

Instructor: Dr. Hall

Accounting 460
CPA Problems
Handout Problem No. F-148R
(Revised to reflect FASB No. 115 & FASB No. 142)

Estimated time
40-50 minutes

At December 31, 20X7, Poe Corp. properly reported as current assets the following marketable equity securities: (all were classified as available for sale.)

	<u>Cost</u>	<u>Fair value</u>
Axe Corp., 1,000 shares, \$2.40 convertible preferred stock	\$ 40,000	\$ 42,000
Purl Inc., 6,000 shares of common stock	60,000	66,000
Day Co., 2,000 shares of common stock	<u>55,000</u>	<u>40,000</u>
Total marketable equity securities	<u>\$155,000</u>	<u>\$148,000</u>

On January 2, 20X8, Poe purchased 100,000 shares of Scott Corp. common stock for \$1,700,000, representing 30% of Scott's outstanding common stock and an underlying equity of \$1,400,000 in Scott's net assets on January 2. Poe, which had no other financial transactions with Scott during 20X8. Any amounts paid in excess of underlying equity is attributable to machinery having a fair value in excess of book value. This machinery has a remaining life of ten years. As a result of Poe's 30% ownership of Scott, Poe has the ability to exercise significant influence over Scott's financial and operating policies.

During 20X8, Poe disposed of the following securities:

1. January 18 – sold 2,500 shares of Purl for \$13 per share
2. June 1 – sold 500 shares of Day, after a 10% stock dividend was received, for \$21 per share.
3. October 1 – converted 500 shares of Axe's preferred stock into 1,500 shares of Axe's common stock, when the market price was \$60 per share for the preferred stock and \$21 per share for the common stock.

The following 20X8 dividend information pertained to stock owned by Poe:

4. February 14 – Day issued a 10% stock dividend, when the market price of Day's common stock was \$22 per share.
5. April 5 and October 5 – Axe paid dividends of \$1.20 per share on its \$2.40 preferred stock, to stockholders of record on March 9 and September 9, respectively. Axe did not pay dividends on its common stock during 20X8.
6. June 30 – Purl paid a \$1.00 per share dividend on its common stock.
7. March 1, June 1, September 1, and December 1 – Scott paid quarterly dividends of \$0.50 per share on each of these dates. Scott's net income for the year ended December 31, 20X8 was \$1,200,000.

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(Revised to reflect FASB No. 115 and FASB 142) (continued, p. 2)

At December 31, 20X8, Poe's management intended to hold Scott's stock as a long-term investment, with the remaining investments being considered current. Market prices per share of the marketable equity securities were as follows:

	At December 31,	
	<u>20X8</u>	<u>20X7</u>
Axe Corp. – preferred	\$56	\$42
Axe Corp. – common	20	18
Purl, Inc. – common	11	11
Day Co. – common	22	20
Scott Corp. – common	16	18

All of the foregoing stocks are listed on major stock exchanges. Declines in market value from cost would not be considered permanent.

Required:

1. Prepare a schedule of Poe's current marketable equity securities at December 31, 20X8, including any information necessary to determine the related valuation allowance and unrealized gains and losses. Assume all current securities are classified as available for sale, as per FASB No. 115.
2. Prepare a schedule to show the carrying amount of Poe's noncurrent marketable equity securities at December 31, 20X8.
3. Prepare a schedule showing all revenue, gains, and losses (realized and unrealized) relating to Poe's investments for the year ended December 31, 20X8.
4. Assume that all securities other than Scott are classified as trading securities. How would this fact change the accounting for these securities.