securities is reported at its *market value*; this requires a market adjustment from the cost of the portfolio.
 - ✱ The term **portfolio** refers to a group of securities.
 - ✱ Any **unrealized gain (or loss)** from a change in the market value of the portfolio of trading securities is reported on the Statement of income.

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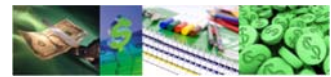


② Trading Securities (Cont.)

- ◆ **Acquisition:**
 - ✱ On Nov. 1, 20X8, Music City purchased a portfolio of trading securities at a total cost of 11,500 Baht.

20X8	Dr. Investment in trading securities [A+]	11,500	
Nov. 1	Cr. Cash [A-]		11,500
Purchased common stock to be held as trading securities			

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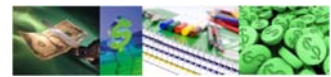
② Trading Securities (Cont.)

Adjustments:

- Music City's portfolio of trading securities had a total cost of 11,500 Baht and a market value of 13,000 Baht on Dec. 31, 20X8, the first year it held trading securities.
 - The difference between the 11,500 Baht cost and the 13,000 Baht market value reflects a 1,500 Baht gain.
 - It is an unrealized gain because it is not yet confirmed by actual sales.
 - The market adjustment for trading securities is recorded with an adjusting entry at the end of each period to equal the difference between the portfolio's cost and its market value.

20X8	Dr. Allowance to value at market -- Trading	1,500	
Dec. 31	[Asset adjustment account+, A+]		
	Cr. Net unrealized holding gain/loss		1,500
	-- Trading [REV+, E+]		
To reflect an unrealized gain in market values of trading securities			

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② Trading Securities (Cont.)

Statement of Financial Position Dec. 31, 20X8

- | | |
|--|--------------------|
| • Investment in trading securities (at cost) | 11,500 Baht |
| • Add: Allowance to value at market – Trading | <u>1,500 Baht</u> |
| • Investment in trading securities (at market) | <u>13,000 Baht</u> |
| • OR | |
| • Investment in trading securities | |
| • (at market; cost is 11,500 Baht) | 13,000 Baht |

Statement of Income for 20X8

- | | |
|--|------------|
| • Net unrealized holding gain/loss – Trading | 1,500 Baht |
|--|------------|

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③ Available-for-Sale Securities

- ◆ ***Available-for-sale securities* are debt and equity securities not classified as trading or held-to-maturity securities.**
 - ✱ AFS securities are purchased to yield interest, dividends, or increases in market value (called capital gain).
 - ✱ If the intent is to sell AFS securities within the longer of one year or operating cycle, they are classified as short-term investments. Otherwise, they are classified as long-term.
- ◆ **Valuing and reporting available-for-sale securities.**
 - ✱ As with trading securities, companies adjust the cost of the portfolio of AFS securities to reflect changes in *market value*.
 - ✱ Any **unrealized gain (or loss)** for the portfolio of AFS securities is one component of other comprehensive income (OCI), which is reported in Statement of Comprehensive Income. It is also reported in **equity section of the Statement of Financial Position.**

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③ Available-for-Sale Securities (Cont.)

- ◆ **Adjustments:**
 - ✱ The company must record year-end adjusting entry to record the market value of these investments.
 - ✱ Cost and market value of the investments in bonds and shares on Dec. 31, 20X8 are as follows:

	Cost	Market Value	Unrealized Gain (Loss)
Improv bonds	30,000	29,050	-950
Intex common stock, 500 shares	43,000	45,500	2,500
Total	73,000	74,550	1,550

20X8	Dr. Allowance to value at market -- AFS	1,550	
Dec. 31	[Asset adjustment account+, A+]		
	Cr. Net unrealized holding gain/loss		1,550
	-- AFS [OCI+, E+]		
To reflect an unrealized gain in market values of AFS securities			

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③ Available-for-Sale Securities (Cont.)

Assets

- Investment in AFS securities (at cost) 73,000 Baht
- Add: Allowance to value at market – AFS 1,550 Baht
- Investment in AFS securities (at market) 74,550 Baht
 - OR
- Investment in AFS securities (at market, cost is 73,000 Baht) 74,550 Baht

Liabilities

- None

Equity

- OCI: Net unrealized holding gain/loss – AFS
1,550 Baht

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③ Available-for-Sale Securities (Cont.)

♦ Adjustments (Cont.):

- Assume that at the end of its next calendar year (Dec. 31, 20X9), Music City's portfolio of investments in AFS securities has an 81,000 Baht cost and an 82,000 Baht market value.

20X9	Dr. Net unrealized holding gain/loss	550	
Dec. 31	-- AFS [OCI-, E-]		
	Cr. Allowance to value at market -- AFS		550
	[Asset adjustment account-, A-]		
To reflect an unrealized loss in market values of AFS securities			

Allowance to value at market -- AFS			Net unrealized Holding Gain/loss -- AFS (B/S)		
B/L 12/31/08	1,550	Adj. 12/31/09 550	Adj. 12/31/09 550	B/L 12/31/08	1550
B/L 12/31/09	1,000			B/L 12/31/09	1,000

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Financial Statement Presentation – Investment in Debt and Equity Securities

Statement of Comprehensive Income

- Revenue
 - Interest revenue
 - Dividend revenue
- - Expenses
- +/- Unrealized holding G/L – TS
- = Profit or loss

+/- Other comprehensive income

OCI#1: Unrealized holding G/L -- AFS

OCI#2:

OCI#3:

OCI#4:

OCI#5:

= Total comprehensive income

Statement of Financial Position

- Assets
 - Investment in TS (@Mkt value)
 - Investment in AFS (@Mkt value)
 - Investment in HTM (@Amortized cost)
- Liabilities
- Equity
 - Share capital
 - Retained earnings
 - Unrealized holding G/L -- AFS

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STATEMENTS OF FINANCIAL POSITION

PRESIDENT BAKERY PUBLIC COMPANY LIMITED

As at 31 December 2011 and 2010

Example of Financial Statement Presentation & Disclosure: Investments

[Source: www.farmhouse.co.th]

(Unit: Baht)

SEPARATE FINANCIAL STATEMENTS

	NOTE	2011	2010
Non-current assets			
Investment in joint venture	12	5,850,000	5,850,000
Other long-term investment	13	15,000,000	-
Property, plant and equipment	14	2,786,147,285	2,660,925,587
Advance payments for purchase of assets		29,022,722	15,347,413
Intangible assets	15	805,771	1,294,434
Leasehold rights	16	1,996,354	2,323,734
Other non-current assets		6,356,402	6,541,253
Total non-current assets		2,845,178,534	2,692,282,421
Total assets		4,312,142,658	3,762,471,123

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6.5 Investment

- a) Investment in other company, which is non-marketable equity securities, is stated at cost. An allowance for impairment loss will be made when the net recoverable amount is lower than the cost of investment.
- b) Investment in joint venture is accounted for in the financial statements in which the equity method is applied using the equity method.
- c) Investment in joint venture is accounted for in the separate financial statements using the cost method.

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The Siam Cement Public Company Limited and its Subsidiaries Consolidated balance sheets

As at 31 December 2010 and 2009

in thousand Baht			
Assets	Note	2010	2009
Current assets			
Cash and cash equivalents	6	63,827,071	28,937,114
Current investments		6,000,000	-
Trade accounts and notes receivable			
- Related parties	5, 7	2,640,924	3,406,356
- Other companies	7	22,767,262	19,651,879
Receivables from and short-term loans to related parties	5	1,357,919	1,019,229
Inventories	8	36,917,404	31,103,906
Other current assets		7,884,814	5,987,814
Total current assets		141,395,394	90,106,298

**Example of Financial Statement
Presentation & Disclosure:
Investments**

[Source: www.scg.co.th]

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The Siam Cement Public Company Limited and its Subsidiaries

Consolidated balance sheets

As at 31 December 2010 and 2009

in thousand Baht			
Assets	Note	2010	2009
Non-current assets			
Investments in associates	9	39,750,575	57,618,240
Investments in jointly-controlled entity	9	957,569	1,071,782
Other long-term investments	10	13,734,888	3,227,938
Long-term loans to related party	5	392,927	436,129
Long-term loans to other companies	31	139,194	1,569,430
Property, plant and equipment	11	151,399,494	150,152,215
Intangible assets	12	4,797,684	4,038,263
Deferred tax assets	13	2,504,331	3,211,563
Other non-current assets	14	4,146,810	4,560,012
Total non-current assets		217,823,472	225,885,572
Total assets		359,218,866	315,991,870

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(e) Investments

Investments in associates and jointly-controlled entity

Investments in associates and jointly-controlled entity are accounted for using the equity method.

Investments in other debt and equity securities

Debt securities and marketable equity securities held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the statement of income.

Debt securities that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments, which are stated at amortised cost less any impairment losses. The difference between the acquisition cost and redemption value of such debt securities is amortised using the effective interest rate method over the period to maturity.

Debt securities and marketable equity securities, other than those securities held for trading or intended to be held to maturity, are classified as available-for-sale investments. Available-for-sale investments are, subsequent to initial recognition, stated at fair value, and changes therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognised directly in equity.

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