

# BACHELOR of ECONOMICS



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

## AC201 Fundamental Accounting

Semester 2/2011

### Course Materials

**Topic:**

Chapter 12 Reporting and Interpreting  
Investment in Other Companies

**Session:**

Session #13

**Instructor:**

Assistant Professor Dr. Orapan Yolrabil



## **CHAPTER 12: REPORTING AND INTERPRETING INVESTMENTS IN OTHER CORPORATIONS**

### CHAPTER SUMMARY

A company may make investments in the stock or bonds of another corporation. A common motivation to invest in other companies is to receive a return on otherwise idle funds.

The measuring and reporting of investments in the stock of another company are determined by the percent of shares owned in relation to the total number of shares outstanding. If the ownership level of voting shares is less than 20%, the market value method is used. Under this method, the investment is reported at the current market value. Unrealized gains and losses on securities in the trading portfolio are reported on the income statement while unrealized gains and losses on securities in the available-for-sale portfolio are reported as a component of stockholders' equity.

If the ownership is at least 20%, but not more than 50%, the equity method should be used. Under this method, the investment is recorded at cost by the investor at the date of acquisition. Each period thereafter, the investment account is increased (or decreased) by the proportionate interest in the income (or loss) reported by the investee corporation and decreased by the proportionate share of the dividends declared by the investee corporation. Each period the investor recognizes as revenue its proportionate share of the income (or loss) reported by the investee company.

Consolidated financial statements are presented when one corporation owns more than 50% of the outstanding voting stock of another corporation. The concept of consolidation is based on the view that a parent company and its subsidiaries constitute one economic entity. Therefore, their separate income statements, balance sheets, and statements of cash flows should be combined each period on an item-by-item basis as a single set of consolidated financial statements.

### CHAPTER OBJECTIVES

LO1 Analyze and report bond investments held to maturity.

LO2 Analyze and report passive investments in securities using the market value method.

LO3 Analyze and report investments involving significant influence using the equity method.

LO4 Analyze and report investments in controlling interests.

LO5 Analyze and interpret the return on assets ratio.

## CHAPTER OUTLINE

### **I. UNDERSTANDING THE BUSINESS**

#### **A. General**

1. Management may decide to invest idle cash in passive investments to earn a return on idle funds. We say these investments are passive because the managers are not interested in influencing or controlling the other companies.
2. At other times, management may desire to influence or control another company's policies and activities.

#### **B. Types of Investments and Accounting Methods**

1. Passive investments in debt and equity securities:
  - a. Goal is to earn a high rate of return on funds that may be needed in the near future.
  - b. Includes both investments in debt and equity securities.
    1. Passive Investments in Debt
      - a. Investments may be made in another corporation's debt.
      - b. These debt investments may be held to maturity using the amortized cost method of reporting.
      - c. On the other hand, these investments may be intended to be sold before the maturity dates and should be reported using the market value method.
    2. Passive Investments in Stock
      - a. Investments in equity securities are presumed to be passive if the investment consists of less than 20% of the outstanding voting stock of another company.
      - b. The market value method is used to measure and report these investments.
2. Investments in stock for significant influence
  - a. Significant influence is the ability of the investor to have an important impact on the operating and financing policies of the investee. Significant influence by the investor (the one owning voting stock of another) may be achieved by:
    1. Membership on the board of directors of the investee.
    2. Participation in the policy-making process of the investee.
    3. Material transactions between the two companies.
    4. Interchange of management personnel between the two companies.
    5. Technological dependency between the two companies.
  - b. The presumption of significant influence is when the investor owns outstanding voting stock of at least 20%, but not more than 50%.
  - c. The equity method is used to measure and report these investments.
3. Investments in stock for control
  - a. Investments are made with the intent to exert control over another corporation.
    1. Control is the investor's ability to determine the operating and financing policies of the investee.
    2. This is achieved when the investor owns more than 50% (the majority) of the outstanding voting stock of the investee.
    3. The consolidation method is appropriate for reporting these investments. The accounting method for an investment is based on the level of ownership.
  - b. Thus, the relationship between the investor corporation and the investee corporation is a critical factor for determining the appropriate accounting treatment.
    1. Market value method - Neither significant influence nor control of an equity interest is achieved. Therefore, the investment is considered passive.
    2. Equity method - Significant influence of the equity interest is achieved but control is not.
    3. Consolidated statement method - Control of the equity interest is achieved.
    4. Amortized cost method - The investment in debt is always passive. Ownership is not applicable for this type of investment. If held to maturity, a debt investment is adjusted by amortizing a premium or discount that existed at the purchase date. If the intent is to sell the bond before the maturity date, then the market value method should be used.

- II. LO1 ANALYZE AND REPORT BOND INVESTMENTS HELD TO MATURITY.**
  - 1. Intent: Management may intend to hold a debt investment until it matures. In that case, the investment is reported at its cost adjusted for the amortization of premium or discount.
  - 2. Bonds Purchases: Bond investments may be purchased for par (the maturity value), at a discount (at less than the maturity value), or at a premium (at more than the maturity value). The cost principle requires that the investment be recorded at cost.
  - 3. Interest Earned: Interest earned (revenue) is reported as accrued. The interest rate and the principal of the debt investment are the primary determinants of interest earned.
  - 4. Principal at Maturity: If the investment is made "at par", the recovery of cash when the debt matures will be equal to the original investment.
  
- III. LO2 ANALYZE AND REPORT PASSIVE INVESTMENTS IN SECURITIES USING THE MARKET VALUE METHOD.**
  - A. Passive Investors**
    - 1. Investors are typically passive investors when they own less than 20% of the outstanding voting stock in another company.
    - 2. The presumption at this level of ownership is that no significant influence over the investee exists.
    - 3. The market value method is the appropriate way to account for and report these investments.
    - 4. For investments in trading securities and securities available-for-sale, a departure from the cost principle is appropriate for balance sheet reporting.
      - a. Investments in trading securities and securities available-for-sale are reported on the balance sheet at their current market values at the balance sheet date.
      - b. There are two primary reasons for current market reporting.
        - 1. Relevance - Analysts who study financial statements often attempt to forecast the future cash flows of a company. One source of cash is the sale of investments. The best estimate of cash to be generated by investments in trading securities and securities available-for-sale is their current market values. This treatment differs from the presentation for most other assets owned by a company.
        - 2. Measurability - Financial statement dollar valuations for items are based on the reliability of those amounts (verifiable and unbiased valuations). Many assets owned by a company are not actively traded, such as fixed assets. On the other hand, securities have established market exchanges where they are traded each day. Therefore, it is relatively easy to ascertain current market values for these assets.
      - c. Trading Securities are shown as current assets on the Balance Sheet.
      - d. Securities Available for Sale are classified as either current or non-current depending upon the intent of the company.
  
  - B. Recording of unrealized holding gains and losses:**
    - 1. This is a departure from the revenue recognition principle since gains (losses) are recorded before the earnings process is complete (before the sale).
    - 2. These are amounts associated with price changes of securities that are currently held.
    - 3. The impact of unrealized holding gains and losses depends on the classification of the investment as trading securities or available-for-sale securities.
  
  - C. Classifying Passive Stock Investments**
    - 1. Trading securities
      - a. Actively traded with the objective of generating profits. Part of the company's active trading portfolio.
      - b. Classified as a current asset on the balance sheet, valued at fair market value at the balance sheet date.
      - c. Unrealized holding gains and losses are reported on the income statement. They increase or decrease net income.
      - d. At the time of sale, the realized gain or loss is the difference between what is received at the time of the sale and the book value of Trading Securities net of the Allowance to Value at Market.

2. Securities available-for-sale:
    - a. Not part of the company's active trading portfolio.
    - b. Classified as current asset or non-current asset depending on whether management intends to sell within the next year, valued at fair market value at the balance sheet date.
    - c. Unrealized holding gains and losses are reported in the stockholders' equity section of the balance sheet. They increase or decrease stockholders' equity. They do not affect net income currently.
- D. Purchase of Stock**
- Regardless of how the stock is classified, the investment is debited for the full cost (cost principle) of the stock, including any broker's charge.
- E. Dividends Earned**
- Investments earn a return from two sources: price appreciation and dividend income.
    - a. Price appreciation is analyzed at each year-end and when the security is sold.
    - b. Dividends earned are reported on the income statement as investment income.
- F. Year-End Valuation**
1. Passive investments are reported at fair market value on the balance sheet date.
  2. A separate "adjustment" account is maintained for the changes in the investment account and the current price.
    - a. This is done rather than changing the investment account itself. Since no exchange has taken place, there is an unrealized holding gain or loss for the difference.
    - b. If the current market value exceeds cost for the investment, the journal entry debits the allowance to value at market account and credits the unrealized holding gain/loss account.
    - c. If the cost exceeds current market value for the investment, the journal entry debits the unrealized holding gain/loss account and credits the allowance to value at market account.
- G. Sale of Stock**
1. Available-for-sale
    - a. The available-for-sale investment account is compared with the cash received to determine a gain or loss on the sale.
    - b. Additionally, the unrealized loss/gain and valuation allowance account are eliminated.
  2. Trading
    - a. The sale of a trading security is similar except there is no unrealized loss/gain account in stockholders' equity since it has been closed to Retained Earnings.
    - b. Instead, any unrealized loss/gain amounts in a previous period were reported on the income statement in that period.
    - c. Since the Unrealized Gain or Loss is shown on the Income Statement and, subsequently, is closed to Retained Earnings, at the time of sale the realized gain or loss is the difference between the Investment in Trading Securities net of the Allowance to Value at Market and the cash received at the time of the sale.
- H. Comparing Trading and Available-for-Sale Securities**
1. Each investment is recorded at cost (cost principle). Each investment is reported on the balance sheet at fair market value.
  2. The net unrealized holding gains and losses for available-for-sale securities is a component of stockholders' equity. The income statement is only impacted upon the sale of the stock as the difference of the sales proceeds and original cost.
  3. The net unrealized holding gains and losses for trading securities are included on the income statement. The income statement is also impacted upon the sale of the stock investment as the difference of the sales proceeds and the investment account net of the allowance to value at market account.

**IV. LO3 ANALYZE AND REPORT INVESTMENTS INVOLVING SIGNIFICANT INFLUENCE USING THE EQUITY METHOD.**

**A. Equity Method**

1. An investor may desire the ability to exert significant influence over another company without obtaining control (majority ownership).
2. This is typically the case when the investor owns 20% to 50% of the outstanding voting stock of the investee. The presumption in this case is that the investment was made for a long-term strategic purpose.

**B. Recording Investments under the Equity Method**

1. Purchase of stock: The initial purchase of the investment is recorded at cost in conformity with the cost principle.
2. Investee earnings
  - a. It is appropriate to determine investment income recognition on the percentage of the investee's reported earnings because the investor often is involved in operating and financing decisions of the investee.
  - b. When the investee earns income, the investment account (Investment in Affiliated Companies) is debited and Equity in Investee Earnings account (a revenue) is credited for the proportional ownership amount.
  - c. If the investee reports a loss, the Equity in Investee Earnings account is debited and the Investment in Affiliated Companies account is credited.
3. Dividends received
  - a. Dividends are essentially a return of part of the investment. Therefore, they reduce the Investment in Affiliated Companies account.
  - b. When dividends are received from the investee, cash is debited and the Investment in Affiliated Companies account is credited.
4. Reporting Investments Under the Equity Method
  - a. Investments under the equity method (unlike the market value method) of reporting are not reported at the fair market value. Instead, they are reported at the investor's cost plus a percentage of the investee's earnings (losses) since the investment was made reduced by any dividend distributions to the investor to date.
  - b. When the investment is sold, the gain or loss is determined as the difference of the sale proceeds and the investment account balance.

**V. LO4 ANALYZE AND REPORT INVESTMENTS IN CONTROLLING INTERESTS.**

**A. Investors have various motives for owning the controlling interest in another company.**

1. Vertical integration is when the acquiring company purchases the controlling interest in a company at a different level in the distribution channel. This can secure valuable suppliers or customers.
2. Horizontal growth is when the acquiring company purchases the controlling interest in a company at the same level in the distribution channel. This can lead to greater market share.
3. Synergy is when the acquiring company purchases the controlling interest in a company to make the operations of the two companies together more profitable in a combined manner than the two companies separately considered.

**B. Consolidated Statements**

1. Consolidated financial statements are required when the acquiring company (parent) obtains control of another corporation (subsidiary). Consolidated financial statements combine the operations of two or more companies into a single set of statements. This reporting is based on substance (one economic entity) over form (more than one legal entity).
2. Intercompany accounts and intercompany transactions are eliminated when consolidated statements are prepared. The underlying concept is that a company can neither owe itself nor report revenues/expenses when dealing with itself.
3. Purchasing 100% of the outstanding stock results in a wholly owned subsidiary. If less than 100% of the stock is purchased, a minority interest will result with the parent as the majority interest.

**D. Recording a Merger**

1. A merger occurs when one company purchases the net assets of another company (target company). The target company is dissolved. That is, two companies become one with the purchasing company as the survivor.
2. The purchasing company records the net assets (assets purchased and the liabilities assumed) at the purchase price following the cost principle. This is called the purchase method.
3. Often the purchase price exceeds the fair market value of the target company's identifiable net assets. This excess is called goodwill representing cost in excess of net assets acquired.

**E. Reporting a Merger**

1. The post-merger balance sheet reports the acquired assets and liabilities at their fair market values, goodwill for the cost in excess of net assets acquired, and cash is reduced by the amount equal to the purchase price. If stock is given instead of cash, contributed capital is increased for the amount of the purchase price.
2. The post-merger income statement reports all revenues and expenses from the combined company. Expenses will include depreciation based on the fair market value of assets acquired. Goodwill is not amortized, but it should be reviewed periodically to determine if an impairment loss should be considered in the future.

**VI. LO5 ANALYZE AND INTERPRET THE RETURN ON ASSETS RATIO.**

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

1. A measure of profitability.
2. Answers the question: For every dollar of fixed assets, how much is earned?
3. Doesn't distinguish between assets financed through debt and assets financed through equity.

**VII. CHAPTER SUPPLEMENT A**

**A. Preparing Consolidated Statements**

1. When one company acquires another company and both continue to exist, consolidated financial statements must be presented.
2. The statements of two or more companies are reported as a single set of statements as if they were a single company.

**B. Recording Acquisition of a Controlling Interest**

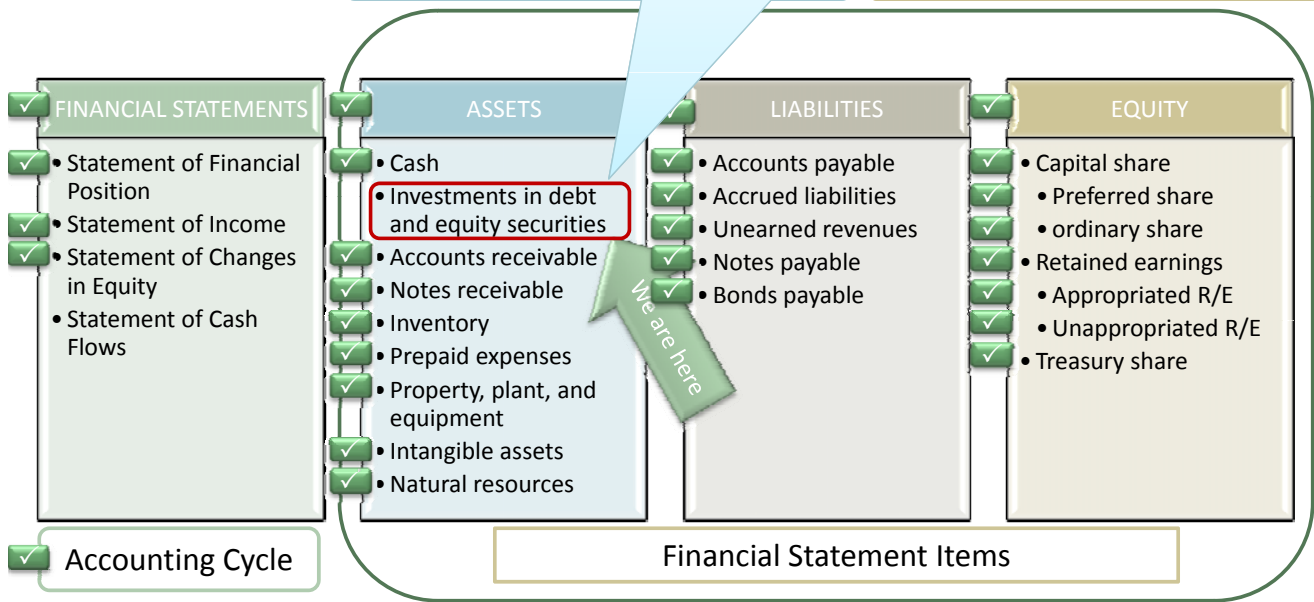
1. When a parent acquires control of a subsidiary, both entities continue to exist (unlike a merger).
2. The acquisition is recorded at the purchase price (not the book value). This exemplifies the cost principle.
3. The investment account reflects the market value of the acquired shares of stock of the investee.
4. The transaction is often a cash-for-stock transfer with the investee's shareholders and usually has no effect on the investee's accounts.
5. In some combinations, the parent may exchange shares of its stock for the investee's stock from the investee's shareholders.
6. The journal entry requires a debit to the investment account (for the purchase price) and a credit to cash (or contributed capital) for the same amount.

**C. Preparing Consolidated Financial Statements After Acquisition**

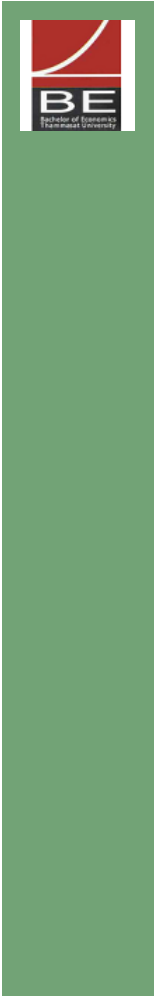
- 1.** If financial statements are prepared on the date of acquisition, fair market values for assets and liabilities of the investee are combined with the investor's general ledger account balances as if a single entity were reporting.
- 2.** Some accounts are eliminated on the date of purchase.
  - a.** These accounts include intercompany receivables/payables.
  - b.** In addition, the investment account is eliminated.
  - c.** The fair market value at the date of purchase represented by the investment account is eliminated against the stockholders' equity of the investee, which is a book value amount. The difference between the investment account (a fair market value amount) and stockholders' equity of the investee (a book value amount) is assigned to specific assets in the elimination process.
  - d.** First, any difference of fair market value and book value of the investee's net assets absorbs this difference. Any amount remaining is assigned to goodwill.
- 3.** In consolidating the separate companies' income statements into a single statement, the revenues and expenses generated by the parent company must be combined with the revenues and expenses of the subsidiary to make it appear as if a single company exists.
  - a.** Exclude any investment income from the subsidiary in the parent's accounts.
  - b.** Additional expenses may be reported for depreciation of the subsidiary's assets considered at fair market value (in excess of book value).
- 4.** Goodwill should be considered for a possible impairment loss in the future.
- 5.** Spreadsheet programs are helpful in the preparation of appropriate account balances to be presented on consolidated financial statements.

SCI: Interest revenue and Dividend revenue  
 SCI Equity income from associated company  
 SCI: Unrealized holding gain (loss) -- Trading

SFP: Equity  
 -- Unrealized holding gain (loss) -- AFS



FINANCIAL STATEMENT ANALYSIS



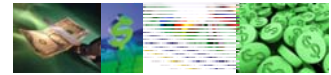
AC201 Fundamental Accounting



BACHELOR of ECONOMICS

**CHAPTER 12:  
 REPORTING AND INTERPRETING  
 INVESTMENTS IN OTHER COMPANIES**

**Assistant Professor Dr. Orapan Yolrabail**  
 Department of Accounting  
 Thammasat Business School  
 Thammasat University



## 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.



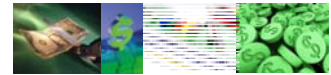
### Debt Securities

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



### Equity Securities

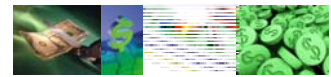
- Shares of ownership in a corporation that can change significantly in value and that provide for a return to investors in the form of dividends.



## 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			

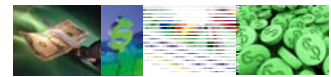
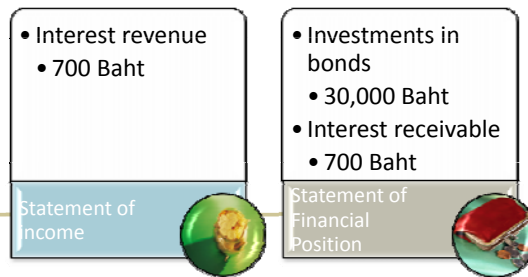


## Accounting Basics for Debt Securities

### 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)			



## 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

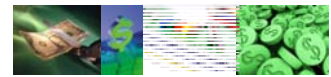
Received six months' interest on bonds

### 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

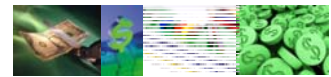


## Accounting Basics for Equity Securities

### 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

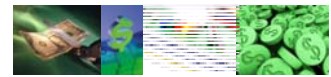
Statement of income



- Investments in share
- 86,000 Baht

Statement of Financial Position



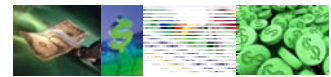


## Accounting Basics for Equity Securities

• **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)			

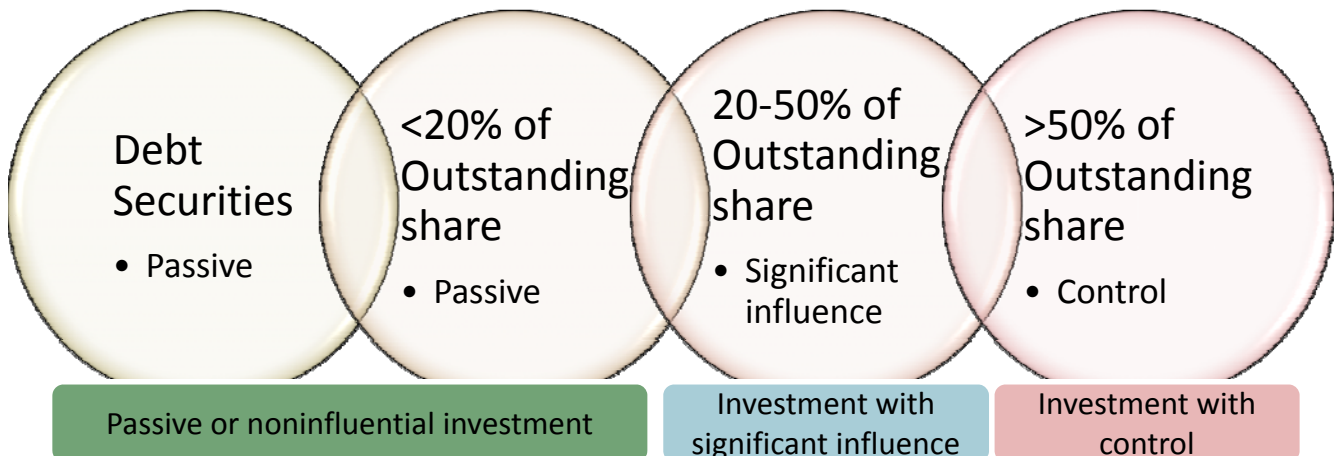


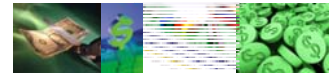
## Categories of Investments

• **Investments in the Securities of Other Companies:**

Debt Securities

Equity Securities





## 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

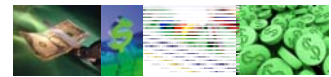
#### 5 Controlling influence

Equity only

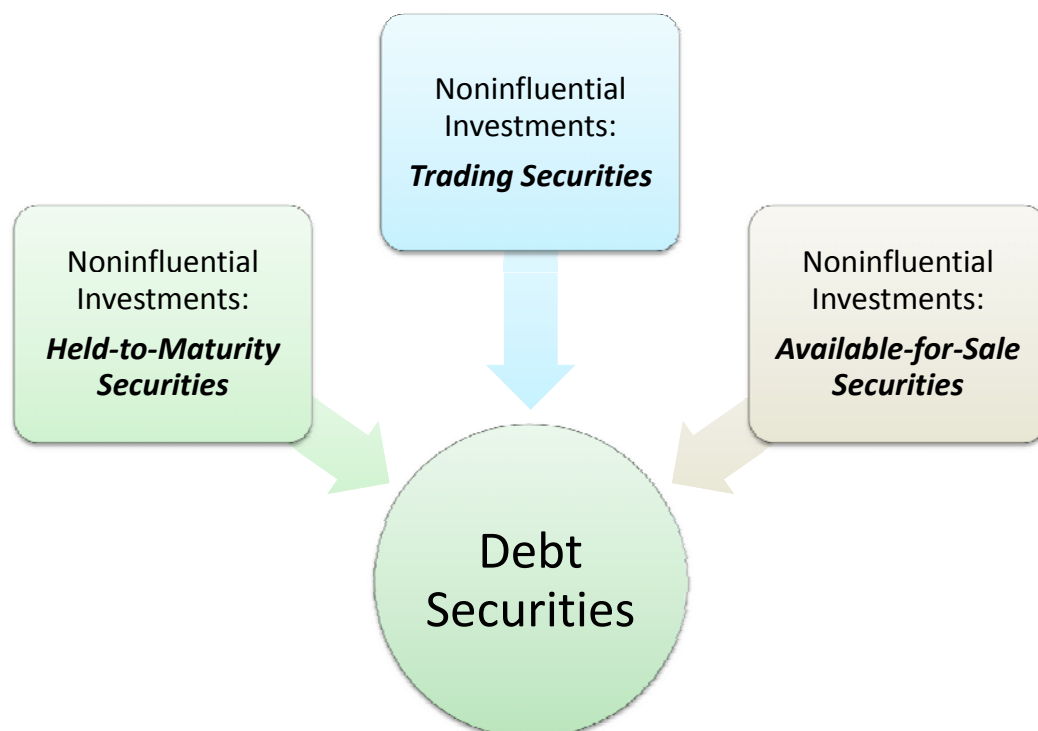
Equity securities (>50%) with controlling influence

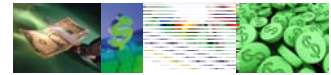
Consolidated financial statements

11

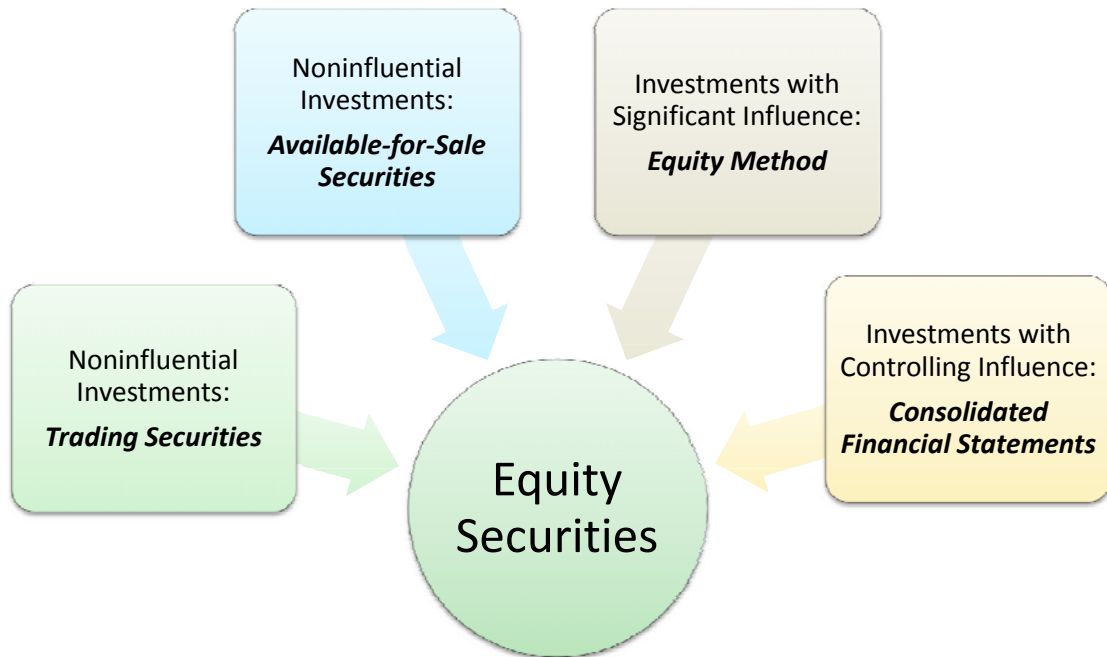


## Classification of Investment in Debt Securities

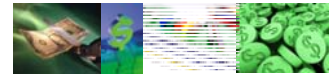




## Classification of Investment in Equity Securities



13

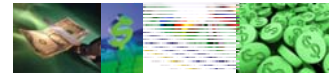


## Reporting of Noninfluential Investments

- **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.**



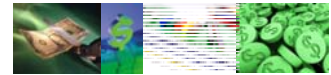
14



## 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*.

15



## ① Held-to-Maturity Securities (Cont.)

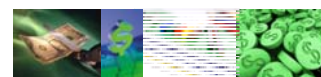
- **Acquisition:**
  - On Jan. 1, 20X1, Music City purchased a 10%, 5-year, 500,000 Baht bond issued by Phoenix Corp. The interest payments are made *semiannually*. Assume the effective rate is 12%.
    - $N = 10, I = 6\%, PMT = 25,000, FV = 500,000 \rightarrow PV = 463,199$

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			

$$\begin{aligned} \text{Discount on Investment in Bonds} \\ &= 500,000 - 463,199 \\ &= 36,801 \end{aligned}$$

Amortized  
over bond's  
life

16



## ① Held-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

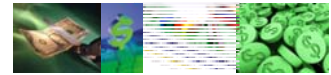
#### • Straight-Line Amortization:

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



## ① Held-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



## ① Held-to-Maturity Securities (Cont.)

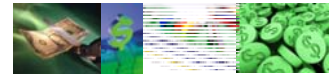
### • Amortization:

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.

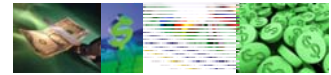
### • Disposition:

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.

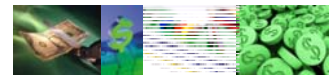


## ② Trading Securities (Cont.)

### • 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			

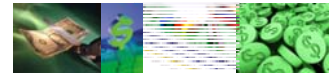


## ② Trading Securities (Cont.)

### • 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			



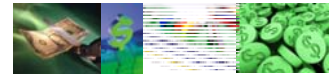
## ② Trading Securities (Cont.)

### 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</u> Baht
• Investment in trading securities (at market)	<u>13,000</u> Baht
• OR	
• Investment in trading securities	
• (at market; cost is 11,500 Baht)	13,000 Baht

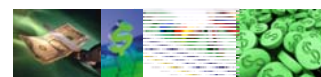
### Statement of Income for 20X8

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



## 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.**



### 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	45500	2,500
<b>Total</b>	<b>73,000</b>	<b>74,550</b>	<b>1,550</b>

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



### ③ Available-for-Sale Securities (Cont.)

#### Assets

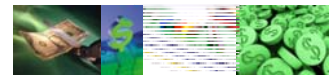
- Investment in AFS securities (at cost) 73,000 Baht
- Add: Allowance to value at market – AFS 1,550 Baht
- Investment in AFS securities (at market) 74,550 Baht
- OR
- Investment in AFS securities (at market, cost is 73,000 Baht) 74,550 Baht

#### Liabilities

- None

#### Equity

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



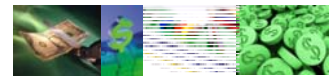
### 3 Available-for-Sale Securities (Cont.)

#### 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



### 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

## Example of Financial Statement Presentation & Disclosure: Investments

[Source: www.farmhouse.co.th]

## BALANCE SHEETS

President Bakery Public Company Limited  
As at 31 December 2010 and 2009

(Unit : Baht)

	Note	Financial statements in which the equity method is applied		Separate financial statements	
		2010	2009	2010	2009
<b>Assets</b>					
<b>Non-current assets</b>					
Investment in joint venture	10	8,442,283	7,753,495	5,850,000	5,850,000
Other long-term investment - net	11	-	-	-	-
Property, plant and equipment - net	12	2,660,925,587	2,473,725,139	2,660,925,587	2,473,725,139
Advance payments for purchase of assets		15,347,413	-	15,347,413	-
Intangible assets - net	13	1,294,434	1,440,643	1,294,434	1,440,643
Leasehold rights - net	14	2,323,734	2,651,113	2,323,734	2,651,113
Other non-current assets		6,541,253	5,805,162	6,541,253	5,805,162
<b>Total non-current assets</b>		<b>2,694,874,704</b>	<b>2,491,375,552</b>	<b>2,692,282,421</b>	<b>2,489,472,057</b>
<b>Total assets</b>		<b>3,765,063,406</b>	<b>3,157,284,049</b>	<b>3,762,471,123</b>	<b>3,155,380,554</b>

29

### 4.5 Investment

- 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.
- Investment in joint venture is accounted for in the financial statements in which the equity method is applied using the equity method.
- Investment in joint venture is accounted for in the separate financial statements using the cost method.

30

## 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
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>141,395,394</b>	<b>90,106,298</b>

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

[Source: [www.scg.co.th](http://www.scg.co.th)]

31

## 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
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		<b>217,823,472</b>	<b>225,885,572</b>
<b>Total assets</b>		<b>359,218,866</b>	<b>315,991,870</b>

32

**(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.

33

Impairment losses and foreign exchange differences are recognised in the statement of income. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the statement of income. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the statement of income.

Equity securities which are not marketable are stated at cost less any impairment losses.

The fair value of financial instruments classified as held-for-trading and available-for-sale is determined as the quoted bid price at the reporting date.

*Disposal of investments*

On disposal of an investment, the difference between net disposal proceeds and the carrying amount together with the associated cumulative gain or loss that was reported in equity is recognised in the statement of income.

If the Group disposes of part of its holding of a particular investment, the deemed cost of the part sold is determined using the weighted average method applied to the carrying value of the total holding of the investment.

34