

Principles of Accounting II

Accounting for Investments

Trading Securities

- Type – Debt or Equity
- Term – Short-term
- Income - Interest or Dividend Revenue recognized when earned and reported on the Income Statement
- Income Statement-Show unrealized and realized gains (losses)
- Realized gains (losses) – Calculated as difference between net proceeds and cost on the date of disposition
- Balance Sheet-Report under Current Assets at Market Value
- Market Adjustment – Reflects changes in market value

Held-to-Maturity Securities

- Type – Debt
- Term – Short or long depending on maturity date
- Balance Sheet-Report under Current Assets or Long-Term Assets (depending on term) at (amortized) cost
- Market Adjustment – None
- Income – Interest Revenue recognized when earned and reported on the Income Statement

Available-for-Sale Securities

- Type – Debt and Equity
- Term – Short or long depending on hold intentions
- Balance Sheet-Report under Current Assets or Long-Term Assets (depending on term) at market; Unrealized gains/losses reported as adjustment to Equity
- Market Adjustment – Reflects changes in market value; Shown on Balance sheet under Equity
- Income – Interest or Dividend Revenue recognized when earned and reported on the Income Statement
- Income Statement-Show only realized gains (losses) [unrealized gains/losses not shown]
- Realized gains (losses) – Calculated as difference between net proceeds and cost on the date of disposition

Equity Securities with Significant Influence

- Type – Equity
- Ownership Percent – at least 20% but less than 50%
- Term –Long-term
- Balance Sheet-Report under Long-term Assets or at current investment amount
- Earnings Adjustment – Adjust the investment account for earnings of the investee
- Income –Dividend Revenue reduces the Investment account and is not reported as income on the Income Statement
- Income Statement-Show only realized gains (losses)
- Realized gains (losses) – Calculated as difference between net proceeds and book value on the date of disposition

Equity Securities with Controlling Influence

- Type – Equity
- Ownership Percent – more than 50%
- Term –Long-term
- Financial Statements – consolidated financial statements