CHAPTER 16

Investments

ASSIGNMENT CLASSIFICATION TABLE

Study Objectives	Questions	Brief Exercises	Exercises	A Problems	B Problems
1. Discuss why corporations invest in debt and stock securities.	1		1		
2. Explain the accounting for debt investments.	2, 3, 4	1	2, 3	1A, 2A	1B, 2B
3. Explain the accounting for stock investments.	5, 6, 7, 8, 9, 10	2, 3	4, 5, 6, 7, 8	2A, 3A, 4A, 5A	2B, 3B, 4B, 5B
4. Describe the use of consolidated financial statements.	11		9		
5. Indicate how debt and stock investments are reported in the financial statements.	12, 13, 14, 15, 16, 17, 18	4, 5, 6, 7, 8	10, 11, 12	1A, 2A, 3A, 5A, 6A	1B, 2B, 3B, 5B, 6B
6. Distinguish between short-term and long-term investments.	19	5, 7, 8	10, 11, 12	1A, 2A, 3A, 5A, 6A	1B, 2B, 3B, 5B, 6B

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Journalize debt investment transactions and show financial statement presentation.	Moderate	30–40
2A	Journalize investment transactions, prepare adjusting entry, and show statement presentation.	Moderate	30–40
3A	Journalize transactions and adjusting entry for stock investments.	Moderate	30–40
4A	Prepare entries under the cost and equity methods, and tabulate differences.	Simple	20–30
5A	Journalize stock investment transactions and show statement presentation.	Moderate	40–50
6A	Prepare a balance sheet.	Moderate	30–40
1B	Journalize debt investment transactions and show financial statement presentation.	Moderate	30–40
2B	Journalize investment transactions, prepare adjusting entry, and show statement presentation.	Moderate	30–40
3B	Journalize transactions and adjusting entry for stock investments.	Moderate	30–40
4B	Prepare entries under the cost and equity methods, and tabulate differences.	Simple	20–30
5B	Journalize stock investment transactions and show statement presentation.	Moderate	40–50
6B	Prepare a balance sheet.	Moderate	30–40

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Study Objectives and End-of-Chapter Exercises and Problems

Study Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Discuss why corporations invest in debt and stock securities.	Q16-1	E16-1				
2. Explain the accounting for debt investments.	Q16-2	Q16-3 Q16-4	BE16-1 E16-3 E16-2	P16-1A P16-1B P16-2A P16-2B		
3. Explain the accounting for stock investments.	Q16-7	Q16-5 Q16-8 Q16-9 Q16-10	Q16-6 E16-5 BE16-2 E16-6 BE16-3 E16-7 E16-4 E16-8	P16-2A P16-2B P16-3A P16-3B P16-4A P16-4B P16-5A P16-5B		
4. Describe the use of consolidated financial statements.	Q16-11	E16-9				
5. Indicate how debt and stock investments are reported in the financial statements.	Q16-12 Q16-17	Q16-13 Q16-18	Q16-14 Q16-16 BE16-4 BE16-7 BE16-8 P16-6A P16-6B	Q16-15 P16-2A BE16-5 P16-3A BE16-6 P16-5A E16-10 P16-1B E16-11 P16-2B E16-12 P16-3B P16-1A P16-5B		
6. Distinguish between short-term and long-term investments.		Q16-19	BE16-7 BE16-8 P16-6A P16-6B	BE16-5 P16-3A E16-10 P16-5A E16-11 P16-1B E16-12 P16-2B P16-1A P16-3B P16-2A P16-5B		
Broadening Your Perspective		Financial Reporting Exploring the Web Decision Making Across the Organization Communication All About You		Comparative Analysis Exploring the Web		Ethics Case

ANSWERS TO QUESTIONS

1. The reasons corporations invest in securities are: (1) excess cash not needed for operations that can be invested, (2) for additional earnings, and (3) strategic reasons.

2. (a) The cost of an investment in bonds consists of all expenditures necessary to acquire the bonds, such as the market price of the bonds plus any brokerage fees.
   (b) Interest is recorded as it is earned; that is, over the life of the investment in bonds.

3. (a) Losses and gains on the sale of debt investments are computed by comparing the amortized cost of the securities to the net proceeds from the sale.
   (b) Losses are reported in the income statement under other expenses and losses whereas gains are reported under other revenues and gains.

4. Olindo Company is incorrect. The gain is the difference between the net proceeds, exclusive of interest, and the cost of the bonds. The correct gain is $4,500, or [($45,000 – $500) – $40,000].

5. The cost of an investment in stock includes all expenditures necessary to acquire the investment. These expenditures include the actual purchase price plus any commissions or brokerage fees.

6. Brokerage fees are part of the cost of the investment. Therefore, the entry is:

Stock Investments	63,200	
Cash		63,200

7. (a) Whenever the investor's influence on the operating and financial affairs of the investee is significant, the equity method should be used. The major factor in determining significant influence is the percentage of ownership interest held by the investor in the investee. The general guideline for use of the equity method is 20% or more ownership interest. Companies are required to use judgment, however, rather than blindly follow the 20% guideline.
   (b) Revenue is recognized as it is earned by the investee.

8. Since Rijo Corporation uses the equity method, the income reported by Pippen Packing ($80,000) should be multiplied by Rijo's ownership interest (30%) and the result ($24,000) should be debited to Stock Investments and credited to Revenue from Investment in Pippen Packing. Also, of the total dividend declared and paid by Pippen ($10,000) Rijo will receive 30% or $3,000. This amount should be debited to Cash and credited to Stock Investments.

9. Significant influence over an investee may result from representation on the board of directors, participation in policy-making processes, material intercompany transactions. One must also consider whether the stock held by other stockholders is concentrated or dispersed. An investment (direct or indirect) of 20% or more of the voting stock of an investee constitutes significant influence unless there exists evidence to the contrary.

10. Under the cost method, an investment is originally recorded and reported at cost. Dividends are recorded as revenue. In subsequent periods, it is adjusted to fair value and an unrealized holding gain or loss is recognized and included in income (trading security) or as a separate component of stockholders' equity (available-for-sale security). Under the equity method, the investment is originally recorded and reported at cost; subsequently, the investment account is adjusted during each period for the investor's share of the earnings or losses of the investee. The investor's share of the investee's earnings is recognized in the earnings of the investor. Dividends received from the investee are reductions in the carrying amount of the investment.

11. Consolidated financial statements present the details of the assets and liabilities controlled by the parent company and the total revenues and expenses of the affiliated companies.

Consolidated financial statements are especially useful to the stockholders, board of directors, and management of the parent company. Conversely, they are of limited use to minority stockholders and the creditors of the subsidiary company.

12. The valuation guidelines for investments is as follows:

Category	Valuation and Reporting
Trading	At fair value with changes reported in net income
Available-for-sale	At fair value with changes reported in stockholders' equity
Held-to-maturity	At amortized cost

Investments recorded under the equity method are reported at their carrying value. The carrying value is the cost adjusted for the investor's share of the investee's income and dividends received.

13. Tina should report as follows:

(1) Under current assets in the balance sheet:	
Short-term investment, at fair value	$70,000
(2) Under other expenses and losses in the income statement:	
Unrealized loss on trading securities	$ 4,000

14. Tina should report as follows:

(1) Under investments in the balance sheet:	
Investment in stock of less than 20% owned companies, at fair value	$70,000
(2) Under stockholders' equity in the balance sheet:	
Less: Unrealized loss on available-for-sale securities	$ (4,000)

15. The entry is:

Market Adjustment—Available-for-Sale	10,000	
Unrealized Gain or Loss—Equity		10,000

16. The entry is:

Market Adjustment—Trading	10,000	
Unrealized Gain—Income		10,000

17. Unrealized Loss—Equity is reported as a deduction from stockholders' equity. The unrealized loss is not included in the computation of net income.

18. Reporting Unrealized Gains (Losses)—Equity in the stockholders' equity section serves two important purposes: (1) it reduces the volatility of net income due to fluctuations in fair value, and (2) it still informs the financial statement user of the gain or loss that would occur if the securities were sold at fair value.

19. The investment in Key Corporation stock is a long-term investment because there is no intent to convert the stock into cash within a year or the operating cycle, whichever is longer.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 16-1

Jan. 1	Debt Investments	52,000	
	Cash		52,000
July 1	Cash	2,340	
	Interest Revenue		2,340

BRIEF EXERCISE 16-2

Aug. 1	Stock Investments	35,700	
	Cash		35,700
Dec. 1	Cash	40,000	
	Stock Investments		35,700
	Gain on Sale of Stock Investments		4,300

BRIEF EXERCISE 16-3

Dec. 31	Stock Investments	45,000	
	Revenue from Investment in Fort Company (25% X $180,000)		45,000
31	Cash (25% X $50,000)	12,500	
	Stock Investments		12,500

BRIEF EXERCISE 16-4

Dec. 31	Unrealized Loss—Income	3,000	
	Market Adjustment—Trading ($62,000 – $59,000)		3,000

BRIEF EXERCISE 16-5

Balance Sheet

Current assets	
Short-term investments, at fair value	$59,000

Income Statement

Other expenses and losses	
Unrealized loss on trading securities	3,000

BRIEF EXERCISE 16-6

Dec. 31	Unrealized Gain or Loss—Equity	6,000	
	Market Adjustment—Available-for-Sale		6,000

BRIEF EXERCISE 16-7

Balance Sheet

Investments	
Investment in stock of less than 20% owned companies, at fair value	$66,000
Stockholders' equity	
Less unrealized loss on available-for-sale securities	$ (6,000)

BRIEF EXERCISE 16-8

Investments	
Investment in stock of less than 20% owned companies, at fair value	$115,000
Investment in stock of 20–50% owned companies, at equity	270,000
Total investments	$385,000

SOLUTIONS TO EXERCISES

EXERCISE 16-1

1. Companies purchase investments in debt or stock securities because they have excess cash, to generate earnings from investment income, or for strategic reasons.

2. A corporation would have excess cash that it does not need for operations due to seasonal fluctuations in sales and as a result of economic cycles.

3. The typical investment when investing cash for short periods of time is low-risk, high liquidity, short-term securities such as government-issued securities.

4. The typical investments when investing cash to generate earnings are debt securities and stock securities.

5. A company would invest in securities that provide no current cash flows for speculative reasons. They are speculating that the investment will increase in value.

6. The typical investments when investing cash for strategic reasons are stocks of companies in a related industry or in an unrelated industry that the company wishes to enter.

EXERCISE 16-2

(a)	Jan.	1	Debt Investments	50,900	
			Cash ($50,000 + $900)		50,900
	July	1	Cash ($50,000 X 8% X 1/2)	2,000	
			Interest Revenue		2,000
		1	Cash ($34,000 – $500)	33,500	
			Debt Investments ($50,900 X 3/5)		30,540
			Gain on Sale of Debt Investments ($33,500 – $30,540)		2,960

EXERCISE 16-2 (Continued)

(b)	Dec. 31	Interest Receivable	800	
		Interest Revenue		800
		($20,000 X 8% X 1/2)		

EXERCISE 16-3

January 1,2008		
Debt Investments	73,500	
Cash		73,500
July 1,2008		
Cash ($70,000 X 12% X 6/12)	4,200	
Interest Revenue		4,200
December 31,2008		
Interest Receivable	4,200	
Interest Revenue		4,200
January 1,2009		
Cash	4,200	
Interest Receivable		4,200
January 1,2009		
Cash	40,100	
Loss On Sale of Debt Investments	1,900	
Debt Investments (40/70 X $73,500)		42,000

EXERCISE 16-4

(a)

Feb.	1	Stock Investments	6,200	
		Cash ($6,000 + $200)		6,200
July	1	Cash (600 X $1)	600	
		Dividend Revenue		600
Sept.	1	Cash ($4,400 – $100)	4,300	
		Stock Investments ($6,200 X 3/6)		3,100
		Gain on Sale of Stock Investments ($4,300 – $3,100)		1,200
Dec.	1	Cash (300 X $1)	300	
		Dividend Revenue		300

(b) Dividend revenue and the gain on sale of stock investments are reported under other revenues and gains in the income statement.

EXERCISE 16-5

Jan.	1	Stock Investments	142,100	
		Cash ($140,000 + $2,100)		142,100
July	1	Cash (2,500 X $3)	7,500	
		Dividend Revenue		7,500
Dec.	1	Cash ($32,000 – $800)	31,200	
		Stock Investments ($142,100 X 1/5)		28,420
		Gain on Sale of Stock Investments		2,780
Dec.	31	Cash (2,000 X $3)	6,000	
		Dividend Revenue		6,000

EXERCISE 16-6

February 1		
Stock Investments	15,400	
Cash [(500 X $30) + $400]		15,400
March 20		
Cash ($2,900 – $50)	2,850	
Loss on Sale of Stock Investments	230	
Stock Investments ($15,400 X 100/500)		3,080
April 25		
Cash (400 X $1.00)	400	
Dividend Revenue		400
June 15		
Cash ($7,400 – $90)	7,310	
Stock Investments ($15,400 X 200/500)		6,160
Gain on Sale of Stock Investments		1,150
July 18		
Cash (200 X $1.25)	250	
Dividend Revenue		250

EXERCISE 16-7

(a)	Jan. 1	Stock Investments	180,000	
		Cash		180,000
	Dec. 31	Cash ($60,000 X 25%)	15,000	
		Stock Investments		15,000
	31	Stock Investments	50,000	
		Revenue from Investment in Connors Corp. ($200,000 X 25%)		50,000

(b)	Investment in Connors, January 1	$180,000
	Less: Dividend received	(15,000)
	Plus: Share of reported income	50,000
	Investment in Connors, December 31	$215,000

EXERCISE 16-8

(a)

2008			
Mar. 18	Stock Investments	390,000	
	Cash (200,000 X 15% X $13)		390,000
June 30	Cash	9,000	
	Dividend Revenue		9,000
	($60,000 X 15%)		
Dec. 31	Market Adjustment—Available-for-Sale	60,000	
	Unrealized Gain—Equity		60,000
	($450,000 – $390,000)		

(b)

Jan. 1	Stock Investments	81,000	
	Cash (30,000 X 30% X $9)		81,000
June 15	Cash	9,000	
	Stock Investments		9,000
	($30,000 X 30%)		
Dec. 31	Stock Investments	24,000	
	Revenue from Investment in Parks Corp.		24,000
	($80,000 X 30%)		

EXERCISE 16-9

(a) Since Ryan owns more than 50% of the common stock of Wayne Corporation, Ryan is called the parent company. Wayne is the subsidiary (affiliated) company. Because of its stock ownership, Ryan has a controlling interest in Wayne.

(b) When a company owns more than 50% of the common stock of another company, consolidated financial statements are usually prepared. Consolidated financial statements present the total assets and liabilities controlled by the parent company. They also present the total revenues and expenses of the affiliated companies.

(c) Consolidated financial statements are useful because they indicate the magnitude and scope of operations of the companies under common control.

EXERCISE 16-10

(a)	Dec. 31	Unrealized Loss—Income	4,000	
		Market Adjustment—Trading		4,000

(b) **Balance Sheet**

Current assets

Short-term investments, at fair value	$49,000

Income Statement

Other expenses and losses

Unrealized loss on trading securities	$ 4,000

EXERCISE 16-11

(a)	Dec. 31	Unrealized Gain or Loss—Equity	4,000	
		Market Adjustment—Available-for-Sale		4,000

(b) **Balance Sheet**

Investments

Investment in stock of less than 20% owned companies, at fair value	$49,000

Stockholders' equity

Less: Unrealized loss on available-for-sale securities	$ (4,000)

EXERCISE 16-11 (Continued)

(c) **Dear Mr. Linquist:**

Investments which are classified as trading (held for sale in the near term) are reported at fair value in the balance sheet, with unrealized gains or losses reported in net income. Investments which are classified as available-for-sale (held longer than trading but not to maturity) are also reported at fair value, but unrealized gains or losses are reported in the stockholders' equity section.

Fair value is used as a reporting basis because it represents the cash realizable value of the securities. Unrealized gains or losses on trading investments are reported in the income statement because of the likelihood that the securities will be sold at fair value in the near term. Unrealized gains or losses on available-for-sale securities are reported in stockholders' equity rather than in income because there is a significant chance that future changes in fair value will reverse unrealized gains or losses. So as to not distort income with these fluctuations, they are reported directly in stockholders' equity.

I hope that the preceding discussion clears up any misunderstandings. Please contact me if you have any questions.

Sincerely,

Student

EXERCISE 16-12

(a)	Market Adjustment—Trading	4,000	
	($124,000 – $120,000)		
	Unrealized Gain—Income		4,000
	Unrealized Gain or Loss—Equity	6,000	
	Market Adjustment—Available-for-Sale		6,000

(b)

Balance Sheet

Current assets	
Short-term investments, at fair value	$124,000
Investments	
Investment in stock of less than 20% owned companies, at fair value	94,000
Stockholders' equity	
Less: Unrealized loss on available-for-sale securities	$ (6,000)

Income Statement

Other revenues and gains	
Unrealized gain on trading securities	$ 4,000

SOLUTIONS TO PROBLEMS

PROBLEM 16-1A

(a)

2008			
Jan. 1	Debt Investments	2,000,000	
	Cash		2,000,000
July 1	Cash ($2,000,000 X .08 X 1/2)	80,000	
	Interest Revenue		80,000
Dec. 31	Interest Receivable	80,000	
	Interest Revenue		80,000
2011			
Jan. 1	Cash	80,000	
	Interest Receivable		80,000
1	Cash [($1,000,000 X 1.06) – $6,000]	1,054,000	
	Debt Investments		1,000,000
	Gain on Sale of Debt Investments		54,000
July 1	Cash ($1,000,000 X .08 X 1/2)	40,000	
	Interest Revenue		40,000
Dec. 31	Interest Receivable	40,000	
	Interest Revenue		40,000

(b)

2008			
Dec. 31	Market Adjustment—Available-for-Sale	200,000	
	Unrealized Gain or Loss—Equity		200,000

PROBLEM 16-1A (Continued)

(c) **Balance Sheet**

Current assets	
Interest receivable	$ 80,000
Investments	
Debt investments, at fair value	$2,200,000

The unrealized gain of $200,000 would be reported in the stockholders' equity section of the balance sheet as an addition to total paid-in capital and retained earnings.

PROBLEM 16-2A

(a)	Feb. 1	Stock Investments	32,400	
		Cash ($31,800 + $600)		32,400
	Mar. 1	Stock Investments	20,400	
		Cash ($20,000 + $400)		20,400
	Apr. 1	Debt Investments	51,000	
		Cash ($50,000 + $1,000)		51,000
	July 1	Cash ($.60 X 600)	360	
		Dividend Revenue		360
	Aug. 1	Cash ($11,600 – $200)	11,400	
		Stock Investments [($32,400 ÷ 600) X 200]		10,800
		Gain on Sale of Stock Investments		600
	Sept. 1	Cash ($1 X 800)	800	
		Dividend Revenue		800
	Oct. 1	Cash ($50,000 X 7% X 1/2)	1,750	
		Interest Revenue		1,750
	1	Cash ($50,000 – $1,000)	49,000	
		Loss on Sale of Debt Investments ($51,000 – $49,000)	2,000	
		Debt Investments		51,000

Stock Investments

Feb. 1	32,400	Aug. 1	10,800
Mar. 1	20,400		
Dec. 31 Bal.	42,000		

Debt Investments

Apr. 1	51,000	Oct. 1	51,000
Dec. 31 Bal.	0		

(b) Dec. 31 Unrealized Loss—Income 800
Market Adjustment—Trading 800
($42,000 – $41,200)

Security	Cost	Fair Value	
Hiens common	$21,600	$22,000	(400 X $55)
Pryce common	20,400	19,200	(800 X $24)
	$42,000	$41,200	

(c) Current assets
Short-term investment, at fair value $41,200

(d) Other revenues and gains: Dividend Revenue, Interest Revenue, and Gain on Sale of Stock Investments. Other expenses and losses: Loss on Sale of Debt Investments, and Unrealized Loss—Income.

PROBLEM 16-3A

(a)

2009			
July 1	Cash (5,000 X $1)	5,000	
	Dividend Revenue		5,000
Aug. 1	Cash (2,000 X $.50)	1,000	
	Dividend Revenue		1,000
Sept. 1	Cash [(1,500 X $8) – $300]	11,700	
	Loss on Sale of Stock Investments ($13,500 – $11,700)	1,800	
	Stock Investments (1,500 X $9)		13,500
Oct. 1	Cash [(800 X $33) – $500]	25,900	
	Stock Investments (800 X $30)		24,000
	Gain on Sale of Stock Investments ($25,900 – $24,000)		1,900
Nov. 1	Cash (1,500 X $1)	1,500	
	Dividend Revenue		1,500
Dec. 15	Cash (1,200 X $.50)	600	
	Dividend Revenue		600
31	Cash (3,500 X $1)	3,500	
	Dividend Revenue		3,500

Stock Investments

2009			2009	
Jan. 1	Balance	135,000	Sept. 1	13,500
			Oct. 1	24,000
2009				
Dec. 31	Balance	97,500		

PROBLEM 16-3A (Continued)

(b)	**Dec. 31**	**Unrealized Gain or Loss—Equity ....**	**4,100**	
		($97,500 – $93,400)		
		Market Adjustment—Available-for-Sale..		**4,100**

Security	**Cost**	**Fair Value**	
Hurst Co. common	**$36,000**	**$38,400**	**(1,200 X $32)**
Pine Co. common	**31,500**	**28,000**	**(3,500 X $ 8)**
Scott Co. common	**30,000**	**27,000**	**(1,500 X $18)**
	$97,500	**$93,400**	

(c) Investments

Investment in stock of less than 20% owned companies, at fair value...		**$ 93,400**
Stockholders' equity		
Common stock	**$1,500,000**	
Retained earnings	**1,000,000**	
Total paid-in capital and retained earnings	**2,500,000**	
Less: Unrealized loss on available-for-sale securities......................	**(4,100)**	
Total stockholders' equity		**$2,495,900**

PROBLEM 16-4A

(a)	Jan. 1	Stock Investments	800,000	
		Cash		800,000
	Mar. 15	Cash	13,500	
		Dividend Revenue		13,500
		(45,000 X $.30)		
	June 15	Cash	13,500	
		Dividend Revenue		13,500
	Sept. 15	Cash	13,500	
		Dividend Revenue		13,500
	Dec. 15	Cash	13,500	
		Dividend Revenue		13,500
	31	Market Adjustment—Trading	280,000	
		Unrealized Gain—Income		280,000
		[$800,000 – ($24 X 45,000)]		
(b)	Jan. 1	Stock Investments	800,000	
		Cash		800,000
	Mar. 15	Cash	13,500	
		Stock Investments		13,500
	June 15	Cash	13,500	
		Stock Investments		13,500
	Sept. 15	Cash	13,500	
		Stock Investments		13,500
	Dec. 15	Cash	13,500	
		Stock Investments		13,500

PROBLEM 16-4A (Continued)

Dec. 31	Stock Investments	96,000	
	Revenue from Investment in Nickels Company		96,000
	($320,000 X 30%)		

(c)

	Cost Method	Equity Method
Stock Investments		
Common stock	$1,080,000*	$842,000**
Unrealized Gain—Income	280,000	
Dividend revenue	54,000	0
Revenue from investment in Nickels Company	0	96,000

*$24 X 45,000 shares
**$800,000 + $96,000 – $54,000

PROBLEM 16-5A

(a)

Date	Account	Debit	Credit
Jan. 20	Cash ($55,000 – $600)	54,400	
	Investment in Abel Corp. Common Stock		52,000
	Gain on Sale of Stock Investments		2,400
28	Investment in Rosen Corporation Common Stock	31,680	
	Cash [(400 X $78) + $480]		31,680
30	Cash	1,610	
	Dividend Revenue ($1.15 X 1,400)		1,610
Feb. 8	Cash	480	
	Dividend Revenue ($.40 X 1,200)		480
18	Cash [($27 X 1,200) – $360]	32,040	
	Loss on Sale of Preferred Stock	1,560	
	Investment in Weiss Corp. Preferred Stock		33,600
July 30	Cash	1,400	
	Dividend Revenue ($1.00 X 1,400)		1,400
Sept. 6	Investment in Rosen Corporation Common Stock	75,000	
	Cash [($82 X 900) + $1,200]		75,000
Dec. 1	Cash	1,950	
	Dividend Revenue ($1.50 X 1,300)		1,950

(b)

Investment in Abel Corp. Common Stock

1/1 Bal.	52,000	1/20	52,000
12/31 Bal.	0		

Investment in Frey Corporation Common Stock

1/1 Bal.	84,000		
12/31 Bal.	84,000		

PROBLEM 16-5A (Continued)

Investment in Weiss Corp. Preferred Stock

1/1 Bal.	33,600	2/18	33,600
12/31 Bal.	0		

Investment in Rosen Corporation Common Stock

1/28	31,680		
9/6	75,000		
12/31 Bal.	106,680		

(c)	Dec. 31	Unrealized Gain or Loss—Equity	7,480	
		Market Adjustment—Available-for-Sale ($190,680 – $183,200)............		7,480

Security	Cost	Fair Value	
Frey Corporation common	$ 84,000	$ 89,600	(1,400 X $64)
Rosen Corporation common	106,680	93,600	(1,300 X $72)
	$190,680	$183,200	

(d) Investments

Investment in stock of less than 20% owned companies, at fair value	$183,200

Stockholders' equity

Total paid-in capital and retained earnings....................	xxxxx
Less: Unrealized loss on available-for-sale securities..	(7,480)
Total stockholders' equity..	$ xxxxx

PROBLEM 16-6A

URBINA CORPORATION
Balance Sheet
December 31, 2008

Assets

Current assets			
Cash			$ 42,000
Short-term stock investment, at fair value			180,000
Accounts receivable		$140,000	
Less: Allowance for doubtful accounts		6,000	134,000
Merchandise inventory			170,000
Prepaid insurance			16,000
Total current assets			542,000
Investments			
Investment in Flott common stock (10% ownership), at fair value		286,000	
Investment in Portico common stock (30% ownership), at equity		380,000	
Total investments			666,000
Property, plant, and equipment			
Land		390,000	
Buildings	$950,000		
Less: Accumulated depreciation	180,000	770,000	
Equipment	275,000		
Less: Accumulated depreciation	52,000	223,000	
Total property, plant, and equipment			1,383,000
Intangible assets			
Goodwill			200,000
Total assets			$2,791,000

URBINA CORPORATION
Balance Sheet (Continued)
December 31, 2008

Liabilities and Stockholders' Equity

Current liabilities		
Notes payable		$ 70,000
Accounts payable		240,000
Income taxes payable		120,000
Dividends payable		80,000
Total current liabilities		510,000
Long-term liabilities		
Bonds payable, 10%, due 2016	$ 500,000	
Plus: Premium on bonds payable	40,000	
Total long-term liabilities		540,000
Total liabilities		1,050,000
Stockholders' equity		
Paid-in capital		
Common stock, $10 par value, 500,000 shares authorized, 150,000 shares issued and outstanding	1,500,000	
Paid-in capital in excess of par value	130,000	
Total paid-in capital	1,630,000	
Retained earnings	103,000	
Total paid-in capital and retained earnings	1,733,000	
Add: Unrealized gain on available-for-sale securities	8,000	
Total stockholders' equity		1,741,000
Total liabilities and stockholders' equity		$2,791,000

PROBLEM 16-1B

(a)

2008			
Jan. 1	Debt Investments	600,000	
	Cash		600,000
July 1	Cash ($600,000 X .09 X 1/2)	27,000	
	Interest Revenue		27,000
Dec. 31	Interest Receivable	27,000	
	Interest Revenue		27,000
2011			
Jan. 1	Cash	27,000	
	Interest Receivable		27,000
1	Cash [($300,000 X 1.14) – $7,000]	335,000	
	Debt Investments		300,000
	Gain on Sale of Debt Investments		35,000
July 1	Cash ($300,000 X .09 X 1/2)	13,500	
	Interest Revenue		13,500
Dec. 31	Interest Receivable	13,500	
	Interest Revenue		13,500

(b)

2008			
Dec. 31	Unrealized Gain or Loss—Equity	20,000	
	Market Adjustment—Available-for-Sale		20,000

PROBLEM 16-1B (Continued)

(c) **Balance Sheet**

Current assets	
Interest receivable	**$ 27,000**
Investments	
Debt investments, at fair value	**$580,000**

The unrealized loss of $20,000 would be reported in the stockholders' equity section of the balance sheet as a deduction from total paid-in capital and retained earnings.

PROBLEM 16-2B

(a)	Feb.	1	Stock Investments	40,800	
			Cash ($40,000 + $800)		40,800
	Mar.	1	Stock Investments	15,300	
			Cash ($15,000 + $300)		15,300
	Apr.	1	Debt Investments	61,200	
			Cash ($60,000 + $1,200)		61,200
	July	1	Cash ($.60 X 600)	360	
			Dividend Revenue		360
	Aug.	1	Cash ($21,600 – $350)	21,250	
			Gain on Sale of Stock Investments		850
			Stock Investments [($40,800 ÷ 600) X 300]		20,400
	Sept.	1	Cash ($1 X 500)	500	
			Dividend Revenue		500
	Oct.	1	Cash ($60,000 X 9% X 1/2)	2,700	
			Interest Revenue		2,700
		1	Cash ($64,000 – $1,000)	63,000	
			Debt Investments		61,200
			Gain on Sale of Debt Investments ($63,000 – $61,200)		1,800

Stock Investments

Feb. 1	40,800	Aug. 1	20,400
Mar. 1	15,300		
Dec. 31 Bal.	35,700		

Debt Investments

Apr. 1	61,200	Oct. 1	61,200
Dec. 31 Bal.	0		

PROBLEM 16-2B (Continued)

(b) Dec. 31 Unrealized Loss—Income 1,400
Market Adjustment—Trading 1,400

Security	Cost	Fair Value	
EMP common	$20,400	$19,800	(300 X $66)
SEK common	15,300	14,500	(500 X $29)
	$35,700	$34,300	

(c) Current assets
Trading securities, at fair value $34,300

(d) Other revenues and gains: Dividend Revenue, Interest Revenue, Gain on Sale of Stock Investments, and Gain on Sale of Debt Investments.

Other expenses and losses: Unrealized Loss—Income.

PROBLEM 16-3B

(a)

		2009		
July	1	Cash (6,000 X $1)	6,000	
		Dividend Revenue		6,000
Aug.	1	Cash (3,000 X $.50)	1,500	
		Dividend Revenue		1,500
Sept.	1	Cash [(2,000 X $8) – $300]	15,700	
		Stock Investments (2,000 X $6)		12,000
		Gain on Sale of Stock Investments		3,700
Oct.	1	Cash [(600 X $28) – $600]	16,200	
		Stock Investments (600 X $20)		12,000
		Gain on Sale of Stock Investments [$16,200 – ($12,000)]		4,200
Nov.	1	Cash (1,200 X $1)	1,200	
		Dividend Revenue		1,200
Dec.	15	Cash (2,400 X $.50)	1,200	
		Dividend Revenue		1,200
	31	Cash (4,000 X $1)	4,000	
		Dividend Revenue		4,000

Stock Investments

2009				2009		
Jan. 1	Balance	120,000		Sept.	1	12,000
				Oct.	1	12,000
2009						
Dec. 31	Balance	96,000				

PROBLEM 16-3B (Continued)

(b)	Dec. 31	Unrealized Gain or Loss—Equity	6,000	
		($96,000 – $90,000)		
		Market Adjustment—Available-for-Sale..		6,000

Security	Cost	Fair Value	
Agee Co. common	$48,000	$43,200	(2,400 X $18)
Burns Co. common	24,000	24,000	(4,000 X $6)
Corea Co. common	24,000	22,800	(1,200 X $19)
	$96,000	$90,000	

(c) Investments

Investment in stock of less than 20% owned companies, at fair value..		$ 90,000

Stockholders' equity

Common stock..	$2,000,000	
Retained earnings......................................	1,200,000	
Total paid-in capital and retained earnings..........................	3,200,000	
Less: Unrealized loss on available-for-sale securities....................	(6,000)	
Total stockholders' equity.............		$3,194,000

PROBLEM 16-4B

(a)

Date	Account	Debit	Credit
2008			
Jan. 1	Stock Investments	1,600,000	
	Cash		1,600,000
June 30	Cash	30,000	
	Dividend Revenue		30,000
	(60,000 X $.50)		
Dec. 31	Cash	30,000	
	Dividend Revenue		30,000
	(60,000 X $.50)		
31	Market Adjustment—Available-for-Sale	200,000	
	Unrealized Gain or Loss—Equity		200,000
	[$1,600,000 – ($30 X 60,000)]		

(b)

Date	Account	Debit	Credit
2008			
Jan. 1	Stock Investments	1,600,000	
	Cash		1,600,000
June 30	Cash	30,000	
	Stock Investments		30,000
Dec. 31	Cash	30,000	
	Stock Investments		30,000
31	Stock Investments	180,000	
	Revenue from Investment in Washburn, Inc.		180,000
	($600,000 X 30%)		

PROBLEM 16-4B (Continued)

(c)

	Cost Method	Equity Method
Stock Investments		
Common stock	**$1,800,000***	**$1,720,000****
Unrealized Gain—Equity	**200,000**	
Dividend revenue	**60,000**	**0**
Revenue from investment in Washburn, Inc.	**0**	**180,000**

***$30 X 60,000 shares**
****$1,600,000 + $180,000 – $60,000**

PROBLEM 16-5B

(a)

Jan.	7	Cash ($28,000 – $700)	27,300	
		Investment in Bonds Corp. Common Stock		26,000
		Gain on Sale of Stock Investment		1,300
	10	Investment in Petengill Corporation Common Stock	15,840	
		Cash [(200 X $78) + $240]		15,840
	26	Cash	805	
		Dividend Revenue ($1.15 X 700)		805
Feb.	2	Cash	240	
		Dividend Revenue ($.40 X 600)		240
	10	Cash [($26 X 600) – $180]	15,420	
		Loss on Sale of Preferred Stock	1,380	
		Investment in Dukakis Corporation Preferred Stock		16,800
July	1	Cash	700	
		Dividend Revenue ($1.00 X 700)		700
Sept.	1	Investment in Petengill Corporation Common Stock	45,900	
		Cash [($75 X 600) + $900]		45,900
Dec.	15	Cash	1,200	
		Dividend Revenue ($1.50 X 800)		1,200

(b)

Investment in Bonds Corporation Common Stock

1/1 Bal.	26,000	1/7	26,000
12/31 Bal.	0		

Investment in Mays Corporation Common Stock

1/1 Bal.	42,000		
12/31 Bal.	42,000		

PROBLEM 16-5B (Continued)

Investment in Dukakis Corporation Preferred Stock

1/1 Bal.	16,800	2/10	16,800
12/31 Bal.	0		

Investment in Petengill Corporation Common Stock

1/10	15,840		
9/1	45,900		
12/31 Bal.	61,740		

(c)	Dec. 31	Unrealized Gain or Loss—Equity	2,040	
		Market Adjustment—Available-for-Sale ($103,740 – $101,700)		2,040

Security	Cost	Fair Value	
Mays Corporation common	$ 42,000	$ 44,100	(700 X $63)
Petengill Corporation common	61,740	57,600	(800 X $72)
	$103,740	$101,700	

(d) Investments

Investment in stock of less than 20% owned companies, at fair value	$101,700

Stockholders' equity

Total paid-in capital and retained earnings	xxxxx
Less: Unrealized loss on available-for-sale securities	(2,040)
Total stockholders' equity	$ xxxxx

PROBLEM 16-6B

MANNING CORPORATION
Balance Sheet
December 31, 2008

Assets

Current assets			
Cash			$ 142,000
Short-term stock investment, at fair value			185,000
Accounts receivable		$ 90,000	
Less: Allowance for doubtful accounts		6,000	84,000
Merchandise inventory			170,000
Prepaid insurance			16,000
Total current assets			597,000
Investments			
Investment in Tabares Inc. stock (30% ownership), at equity			600,000
Property, plant, and equipment			
Land		520,000	
Buildings	$900,000		
Less: Accumulated depreciation	180,000	720,000	
Equipment	275,000		
Less: Accumulated depreciation	52,000	223,000	
Total property, plant, and equipment			1,463,000
Intangibles			
Goodwill			200,000
Total assets			$2,860,000

PROBLEM 16-6B (Continued)

MANNING CORPORATION
Balance Sheet (Continued)
December 31, 2008

Liabilities and Stockholders' Equity

Current liabilities		
Notes payable		$ 70,000
Accounts payable		250,000
Income taxes payable		120,000
Dividends payable		50,000
Total current liabilities		490,000
Long-term liabilities		
Bonds payable, 10%, due 2018	$ 400,000	
Less: Discount on bonds payable	20,000	
Total long-term liabilities		380,000
Total liabilities		870,000
Stockholders' equity		
Paid-in capital		
Common stock, $5 par value, 500,000 shares authorized, 300,000 shares issued and outstanding	$1,500,000	
In excess of par value	200,000	
Total paid-in capital	1,700,000	
Retained earnings	290,000	
Total stockholders' equity		1,990,000
Total liabilities and stockholders' equity		$2,860,000

COMPREHENSIVE PROBLEM: CHAPTERS 12 TO 16

Part I

(a) To: Mindy Feldkamp, Oscar Lopez, and Lori Melton

From: Joe Student

Date: 5/26/2007

Re: Analysis of Partnership vs. Corporate Form of Business Organization

I have examined your situation regarding the establishment of your business. Before discussing my recommendations, I would like to briefly review the advantages and disadvantages of partnerships and corporations.

The primary advantages of a partnership over a corporation are:

1. Partnerships are more easily formed than corporations. Partnerships can be formed simply by the voluntary agreement of two or more individuals. Forming a corporation requires preparing and filing documents with governmental agencies, paying incorporation fees, etc.

2. Income from a partnership is subject to less tax than income from a corporation. Even though partnerships are required to file information tax returns (returns that show financial information, but do not require any payment of taxes), they are not considered taxable entities. A partner's share of partnership income is taxed only on the partner's personal income tax return. Corporations are taxable entities and pay taxes on corporate income. In addition, any dividends distributed by corporations to individuals are subject to personal income tax on the personal income tax return. This is known as double taxation.

3. Partnerships have more flexibility in decision making. The decision-making process used in a partnership is determined by the partners, whereas some decisions required in corporations must follow formal procedures described in the bylaws of the corporation.

COMPREHENSIVE PROBLEM (Continued)

The primary advantages of a corporation over a partnership are:

1. **Mutual agency does not exist in a corporation. This means that the owners of a corporation (stockholders) do not have the power to bind the corporation beyond their authority. For example, a stockholder who is not employed by the firm cannot enter into contracts or other agreements on behalf of the corporation. Owners of a partnership (partners) are bound by the actions of their partners, even when partners act beyond the scope of their authority. This is true as long as the actions seem appropriate for the business.**

2. **The owners of a corporation have limited liability. When the corporation's assets are not sufficient to pay creditors' claims, the personal assets of the stockholders are protected from the corporation's creditors. In a partnership, once the assets of the partnership have been used to pay creditors' claims, the personal assets of the partners can be taken to satisfy the creditors' demands. A special type of partnership, a limited partnership, protects the personal assets of limited partners, but at least one partner's assets are still at risk. This partner is called a general partner.**

3. **The life of a corporation is unlimited. When ownership changes occur (e.g., stockholders buy or sell stock), the corporation continues to exist as a legal entity. When ownership changes occur in a partnership (e.g., existing partner leaves, new partner is added), the old partnership no longer exists as a legal entity. A new partnership can be formed and the business can continue, but the original partnership must be dissolved.**

After examining your situation, I believe that you would be wise to choose the corporate form of business organization. There are two reasons for this recommendation. The first reason is that the venture you are about to undertake will require significant capital and, generally, capital is more easily raised via a corporation than a partnership. The other reason is that you will be protected from unlimited liability if you incorporate as opposed to forming a partnership. Given the potential risk of starting a venture of this kind, I believe it is in your best interest to protect your personal assets by using the corporate form of organization.

I wish you the best in your new endeavor and please call upon me when you are in need of further assistance.

COMPREHENSIVE PROBLEM (Continued)

Part II

(b) Equity financing option:

Positives	Negatives
No fixed interest payments required	Control of the corporation is lost
	Difficulty of finding an interested investor
	Earnings per share are lower

Debt financing option:

Positives	Negatives
Control stays with three incorporators	Interest payments quickly drain cash
No need for additional investor	
Earnings per share are higher	

Shares outstanding before financing 60,000 shares

	Equity Financing	Debt Financing
Income before interest and taxes	$300,000	$300,000
Interest expense	—	126,000
Income before taxes	300,000	174,000
Tax expense	96,000	55,680
Net income	$204,000	$118,320
Shares outstanding after financing	200,000	60,000
Earnings per share	$ 1.02	$ 1.97

Part III

(c)	(1)	6/12/07	Cash	100,000	
			Building	200,000	
			Common Stock		120,000
			Paid-in Capital in Excess of Par Value		180,000

7/21/07	Cash	900,000	
	Common Stock		180,000
	Paid-in Capital in Excess of Par Value		720,000
7/27/08	Retained Earnings (150,000 X .10 X $3)	45,000	
	Common Stock Dividends Distributable		30,000
	Paid-in Capital in Excess of Par Value		15,000
7/31/08	No entry		
8/15/08	Common Stock Dividends Distributable	30,000	
	Common Stock		30,000
12/4/08	Retained Earnings (165,000 X $.05)	8,250	
	Dividends Payable		8,250
12/14/08	No entry		
12/24/08	Dividends Payable	8,250	
	Cash		8,250

(2) Shares Issued and Outstanding

Date	Event	Number of Shares Issued	Total Shares Issued and Outstanding
6/12/07	Issuance to Incorporators	60,000	60,000
7/21/07	Issuance to Marino	90,000	150,000
8/15/08	Stock dividend issuance	15,000	165,000

Part IV

(d) (1)

6/1/09	Cash	548,000	
	Discount on Bonds Payable	52,000	
	Bonds Payable		600,000

COMPREHENSIVE PROBLEM (Continued)

(2)	12/1/09	Interest Expense	20,600	
		Discount on Bonds Payable ($52,000 ÷ 20)		2,600
		Cash ($600,000 X .03)		18,000
(3)	12/31/09	Interest Expense	3,433	
		Discount on Bonds Payable [($52,000 ÷ 20) ÷ 6]		433
		Interest Payable [($600,000 X .03) ÷ 6]		3,000
(4)	6/1/10	Interest Payable	3,000	
		Interest Expense ($20,600 – $3,433)	17,167	
		Cash		18,000
		Discount on Bonds Payable ($2,600 – $433)		2,167

Part V

(e)	(1)	2007	Investment in LifePath	900,000	
			Cash		900,000
			Investment in LifePath	18,000	
			Investment Revenue (.6 X $30,000)		18,000
			Cash	1,260	
			Investment in LifePath (.6 X $2,100)		1,260
		2008	Investment in LifePath	42,000	
			Investment Revenue (.6 X $70,000)		42,000
			Cash	12,000	
			Investment in LifePath (.6 X $20,000)		12,000

2009	Investment in LifePath	63,000	
	Investment Revenue		63,000
	(.6 X $105,000)		
	Cash..	30,000	
	Investment in LifePath..............		30,000
	(.6 X $50,000)		

(2) Investment in LifePath

900,000	
18,000	1,260
42,000	12,000
63,000	30,000
979,740	

BYP 16-1 FINANCIAL REPORTING PROBLEM

(a) PepsiCo made the following statement about what was included on its consolidated financial statement:

"Our financial statements include the consolidated accounts of PepsiCo, Inc. and the affiliates that we control. In addition, we include our share of the results of certain other affiliates based on our economic ownership interest. We do not control these other affiliates as our ownership in these other affiliates is generally less than fifty percent. Our share of the net income of noncontrolled bottling affiliates is reported in our income statement as bottling equity income. Bottling equity income also includes any changes in our ownership interests of these affiliates. In 2005, bottling equity includes $126 million of pre-tax gains on our sales of PBG stock. See Note 8 for additional information on our non-controlled bottling affiliates. Our share of other noncontrolled affiliates is included in division operating profit. Intercompany balances and transactions are eliminated."

(b) PepsiCo's Consolidated Statement of Cash Flows shows that $1,736 million was spent for capital acquisitions during the year.

BYP 16-2 COMPARATIVE ANALYSIS PROBLEM

(a)

(in millions)	PepsiCo	Coca-Cola
1. Cash used for investing activities	$3,517	$1,496
2. Cash used for capital expenditures	1,736	899

(b) In its Note 1 to the consolidated financial statements, PepsiCo states that its financial statements include the consolidated accounts of *PepsiCo Inc. and the affiliates that it controls*. In addition, PepsiCo includes its share of the results of certain other affiliates based on its ownership interest.

As for specific corporations consolidated, PepsiCo lists the following companies as its principal divisions.

Frito-Lay North America
PepsiCo Beverages North America
Quaker Foods North America
PepsiCo International

BYP 16-3 EXPLORING THE WEB

Answers will vary depending on company chosen. The following sample solution is provided for Medtronic, Inc.

(a) 30 analysts rated this company.
(b) 10/30 or 33% of the analysts rated it a strong buy.
(c) Average rating 2.0 on a scale of 1.0 (strong buy) to 5.0 (strong sell).
(d) Average rating: No change.
(e) Analysts rank this company 16 of 52.
(f) Earnings surprise 0%.

BYP 16-4 DECISION MAKING ACROSS THE ORGANIZATION

The dollar amount received upon the sale of the UMW Company stock was $1,468,000. Since Kemper Corporation has a 30% interest in UMW, the equity method should be used to report dividends and net income. A reconstruction of the correct entries can be prepared for the acquisition, the equity method treatment of dividends and revenue, and the sale. A plug figure for cash will balance the entry for the sale. These entries are provided below.

Both the stockholder and the president are correct. Since the equity method adjusts the investment account for the earnings of the investee, the "very profitable" UMW investment balance has increased during the period the stock was held. The stock was sold at less than its current investment balance and thus a loss was recognized. Stockholder Kerwin is correct in labeling this a very profitable company and in noting that a loss was recognized on its sale.

President Chavez is correct in that the investment was sold at a higher figure than the $1,300,000 purchase price. The key to the dilemma is to note that the selling price was less than the carrying amount of the investment. The carrying amount has increased due to the recognition of UMW income during the time the stock was held.

Entries for the investment in UMW Company:

Acquisition		
Stock Investments	1,300,000	
Cash		1,300,000
Previous Years—Equity Method		
Stock Investments	372,000	
Revenue from Investment in UMW Company ($1,240,000 X 30%)		372,000
Cash	132,000	
Stock Investments ($440,000 X 30%)		132,000

BYP 16-4 (Continued)

This Year—Equity Method

Stock Investments	**156,000**	
Revenue from Investment in UMW Company ($520,000 X 30%)		**156,000**
Cash	**48,000**	
Stock Investments ($160,000 X 30%)		**48,000**

Sale of the UMW Company Stock

Cash (Cash is a plug.)	**1,468,000**	
Loss on Sale of Investments	**180,000**	
Stock Investments		**1,648,000***

***$1,300,000 + ($372,000 + $156,000) – ($132,000 + $48,000)**

BYP 16-5 COMMUNICATION ACTIVITY

Dear Mr. Scholes:

I am writing this memo to make suggestions regarding the appropriate treatment for the two securities you are holding in your portfolio. Assuming that your investment in Longley Corporation does not represent a significant interest in that firm, it should be accounted for as an available-for-sale security because it is a stock investment that you do not intend on selling in the near future. You will not report any gains or losses on this investment in your income statement until you sell it. On the other hand, your debt investment should be accounted for as a trading security since you purchased it with the intent to generate a short-term profit. Unrealized gains and losses at your balance sheet date should be reported directly in income.

BYP 16-6 ETHICS CASE

(a) **Classifying the securities as they propose will indeed have the effect on net income that they say it will. Classifying all the gains as trading securities will cause all the gains to flow through the income statement this year and classifying the losses as available-for-sale securities will defer the losses from this year's income statement. Classifying the gains and losses just the opposite will have the opposite effect.**

(b) **What each proposes is unethical since it is knowingly not in accordance with GAAP. The financial statements are fraudulently, not fairly, stated. The affected stakeholders are other members of the company's officers and directors, the independent auditors (who may detect these misstatements), the stockholders, and prospective investors.**

(c) **The act of selling certain securities (those with gains or those with losses) is management's choice and is not per se unethical. Generally accepted accounting principles allow the sale of selected securities so long as the method of assigning cost adopted by the company is consistently applied. If the officers act in the best interest of the company and its stakeholders, and in accordance with GAAP, and not in their self-interest, their behavior is probably ethical. Knowingly engaging in unsound and poor business and accounting practices that waste assets or that misstate financial statements is unethical behavior.**

BYP 16-7 ALL ABOUT YOU ACTIVITY

(a)
- *Ask*—The lowest price at which a market maker will sell a specified number of shares of a stock at any given time.
- *Margin Account*—A type of account with a broker-dealer, in which the broker agrees to lend the customer part of the amount due for the purchase of securities.
- *Prospectus*—A document that contains important information about an investment company's fees and expenses, investment objectives, investment strategies, risks, performance, pricing, and more.
- *Index Fund*—A type of mutual fund or Unit Investment Trust whose investment objective typically is to achieve the same return as a particular market index, such as the S & P 500 Composite Stock Price Index.

(b)&(c) The SEC quiz is interactive, thus students are provided with feedback regarding their answers.