I. MARKETABLE SECURITIES
A. Marketable securities have readily determinable fair values. These include equity and/or debt securities.
B. Under U.S. GAAP, there are three marketable securities portfolio classifications: trading securities, available-for-sale securities, and debt securities intended to be held until maturity.
C. The trading securities portfolio can contain debt and/or equity securities intended for active trading. The portfolio itself is carried at cost and is reported at fair value in the financial statements through the use of a valuation account. Unrealized gains or losses are reported on the income statement.
D. The available-for-sale securities portfolio can contain debt and/or equity securities that do not fit into either of the other two classifications. The portfolio itself is carried at cost and is reported at fair value in the financial statements through the use of a valuation account. Unrealized gains or losses are reported in other comprehensive income (the "U" in PUFER).
E. The held-to-maturity portfolio can contain only debt securities where the investor has the ability and intent to hold to maturity. The portfolio itself is reported in the financial statements at amortized cost.
F. Special rules apply to reclassifications and impairment.
G. IFRS has three classification categories for debt instruments: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL). Investments in equity instruments are generally measured at fair value through profit or loss (FVPL). However, management can make an irrevocable election to present changes in fair value in other comprehensive income (FVOCI), provided the instrument is not held for trading.

II. BUSINESS COMBINATIONS/CONSOLIDATIONS
An entity’s investment in the voting stock (generally common stock) of another entity can be accounted for using the cost method, the equity method, or consolidation.
A. Use the cost method when the investor cannot exercise significant influence over the investee (generally ownership of less than 20 percent of outstanding voting shares).
B. Use the equity method when the investor can exercise significant influence (generally from 20 to 50 percent of ownership of outstanding shares).
C. Usually consolidate when “control” is present (greater than 50 percent ownership).
D. Special circumstances may affect significant influence or control, resulting in a different classification from what would be indicated simply by the percentage of ownership.
III. COST METHOD (EXTERNAL REPORTING)
   A. Record the investment at cost. Generally, dividends received by the investor are treated as dividend revenue. Dividends in excess of earnings, or liquidating dividends, reduce the investment account.

   B. Sale of a cost method investment merely involves comparing the proceeds with the cost basis of the securities sold to determine the realized gain/loss. (Note that liquidating dividends lowers the cost basis.)

IV. EQUITY METHOD AND JOINT VENTURES
   A. Record the investment at cost. Generally, dividends received from the investee reduce the investment account and the investor "picks up" its share of investee's earnings by increasing the investment account and recognizing the earnings on its income statement. Under the equity method, the investment account is similar to a bank account.

   B. Differences between the price paid for an investment and the book value of the investee's net assets are allocated first to the FMV of assets and then to goodwill. Excess fixed asset FMV is depreciated, while the excess value of land and goodwill are not amortized.

   C. When significant influence is acquired, it is necessary to record a change from the fair value method to the equity method. On the date the investment qualifies for the equity method, do the following: (1) add the cost of acquiring the additional interest in the investee to the carrying value of the previously held investment; (2) adopt the equity method as of that date and going forward (retroactive adjustments not required); and (3) if the investment was previously accounted for as an available-for-sale security, recognize in earnings the unrealized holding gain or loss from accumulated other comprehensive income.

   D. Under both U.S. GAAP and IFRS, joint venture investments are accounted for using the equity method.

V. CONSOLIDATED FINANCIAL STATEMENTS/ACQUISITION METHOD
   A. The acquisition is recorded for the fair value of the consideration paid. Direct expenses are expensed, and securities issuance costs reduce additional paid-in capital.

   B. Under the acquisition method, the acquiring corporation records the following during consolidation (CARIBIG mnemonic):

      1. **CAR**—The common stock, additional paid-in capital, and retained earnings of the subsidiary are eliminated.

      2. **I**—The parent company's investment in the subsidiary is eliminated.

      3. **N**—Noncontrolling interest is created if the parent owns less than 100 percent of the subsidiary.

      4. **B**—100 percent of the net assets (assets and liabilities) of the subsidiary (regardless of the percentage acquired) are recorded at fair value.

      5. **I**—Identifiable intangible assets of the subsidiary are recorded at fair value.

      6. **G**—If there is excess of the acquisition cost plus noncontrolling interest over the fair value of the subsidiary, then the excess is recorded as goodwill. If the acquisition
cost is less than the fair value of 100 percent of the underlying assets acquired, then the balance sheet and identifiable intangible assets are still adjusted to fair value and the negative balance is recorded as a gain.

C. Under U.S. GAAP, goodwill and noncontrolling interest are calculated as follows (full goodwill method):

   Goodwill = Fair value of subsidiary – Fair value of subsidiary’s net assets

   Noncontrolling interest (on BS) = Fair value of subsidiary x NCI %

D. IFRS allows the use of the full goodwill method on a transaction-by-transaction basis. The preferred method under IFRS is the partial goodwill method, which calculates goodwill and noncontrolling interest as follows:

   Goodwill = Acquisition cost – Fair value of subsidiary's net assets acquired

   Noncontrolling interest (on BS) = Fair value of subsidiary's net assets x NCI %

VI. INTERCOMPANY TRANSACTIONS

A. Eliminate 100 percent, regardless of whether there is a noncontrolling interest.

B. Eliminate all intercompany accounts. Examples: (a) interest revenue and interest expense; (b) interest receivable and interest payable.

C. Intercompany inventory transactions require the elimination of the intercompany sales, intercompany cost of goods sold, and any intercompany profit on the inventory transactions. The elimination of intercompany profit is allocated between the purchaser’s ending inventory and cost of goods sold.

D. Intercompany bond transactions require the elimination of the bonds payable account from the issuer’s balance sheet and the investment in bonds account from the balance sheet of the investor. Do not assume that the issuer sold these bonds directly to the investor.

E. Intercompany transactions involving land require an elimination making the consolidated financial statements look as though the transaction had never occurred. Put the land account back to the value that had been in the seller's books and also eliminate the gain/loss.

F. Intercompany transactions involving depreciable assets involve essentially the same steps as for land, but with two complications. There is an accumulated depreciation account that has to be put back where it was at the time of the intercompany transaction, and depreciation expense after the sale must be adjusted back to what it would have been had the transaction never occurred.

VII. PUSH DOWN ACCOUNTING

The subsidiary’s books are adjusted to reflect the fair values of assets and liabilities as seen by the parent firm by "pushing down" the consolidation adjustments to the financial statements of the subsidiary. If goodwill was implicit in the purchase price, the goodwill is recorded explicitly in the subsidiary's books. The owners' equity accounts of the subsidiary are adjusted to make its books balance after these adjustments. The SEC requires push down accounting for all "substantially owned" subsidiaries.