1. (2) The following information pertains to Lark Corp’s long-term equity securities portfolio:

December 31

2011 2010

Cost $200,000 $200,000

Fair Value 240,000 180,000

Difference between cost and market values are considered to be temporary. The decline in market value was properly accounted for at December 31, 2011, what is the net unrealized holding gain or loss to be reported as:

Other Accumulated Other

Comprehensive Income Comprehensive Income

1. $60,000 gain $40,000 gain
2. $40,000 gain $60,000 gain
3. $20,000 loss $20,000 loss
4. -0- -0-
5. (4) On both December 31, 2010, and December 31, 2011, Kopp Co.’s only equity security investment had the same fair value, which was below its original cost. Kopp considered the decline in value to be temporary in 2010 but other-than-temporary in 2011. At the end of both years the security was classified as a noncurrent asset. Kopp could not exercise significant influence over investee. What should be the effects of the determination that the decline was other-than-temporary on Kopp’s 2011 net noncurrent assets and net income?
6. Decrease in both net noncurrent assets and net income
7. No effect on both net noncurrent assets and net income
8. Decrease in net income noncurrent assets and no effect on net income
9. No effect on net noncurrent assets and decrease in net income
10. (5) When the equity method is used to account for investments in common stock, which of the following affect(s) the investor’s reported investment income?

A Change in Fair Value Cash Dividends

Of Investee’s Common Stock From Investee

1. Yes Yes
2. No Yes
3. Yes No
4. No No
5. (6) A corporation uses the equity method to account for its 40% ownership of another company. The investee earned $20,000 and paid $5,000 in dividends. The investor made the following entries:

Investment in affiliate………………………………………….. $8,000

Equity in earnings of affiliate…………………………….. $8,000

Cash……………………………………………………………………… 2,000

Dividend revenue……………………………………………. 2,000

What effect will these entries have on the investor’s statement of financial position?

1. Investment in affiliate overstated, retained earnings understated
2. Financial position will be fairly stated
3. Investment in affiliate overstated, retained earnings overstated
4. Investment in affiliate understated, retained earnings understated