Equity and Debt Investments
CPA

Exam Results
Question #1 (AICPA.081216FAR-SIM)
On April 1, North Company issued bonds in the market. Upon issue, South Company acquired 10% of North Company's issue. On November 30, South sold the North Company bonds in the market, and the bonds were acquired by East Company. On December 31, which one of the companies, if any, is an investor?

A. North Company.
B. South Company.
C. East Company.

Since East Company owns the bonds on December 31, it is the investor. North Company, the issuer of the bonds, is the investee. Since South Company did not issue the bonds and does not own the bonds on December 31, it is neither an investor nor an investee.

D. None of the companies is an investor.

Question #2 (AICPA.081226FAR-SIM)
Which one of the following is not considered an equity investment for investment accounting purposes?

A. Common stock warrants.
B. Preferred stock.
C. Redeemable preferred stock.

Redeemable preferred stock is not considered an equity security for investment accounting purposes. Redeemable preferred stock, also known as callable preferred stock, may be reacquired by the issuing corporation under prescribed conditions.

D. Common stock options.

Question #3 (AICPA.081225FAR-SIM)
Which, if any, of the following grants the investor ownership rights?

Bond Investment	Common Stock Investment
Yes	Yes
Yes	No
No	Yes

An investment in the bonds of another entity does not give the investor an ownership interest, but an investment in the common stock of another entity does give the investor an ownership interest. An investment in the bonds of another entity establishes a debtor-creditor relationship, not an ownership relationship.

No	No

Question #4 (AICPA.081224FAR-SIM)
In which one of the following cases would an investor be presumed to have significant influence over the investee?

A. Investor acquires more than 50% of the investee's non-voting preferred stock.
B. Investor acquires 10% of investee voting common stock.
C. Investor acquires 40% of investee voting common stock, which it intends to hold for 60 days.
D. Investor acquires 18% of investee voting common stock and is the primary buyer of the investee's output.

Although the acquisition of 18% of an entity's voting common stock is less than the 20% normally required to presume significant influence over the investee, the fact that the investor has material transactions with the investee (together with the 18% ownership) is presumed to give the investor sufficient means for exercising significant influence.

Question #5 (AICPA.081223FAR-SIM)

For accounting purposes, how many levels of influence, that an investor may have over an investee, are identified?

A. One.
B. Two.
C. Three.

Accounting identifies three levels of influence that an investor may have over an investee. Those levels are: (1) no significant influence, (2) significant influence, but not control, and (3) control.

D. Four.

Question #6 (AICPA.081222FAR-SIM)

In which one of the following circumstances would an investor most likely have control of an investee?

A. The investor owns more than 50% of the voting common stock of an investee.

When an investor owns more than 50% of the voting common stock of an investee, in the absence of constraining conditions (e.g., investee in bankruptcy), the investor has controlling interest in the investee.

B. The investor owns 100% of the non-voting preferred stock of an investee.
C. The investor owns 90% of the voting common stock of a foreign investee on which the foreign government imposes significant financial and operating restrictions.
D. The investor owns 100% of the voting common stock of a domestic investee that is in bankruptcy.

Question #7 (AICPA.081220FAR-SIM)

In the absence of other relevant factors, what minimum level of voting ownership is considered to give an investor significant influence over an investee?

A. 10%.
B. 20%

The minimum level of voting ownership considered to give an investor significant influence over an investee is 20%. In the absence of other relevant factors, an investor is considered to have significant influence over an investee if it owns 20%-50% of the voting securities of the investee.

C. 50%
D. 100%.

Question #8 (AICPA.081219FAR-SIM)

Which of the following statements is true concerning the correct accounting for most investments?

I. An investor must account for (measure) most investments using fair value.
II. An investor may elect to account for (measure) some investments at fair value.

A. I. only.
B. II. only.

An investor may elect to use fair value to account for or measure some investments that otherwise would be accounted for using amortized cost or the equity method (Statement II). However, an investor is not required to use fair value to account for most investments (Statement I).

C. Both I. and II.
D. Neither I. nor II.

Question #9 (AICPA.081218FAR-SIM)

Which one of the following is least likely to be a factor in determining how an investment in debt or equity securities is accounted for and reported in financial statements?

A. The nature of the investment.
B. The method of payment used to acquire the investment.

The method of payment used to acquire an investment does not help determine the correct accounting treatment of the investment. While the method of payment determines what will be "credited" upon acquisition of the securities, it will not enter into the subsequent accounting treatment of the investment.

C. The extent or proportion of the investment securities acquired.
D. The purpose for which the investment was made.

Question #10 (AICPA.081217FAR-SIM)

On April 1, North Company issued bonds in the market. Upon issue, South Company acquired 10% of North Company's issue. On November 30, South sold the North Company bonds in the market; the bonds were acquired by East Company. On December 31, which, if any, of the following companies is an investee?

North	South	East
Yes	Yes	No
Yes	No	No

North is the investee because it issued the bonds, but neither South nor East are investees. Since East owns the bonds on December 31, it is the investor. Since South did not issue the bonds and does not own the bonds on December 31, it is neither an investor nor an investee.

No	Yes	Yes
No	No	Yes