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14 - 74 Part 3 Additional Activities of a Business EOC

3. Subsidiary 3: International Inc. recently purchased 100% of the outstanding stock of Harmon National Bank. This subsidiary represents International's first purchase of a nonmanufacturing facility, and management has expressed concern about the comparability of the different accounting methods used by financial institutions.
4. Subsidiary 4: International has been involved in a takeover battle with Beatrix Inc. involving Campton Soups. Beatrix recently purchased 50% of the stock of Campton. International has owned 30% of Campton's stock for five years.

Discussion
Case 14-62

What Is the Difference in Accounting between the Cost and Equity Methods?
Logical Corporation, a producer of medical products, disclosed the following investments in affiliates in the notes to its July 31, 2013, financial statements:

	2013	2012
Investments (if classified as available for sale)	\$ 822,188	\$ 50,000
Investments (if using the equity method)	1,677,181	2,009,647

Discuss the factors that determine whether Logical uses the cost or the equity method in accounting for its investment in affiliates. What events are recorded when the security is accounted for as an available-for-sale security? What events are recorded when the equity method is used? What does the investment account represent when the security is classified as available for sale? What does it represent using the equity method?

Discussion
Case 14-63

How Different Are International Standards?

You have been approached about doing a consulting job for Choi Hung Company, which is based in southern China. Choi Hung reports its financial results using International Financial Reporting Standards. The consulting job involves sorting through Choi Hung's purchases and sales of investment securities for the past three years to make sure that the reported results are in conformity with international standards. An acquaintance has advised you not to take this consulting job because "you are trained in U.S. GAAP and don't know anything about international standards." How might you respond?

Case 14-64

Deciphering Financial Statements (The Walt Disney Company)

Locate Disney's 2009 financial statements and related notes on the Internet and answer the following questions:

1. Locate Disney's note that discusses investments. What amount of the investment portfolio is classified as available for sale? Now look at Disney's balance sheet. What percentage of the total investment account is classified as available-for-sale securities? What types of securities constitute the balance in that account?
2. Locate Disney's note that discusses what types of securities are included in "Investments" on the balance sheet. Also examine the note that defines cash and cash equivalents. Are all of Disney's investment securities listed under Investments in the balance sheet?
3. Review the note on "Fair Value Measurement" to determine the fair value of investments on October 3, 2009. Why is this number so much less than that reported as Investments on the balance sheet?

Case 14-65

Deciphering Financial Statements (Intel)

The note shown on page 14-75 is taken from Intel's 2009 annual report.

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