

## True-False

1. A minority passive investment is one in which the shareholder has no ability to influence the acquired company.
2. Equity securities designated by the investor to be held for a short period of time are classified as available-for-sale securities.
3. Trading securities are typically purchased by the investor to generate profits on holding gains.
4. The upward or downward adjustment to reflect fair value of trading securities is a direct debit or credit to a market adjustment account.
5. When trading securities are sold, the amount of the realized gain or loss is the sale price of the securities plus the most recent mark-to-market price.
6. Unrealized gains and losses on available-for-sale securities are reported as a component of other comprehensive income.
7. When the ownership percentage of stock exceeds 20 percent, GAAP presumes that the investor is able to exert significant influence over the investee company.
8. A minority active investment is accounted for by the mark-to-market method.
9. An investor would be willing to pay more than book value for an interest in a company as a result of goodwill.
10. When two companies form a joint venture and each company owns exactly 50% of the joint venture, both parent's consolidate one half of the joint venture.
11. Consolidation adjustments that are made to prepare consolidated financial statements of the parent and subsidiary are required to avoid double counting.
12. If a parent owns less than 100% of a subsidiary's stock, the non-controlling shareholders represent the minority interest.
13. The minority interest's share of the net assets of a consolidated entity is shown as a contra-asset on the consolidated balance sheet.
14. The impairment charge for goodwill is the difference between the goodwill recorded on the balance sheet and the implied goodwill.
15. A pooling of interest involves an exchange of stock and the meeting of stringent criteria.
16. The pooling of interests method is no longer allowed under *SFAS No. 141*.
17. When consolidating foreign subsidiaries, the foreign subsidiary's financial numbers must be translated into the parents' currency unit. Under U.S. GAAP, if the foreign subsidiary is merely an extension of the parent, the current rate method is used.
18. Monetary assets that arise from foreign currency transactions are shown in the financial statements at their dollar equivalent using the exchange rate in effect at the financial statement date.
19. Foreign currency nonmonetary assets and liabilities for non-free-standing subsidiaries are translated using the current exchange rate at the balance sheet date.
20. Any debit or credit arising from foreign translation gains or losses using the current rate method should be put directly into the owner's equity account.
21. Under the temporal method, foreign translation gains and losses are reported on the income statement.
22. In a pooling of interests, both companies are assumed to combine their resources with neither having a controlling interest over the other.
23. The consolidated financial statements under a pooling of interests combines the market values of the two entities.
24. Minority ownership occurs when a corporate investor owns less than which one of the following percentages of the stock of another company?
  - a. 20%
  - b. 30%
  - c. 40%
  - d. 50%
25. A minority active ownership is represented by
  - a. less than 20% ownership.
  - b. more than 20% and less than 50% ownership.
  - c. more than 50% ownership.
  - d. more than 60% and less than 70% ownership.
26. Equity securities designated by the investor to be held for a short period of time are classified as
  - a. available-for-sale securities.
  - b. trading securities.
  - c. mark-to-market securities.
  - d. adjusted historical cost securities.
27. Minority passive equity securities designated by the investor to be held for the long-term are
  - a. trading securities.
  - b. available-for-sale securities.
  - c. mark-to-market securities.
  - d. adjusted historical cost securities.
28. Bond investments made to generate trading gains are classified as
  - a. available-for-sale securities.
  - b. trading securities.
  - c. active securities.

d. minority securities.

**29.** Minority active equity investments are accounted for by the

- a. mark-to-market method.
- b. fair value method.
- c. equity method.
- d. cost.

**30.** The unrealized holding gain or loss on trading securities is recorded as

- a. revenue on the income statement in the period after the security price change.
- b. revenue on the income statement in the period of the security price change.
- c. deferred revenue on the balance sheet in the period prior to the security price change.
- d. deferred revenue on the balance sheet.

**31.** The upward or downward adjustment to reflect fair value of available-for-sale securities is a direct debit or credit to a special

- a. income statement account.
- b. balance sheet account.
- c. cash flow statement account.
- d. investment account.

**32.** Unrealized gains and losses on available-for-sale securities

- a. increase income in the period of price change.
- b. decrease income in the period of price change.
- c. have no effect on income in the period of price change.
- d. increase cash flow.

**Table A:**

Perry Investments bought 2,000 shares of Able, Inc. common stock on January 1, 2006, for \$20,000 and 2,000 shares of Baker, Inc. common stock on July 1, 2006 for \$24,000. Baker declared \$2,400 in dividends on December 31, 2006. At the end of 2006, the market value of the Able stock was \$18,000 and the market value of the Baker stock was \$28,000. The stock was purchased for short-term speculation. Perry owns 10% of each company.

33. Refer to Table A. The entry to record the purchase of Able, Inc. common stock would be

a.	Trading securities-Able common	20,000		
	Cash			20,000
b.	Available-for-sale securities-Able common	20,000		
	Cash			20,000

c.	Cash	20,000		
	Trading securities-Able common			20,000
d.	Cash	20,000		
	Available-for-sale securities - Able common			20,000

34. Refer to Table A. Perry should record the declaration of the Baker dividend as

a.	Cash	2,000		
	Dividend income			2,000
b.	Dividends receivable	2,400		
	Dividend income			2,400
c.	Dividend income	2,000		
	Dividends receivable			2,000
d.	Dividend income	2,400		
	Dividends receivable			2,400

35. Refer to Table A. Perry should record the year-end adjustment as

a.	Market adjustment-Trading securities	2,000		
	Unrealized holding gain on trading securities-Income			2,000
b.	Unrealized holding gain on trading securities-Income	2,000		
	Market adjustment-Trading securities			2,000
c.	Market adjustment-Trading securities	2,000		
	Unrealized holding loss on trading securities-Income			2,000
d.	Market adjustment-Trading securities	2,000		
	Realized holding gain on trading securities			2,000

36. Refer to Table A. If the securities purchased are classified as available-for-sale securities, Perry should record the year-end adjustment as

a.	Market adjustment-Available for sale securities	2,000		
	Unrealized change in value of available-for-sale securities -Equity			2,000

b.	Unrealized holding gain on trading securities	2,000	
	Market adjustment-Trading securities		2,000
c.	Market adjustment-Trading securities	2,000	
	Unrealized holding loss on trading securities		2,000
d.	Market adjustment-Trading securities	2,000	
	Realized holding gain on trading securities		2,000

**Table B**

Central Investments bought 4,000 shares of Benet Company common stock on January 1, 2006, for \$20,000, and 4,000 shares of Roy Company common on July 1, 2006, for \$24,000. Benet declared dividends on December 31, 2006 of \$3,000. At the end of 2006, the market value of Roy was \$30,000 and the market value of Benet was \$28,000. The stocks were considered to be held for their long-term investment potential. Central owns 8% of Benet Company and 12% of Roy Company.

**37.** Refer to Table B. Central should record the purchase of Roy Company common stock as

a.	Trading securities-Roy common	24,000	
	Cash		24,000
b.	Available-for-sale securities -Roy common		24,000
	Cash		24,000
c.	Cash	24,000	
	Trading securities-Roy common		24,000
d.	Cash	24,000	
	Available-for-sale securities-Roy common		24,000

**38.** Refer to Table B. Central should record the declaration of dividends by Benet Company as

a.	Cash	3,000	
	Dividend income		3,000
b.	Dividends receivable	3,000	
	Dividend income		3,000
c.	Dividend income	3,000	
	Dividends receivable		3,000
d.	Dividend income	6,000	

Dividends receivable	6000
----------------------	------

**39.** Refer to Table B. Central should record the year-end adjustment as

a.	Market adjustment-Trading securities	14,000	
	Unrealized holding gain on trading securities-Income		14,000
b.	Unrealized holding gain on trading securities-Income	14,000	
	Market adjustment-Trading securities		14,000
c.	Market adjustment-Available-for-sale securities	14,000	
	Unrealized change in value -Available-for-sale securities-Equity		14,000
d.	Market adjustment-Available-for-sale securities	14,000	
	Realized holding gain -Available-for-sale securities		14,000

**40.** Refer to Table B. Roy Company stock was sold in March of 2007 when the sales price was \$20,000. The proper accounting recognition on this date was a realized

- a. gain of \$ 4,000.
- b. loss of \$ 4,000.
- c. gain of \$ 6,000.
- d. loss of \$ 10,000.

**41.** When the ownership percentage of stock exceeds 20 percent, GAAP presumes that the investor

- a. has no influence to exert over the investee company.
- b. is only investing for a short term trading position.
- c. is able to exert influence over the investee company.
- d. is trying to take over the investee company.

**42.** When an investor owns less than 20 percent of the investee company, the investor may still be able to exert influence over the investee company if the other stock is

- a. closely held by a few investors.
- b. widely distributed across a few investors.
- c. widely distributed across a large number of individual investors.
- d. controlled a small group of investors.

**43.** When an investor is capable of influencing the investee company's dividend policy, the investor is able to manipulate its own reported income when using

- a. minority passive accounting treatment.
- b. minority active accounting treatment.
- c. majority active accounting treatment.
- d. the equity method.

**44.** A minority active investment is accounted for by the

- a. cost method.
- b. equity method.
- c. lower of cost or market method.
- d. speculative investment method.

**Table C**

On January 1, 2006, Ramsey Company purchased 35% of the outstanding common shares of the Vapor Company for \$70,000 when the net assets were \$200,000. During 2006, Vapor Company earned \$80,000 and declared a dividend of \$40,000 for the year.

**45.** Refer to Table C. Ramsey should record the acquisition of the shares of Vapor Company as

a.	Cash	200,000		
	Investment in Vapor Company		200,000	
b.	Investment in Vapor Company	200,000		
	Cash		200,000	
c.	Investment in Vapor Company	70,000		
	Cash		70,000	
d.	Cash	70,000		
	Investment in Vapor Company		70,000	

**46.** Refer to Table C. The entry to recognize Ramsey's share of Vapor's income for the year is

a.	Cash	28,000		
	Income from Vapor Company		28,000	
b.	Investment in Vapor Company	28,000		
	Income from affiliate		28,000	
c.	Dividend receivable	28,000		
	Cash		28,000	
d.	Income from affiliate	28,000		
	Investment in Vapor Company		28,000	

**47.** Refer to Table C. The entry to record Vapor Company's dividend declaration on Ramsey's books is

a.	Dividends receivable	14,000		
	Cash		14,000	
b.	Dividends receivable	14,000		
	Dividend income		14,000	
c.	Dividends receivable	14,000		
	Investment in Glenn Company		14,000	
d.	Cash	14,000		
	Dividend income		14,000	

**48.** An investor would be willing to pay more than book value for an interest in a company because the fair market value of net assets may be

- a. greater than the book value.
- b. less than book value.
- c. equal to book value.
- d. equal to historical cost.

**49.** When the cost of the investor's shares exceeds the underlying book value at the acquisition date, the investor must amortize any excess that is attributable to inventory, or depreciable assets. The rationale for this amortization is

- a. conservatism.
- b. historical cost.
- c. the matching principle.
- d. cost benefit constraint.

**Table D**

On January 1, 2006, Como Company purchased 45% of the outstanding common shares of the Lite Company for \$200,000. The net assets of Lite Company were a total of \$400,000. The inventory had a book value of \$100,000 and a fair market value of \$120,000. Excess cost attributable to inventory is written off in 2006. During 2006, Lite Company earned \$200,000 and declared a dividend of \$40,000 for the year.

**50.** Refer to Table D. The amount of goodwill to be recorded by Como Company is

- a. \$ 9,000.
- b. \$ 11,000.
- c. \$ 20,000.

d. \$ 22,000.

**51.** Refer to Table D. The excess amount paid for Lite Company attributable to inventory is

- a. \$ 9,000.
- b. \$ 11,000.
- c. \$ 20,000.
- d. \$ 22,000.

**52.** Refer to Table D. The amount of the excess cost over book value attributable to inventory written off in 2006 is

- a. \$3,000.
- b. \$4,500.
- c. \$7,500.
- d. \$9,000.

**53.** Refer to Table D. The entry to record the amortization of excess cost over book value is

a.	Investment income	20,000		
	Investment in Lite Company			20,000
b.	Investment in Lite Company	20,000		
	Investment income			20,000
c.	Investment income	9,000		
	Dividend income			9,000
d.	Investment income	9,000		
	Investment in Lite Company			9,000

**54.** If the parent company owns more than 50% of the subsidiary, consolidated financial statements are

- a. optional.
- b. required.
- c. not possible.
- d. required only by the SEC.

**55.** If one company owns exactly 50% of the voting shares of another company

- a. the cost method is used.
- b. the equity method is used and line-by-line consolidation is required.
- c. the equity method is used and line-by-line consolidation is not required.
- d. the company that has more net assets is deemed the parent.

**56.** The investment account must be analyzed before a consolidation of financial statements can take place. The investment account would include an element which is representative of

- a. the recorded book value of the investor's assets.
- b. the recorded current value of the investee's assets.
- c. the unrecorded difference between fair value and book value of the investee's assets.
- d. the goodwill accrued since the purchase of the investee.

**57.** Consolidation adjustments that are made to prepare consolidated financial statements of the parent and subsidiary are required to

- a. obey the state laws.
- b. avoid double counting.
- c. follow tax laws.
- d. eliminate transactions with third parties.

**58.** In a stock-for-stock exchange considered a pooling of interests

- a. a buyout has taken place.
- b. an exchange of equity interests has taken place.
- c. only one of the original corporations has survived.
- d. the assets of one company have been acquired.

**59.** When consolidating foreign subsidiaries, the foreign subsidiary's financial numbers must be translated into the parents' currency unit. Under U.S. GAAP if the foreign subsidiary is a self contained unit the

- a. current rate method is used.
- b. temporal method is used.
- c. present value method is used.
- d. historical cost method is used.

**60.** Foreign currency nonmonetary assets and liabilities for non-free-standing subsidiaries are translated using the

- a. historic rate of exchange in effect when the asset or liability was acquired or incurred.
- b. current rate of exchange on the balance sheet date.
- c. temporal rate of exchange on the balance sheet date.
- d. present value rate of exchange when the translation takes place.

**61.** When accounting for a non-free-standing foreign subsidiary, translation exchange rates are accounted for using the temporal method which involves reporting all revenue accounts at the

- a. current rate.
- b. historical rate.

- c. rate at time of transaction.
- d. present value rate.

62. When accounting for a non-free-standing foreign subsidiary, translation exchange rates are accounted for using the temporal method which involves reporting all cost of goods sold accounts at the

- a. current rate.
- b. historical rate.
- c. rate at time of transaction.
- d. present value rate.

63. When accounting for self-contained foreign subsidiaries, the parent company uses which one of the following methods for the translation of its financial statements into dollars?

- a. Present value rate
- b. Historical rate
- c. Future value rate
- d. Current rate

64. If Sun Company acquired Star, Inc. in a pooling of interests transaction, the entry would have used which one of the following to account for the pooling?

- a. Fair market value of Star's assets
- b. Book value of Star's assets
- c. Net present value of Star's assets
- d. Future value of Star's assets

65. Pooling of interests method for accounting for business combinations has been criticized because it tends to allow recording of acquisitions

- a. at artificially high amounts.
- b. at artificially low amounts.
- c. at exact amounts.
- d. at amounts equal to fair market value.

66. Financial analysts must be wary of business acquisitions accounted for as pooling of interests because this method tends to inflate the

- a. current ratio.
- b. inventory turnover ratio.
- c. rate of return ratios.
- d. cash flow ratio.

67. Ford Corporation paid \$10,200,000 for a 47% interest in Allen Corporation on December 31, 2002 when Allen had the following identifiable assets and liabilities:

	<b>Book Value</b>	<b>Fair Value</b>
Current assets	\$ 3,000,000	\$ 3,000,000
<u>Fixed assets (net)</u>	<u>4,000,000</u>	<u>6,800,000</u>
	\$ 7,000,000	\$ 9,800,000
Liabilities	\$ 2,000,000	\$ 2,000,000

At the time of Ford's purchase, the fixed assets had a remaining life of 8 years.

For the year ended December 31, 2003, Allen reported sales of \$9 million and expenses of \$5 million and declared and paid dividends of \$1 million. At December 31, 2003, Allen reported the following balance sheet information:

<b>December 31, 2003</b>		
Current assets	\$ 4,000,000	
<u>Fixed assets (net)</u>	<u>5,500,000</u>	
	\$ 9,500,000	
Liabilities	\$ 1,500,000	

**Required:**

1. Give the income statement and balance sheet accounts and amounts as they would appear on Ford's financial statements under the equity method for the year ended December 31, 2003. Be sure to show calculations.
2. Explain how your answer to requirement 'a' would change if Ford determined that it actually controlled Allen and had to consolidate its investment. Give specific income statement and balance sheet accounts and amounts where possible. Be sure to show calculations.

68. Refer to the excerpts of the 2002 Berkshire Hathaway Inc. Annual Report on the following pages. All questions relate to 2002 unless stated otherwise. Assume a 35% corporate tax rate where necessary.

**Required:**

1. Refer to Berkshire Hathaway's balance sheet. In the Finance and Financial Products part of the balance sheet, investments are classified as available-for-sale, held-to-maturity, and trading. Explain in general how the distinction between available-for-sale and trading affect Berkshire's financial statements.

Questions 2 through 4 refer to the discussion of investments in equity securities in Note 5. These securities are accounted for as available-for-sale securities.

2. Compute the effect of the equity investments on **Accumulated Other Comprehensive Income** at December 31, 2002.
3. Compute the effect of the equity investments on **Other Comprehensive Income** for the year ended December 31, 2002.

4. Give the entry(ies) that Berkshire would have made if it had sold all of its investment in The Coca Cola Company on January 3<sup>rd</sup>, 2003 for \$9 billion.

**BERKSHIRE HATHAWAY INC. and Subsidiaries**

CONSOLIDATED BALANCE SHEETS

(dollars in millions except per share amounts)

December 31,	2002	2001
<b>ASSETS</b>		
Insurance and Other:		
Cash and cash equivalents	\$ 10,294	\$ 5,313
Investments:		
Securities with fixed maturities	38,096	36,219
Equity securities	28,363	28,675
Other investments	4,044	2,264
Insurance premiums receivable	6,228	5,571
Reinsurance recoverables on unpaid losses	2,623	2,957
Trade and other receivables	4,324	3,398
Inventories	3,030	2,213
Property, plant and equipment	5,407	4,776
Goodwill of acquired businesses	22,298	21,510
Deferred charges reinsurance assumed	3,379	3,232
Other	<u>4,229</u>	<u>3,207</u>
	<u>132,315</u>	<u>119,335</u>
Investments in MidAmerican Energy Holdings Company	<u>3,651</u>	<u>1,826</u>
Finance and Financial Products:		
Cash and cash equivalents	2,454	1,185
Investments in securities with fixed maturities:		
Available-for-sale	15,666	21,413
Held-to-maturity	1,019	1,461
Trading	168	2,252
Trading account assets	6,582	5,561
Loans and other receivables	3,863	6,262
Other	<u>3,826</u>	<u>3,457</u>
	<u>33,578</u>	<u>41,591</u>
	<u>\$169,544</u>	<u>\$ 162,752</u>

See accompanying Notes to Consolidated Financial Statements

**(5) Investments in equity securities**

Data with respect to investments in equity securities are shown below. Amounts are in millions.

	Cost	Unrealized Gains (2)	Fair Value
<b>December 31, 2002</b>			
Common stock of:			
American Express Company (1)	\$ 1,470	\$ 3,889	\$ 5,359
The Coca-Cola Company	1,299	7,469	8,768
The Gillette Company	600	2,315	2,915
Wells Fargo & Company	306	2,191	2,497
Other equity securities	<u>5,489</u>	<u>3,335</u>	<u>8,824</u>
	<u>\$ 9,164</u>	<u>\$ 19,199</u>	<u>\$ 28,363</u>
<b>December 31, 2001</b>			
Common stock of:			
American Express Company (1)	\$ 1,470	\$ 3,940	\$ 5,410
The Coca-Cola Company	1,299	8,131	9,430
The Gillette Company	600	2,606	3,206
Wells Fargo & Company	306	2,009	2,315
Other equity securities	<u>4,868</u>	<u>3,446</u>	<u>8,314</u>
	<u>\$ 8,543</u>	<u>\$ 20,132</u>	<u>\$ 28,675</u>

(1) Common shares of American Express Company (AXP) owned by Berkshire and its subsidiaries possessed approximately 11.5% of the voting rights of all AXP shares outstanding at December 31, 2002. The shares are held subject to various agreements which, generally, prohibit Berkshire from (i) unilaterally seeking representation on the Board of Directors of AXP and (ii) possessing 17% or more of the aggregate voting securities of AXP. Berkshire has entered into an agreement with AXP, which will remain effective so long as Berkshire owns 5% or more of AXP's voting securities. The agreement obligates Berkshire, so long as Kenneth Chenault is chief executive officer of AXP, to vote its shares in accordance with the recommendations of AXP's Board of Directors. Additionally, subject to certain exceptions, Berkshire has agreed not to sell AXP common shares to any person who owns 5% or more of AXP voting securities or seeks to control AXP, without the consent of AXP.

(2) Net of unrealized losses of \$406 million and \$143 million as of December 31, 2002 and 2001, respectively.

**Answers**

1. True; e
2. False; e
3. False; e

4. True; m
5. False; m
6. True; m
7. True; m
8. False; m
9. True; m
10. False; m
11. True; m
12. True; m
13. False; m
14. True; m
15. True; m
16. True; m
17. False; m
18. True; m
19. False; m
20. True; m
21. True; m
22. True; m
23. False; m
24. E; (d)
25. E; (b)
26. E; (b)
27. E; (b)
28. E; (b)
29. M; (c)
30. M; (b)
31. M; (b)
32. M; (c)
33. M; (a)
34. M; (b)
35. M; (a)
36. M; (a)
37. M; (b)
38. M; (b)
39. M; (c)
40. M; (b)
41. M; (c)
42. M; (c)
43. M; (b)
44. M; (b)
45. M; (c)
46. M; (b)
47. M; (c)
48. M; (a)
49. M; (c)
50. M; (b)

51. M; (a)
52. M; (d)
53. M; (d)
54. M; (b)
55. M; (c)
56. M; (c)
57. M; (b)
58. M; (b)
59. M; (a)
60. M; (a)
61. M; (c)
62. M; (b)
63. M; (d)
64. M; (b)
65. M; (b)
66. M; (c)

#### Explanation to Selected Multiple-Choice Questions

35. Cost \$44,000 – market value \$46,000 = \$2,000 holding gain
39. Cost \$44,000 – market value \$58,000 = \$14,000 holding gain
40. Sales price \$20,000 – cost \$24,000 = \$4,000 loss
46. Net income \$80,000 × 35% = \$28,000
47. Dividends declared \$40,000 × 35% = \$14,000
50. Purchase price \$200,000 – (45% × \$420,000 FMV) = \$11,000
51. \$120,000 FMV – \$100,000 cost = \$20,000 × 45% = \$9,000

#### 67 Allocation of acquisition premium

Acquisition cost	\$ 10,200,000	
Book value purchased	(2,350,000)	.47 × 5,000,000
Excess	\$ 7,850,000	
Less: Amount attributable to fixed assets	(1,316,000)	.47 × 2,800,000
Amount attributable to goodwill	\$ 6,534,000	

#### Income Statement Effect

Share of Allen income	\$ 1,880,000	.47 × 4,000,000
Amortization of difference between cost and book value	(164,500)	(.47 × 2,800,000)/8
Equity investment income	\$ 1,715,500	

#### Balance Sheet Effect

Balance, 12/31/04	\$ 10,200,000
Share of fiscal year income	1,880,000

Dividends received	(470,000)	$.47 \times 1,000,000$
Amortization of difference between cost and book value	<u>(164,500)</u>	
Balance, 12/31/03	\$ 11,445,500	

2. Instead of having an investment account, the individual assets and liabilities of Allen will be combined with those of Ford. Instead of an equity investment income account, the individual revenues and expenses will be combined with Ford's revenue and expenses. Because Ford does not own 100% of Allen, non-controlling interest (minority interest) will be on both the income statement and balance sheet. The specific accounts and effects are given below.

### Balance Sheet

Current assets	+4,000,000	Fixed assets	+6,651,500
	(5,500,000 + 1,316,000 - 164,500)		
Goodwill	+6,534,000		
Liabilities	+1,500,000		
Minority interest	+4,240,000	(.53)(9,500,000 - 1,500,000)	

### Income Statement

Revenue	+9,000,000
Expense	+5,164,500 (5,000,000 + 164,500)
Minority interest	+2,120,000 (4,000,000)(.53)

68 . Both available-for-sale and trading designations require fair value accounting on the balance sheet. However, unrealized gains and losses are handled differently. For trading securities, unrealized gains and losses are included in net income. Unrealized gains and losses on available-for-sale securities are reported as other comprehensive income and remain in accumulated other comprehensive income until the securities are sold. When securities are sold, gains and losses are transferred from accumulated other comprehensive income to line items above net income.

2. Pretax unrealized gains	\$ 19,199
1 minus tax rate	<u>.65</u>
	\$ 12,479

3. Market adjustment at 12/31/02	\$ 19,199
Market adjustment at 12/31/01	<u>20,132</u>
Pretax other comprehensive income (loss)	\$ (933)
1 minus tax rate	<u>.65</u>
Other comprehensive loss	\$ (606)

4. Cash	\$ 9,000	
Investment		\$ 1,299
Gain (income statement)		<u>7,701</u>
Accumulated other comprehensive income		
(7,469 × .65)	\$ 4,855	
Deferred income tax liability (7,469 × .35)	2,614	
Investment		\$ 7,469