

## Accounting for Investments under FASB No. 115 – A Review

| For commercial enterprises<br>(nonprofit entities follow SFAS No.124)  | Presentation on<br>Financial Statements   | Change in Fair Value                 |   |
|--|---|--------------------------------------|---|
|  |   | Temporary                            | Other than<br>Temporary<br>Loss           |
| Does the investor have substantial influence or control?<br>Investor owns 20% to 50% of stock and has significant influence but not control of the corporation<br><b>Use Equity Method</b> | On BS at historical cost plus share of earnings since acquisition less dividends received (amortization may also be required) | N/A                                  | Realized loss on IS, new basis on BS      |
| Investor owns over 50% of stock or otherwise controls the corporation<br><b>Consolidation required</b>   | Consolidated financial statements   | N/A                                  | N/A                                       |
| Does a readily determinable fair value exist?<br><b>If not, use Cost Method</b>  | On BS at historical cost  | N/A                                  | Realized loss on IS, new basis on BS      |
| For debt securities, does the enterprise have the positive intent and ability to hold to maturity?<br><b>Classify as held-to-maturity</b>  | On BS at amortized cost<br>IS includes amortization of premiums & discounts<br>Disclose fair value in notes                   | N/A                                  | Realized loss on IS, new cost basis on BS |
| Is the investment objective to generate profits on short-term differences in price?<br><b>Classify as Trading Securities</b>   | On BS at fair value<br>IS reports unrealized gain/loss for period   | Recognized on IS and included in RE  | No additional entries needed              |
| All other debt and equity securities are classified as<br><b>Available-for-Sale Securities</b>   | On BS at fair value<br>SCI reports holding gain/loss for period   | Reported on SCI and included in AOCI | Realized loss on IS, new cost basis on BS |

BS = balance sheet; IS = income statement; SCI = statement of comprehensive income;  
AOCI = accumulated other comprehensive income (owners' equity account); FV = fair value;  
N/A = not applicable since investments are not carried at FV