Appendix A

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Reporting and Interpreting Investments in Other Corporations

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Types of Investments and Accounting Methods:

1. **Passive Investments in Debt and Equity Securities**
   a. Made to earn a return on funds that may be needed for future short-term or long-term purposes.
   b. **Debt securities** are always considered passive investments
      i. **amortized cost(current/noncurrent held-to-maturity investments)** if the company intends and demonstrates the ability to hold the debt securities until they reach maturity

1)

	Debit	Credit
Cash (+A)	4,500	
Interest revenue (+R, +SE)		4,500

2)

	Debit	Credit
Cash (+A)	150,000	
Investments (−A)		150,000

      ii. **available-for-sale securities - reported by Fair Value Method** if to be sold before maturity
         1) **trading securities** - Debt securities that are actively traded

a)

	Debit	Credit
Unrealized loss (+E, −SE)	10,000	
Investments (−A)		10,000

b)

	Debit	Credit
Investments (+A)	25,000	
Unrealized gain (+R, +SE)		25,000

c)

	Debit	Credit
Cash (+A)	165,000	
Investments (−A)		165,000

c. Equity securities
    i. presumed to be passive investments if the investing company **owns less than 20 percent of the outstanding voting shares** of the other company and **has no significant influence over the investee**

2. Investment in **Stock for Significant Influence**
    a. Invest to have the ability to have an important impact on the operating, investing, and financing policies of another company.
    b. presumed if the investing company owns from 20 to 50 percent of the outstanding voting shares of the other company
    c. Other factors
        i. membership on the board of directors of the other company
        ii. participation in the policy-making processes
        iii. evidence of material transactions between the two companies
        iv. an interchange of management personnel
        v. technological dependency
3. Investment in **Stock for Control**
    a. Invest to have the ability to determine the operating and financing policies of another company through ownership of voting stock
    b. **acquisition method** of accounting and consolidation are applied to combine the companies
    c. Presumed when the investing company **owns more than 50 percent of the outstanding voting stock** of the other company

	Investment in Debt Securities of Another Entity			Investment in the Voting Common Stock of Another Entity		
Investment Category	Passive			Passive	Significant Influence	Control
Level of Ownership	HELD-TO-MATURITY	TRADING	AVAILABLE FOR SALE	<20% of outstanding voting shares†	20–50% of outstanding voting shares‡	>50% of outstanding voting shares
Measuring and Reporting Method	Amortized cost	Fair value (through Net Income)	Fair value (through Other Comprehensive Income)	Fair value (through Net Income)	Equity method	Acquisition accounting and consolidation
Balance Sheet Classification	Noncurrent; amount due in next year would be classified as current	Current	Current or noncurrent	Current or noncurrent	Noncurrent	N/A; financial statements are consolidated

Controling Interests

management's reasons for acquiring more than 50 percent of outstanding stock of another corporation:

1. **Vertical integration 垂直整合**
   a. In this type of acquisition, a company acquires another at a different level in the channels of distribution.
   b. For example, oil companies such as ExxonMobilare active at vertical integration, from locating oil deposits, drilling and extracting the crude, and transporting it, to refining it into various petroleum products and distributing the fuel to company-owned retail stations
2. **Horizontal growth 水平增长**
   a. These acquisitions involve companies at the same level in the channels of distribution.
   b. For example, in early 2015, Heinzmerged with Kraft Foodsin a $45 billion deal that created the world's fifth largest food and beverage company.
3. **Synergy 协同发展**
   a. The operations of two companies together may be more profitable than the combined profitability of the companies as separate entities.
   b. The Heinz-Kraft merger was expected to provide for $1.5 billion in annual cost savings. In addition, Heinz earns 60 percent of its sales from regions beyond North America, whereas Kraft' s sales are mostly in North America. The merger provides opportunities to sell Kraft brands globally, realizing higher profits.