Accounting for investments

Accounting for investments in securities **(Equity and Debt)**

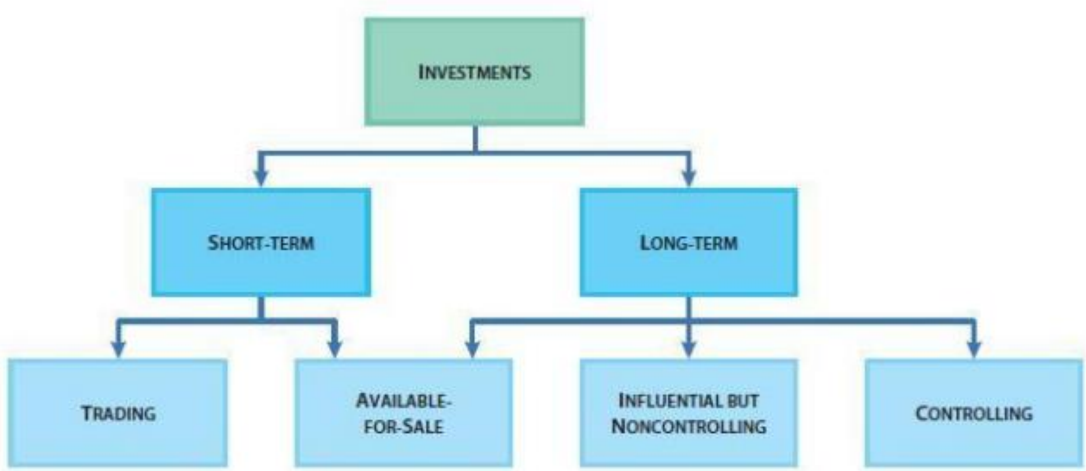
Financial investments consist of the purchase of securities include Debit investments (bonds) , and Equity investments (shares) for the purpose of achieving economic benefits such as profits, interest, gains on the sale of investment, as well as exerting influence or control over the investee companies. International Accounting Standards Board (IASB) requires that companies classify investments in securities into two measurement categories depending on their circumstances.

1- Amortized cost : is the acquisition cost adjusted for the amortization of discount or premium.

2- Fair value : is the price that would be received to sell an asset an orderly transaction between market participants at the measurement date .

Identify the categories of equity securities

Illustration of the classification of short-term and long-term investments for equity securities:



Describe the accounting treatment for short-term investments in equity securities

Example 1 : Nazar Company buys 5,000 shares of **I Company** for $450,000 ($90 per share) Fair Value 400,000 and 5,000 shares of **M Company** for $150,000 ($30 per share) Fair Value 160,000 on October 25, 2012. The purchase is made for trading purposes—that is, Nazar's management intends to realize a gain by holding the shares for only a short period.

The entry in journal form to record the investment at cost is as follows:

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Short-Term Equity Investments	**600,000**	
Cash		**600,000**

(Investment in stocks for trading $450,000 + $150,000)

Trading Equity Security Portfolio
December 31, 2012

Investments	Cost	Fair Value	Unrealized Gain (Loss)
I Company	$450,000	$400,000	($50,000)
M Company	150,000	160,000	10,000
Totals	$600,000	$560,000	($40,000)

Unrealized Loss on Short-Term Investments	**40,000**	
Fair Value Adjustment (trading securities)		**40,000**

Example 2 : Nazar Company buys 5,000 shares of **I Company** for $450,000 ($90 per share) Fair Value 475,000 and 5,000 shares of **A Company** for $150,000 ($30 per share) Fair Value 130,000 on October 25, 2012. The purchase is made for trading purposes—that is, Nazar's management intends to realize a gain by holding the shares for only a short period.

Trading Equity Security Portfolio

December 31, 2013

Investment	**Cost**	**Fair Value**	**Unrealized Gain (Loss)**
I Company	$450,000	475,000	$25,000
A Company	$150,000	130,000	(20,000)
Total	**600,000**	**605,000**	**5000**

Fair Value Adjustment (trading securities) 5000

Unrealized Gain on Short-Term Investments 5000

For example : If Nazar Company receives a cash dividend of $5,000 on its investment in the common stock of I Company; it records the cash dividend as follows :

December 31, 2013

Cash 5,000

Dividend Revenue 5,000