Study Unit 2 – Measurement, Valuation, and Disclosure: Investments and Short-Term Items

Page 89, Subunit 2.7, Question 22: This update corrects the answer explanation for choice “C.”

22. Which one of the following statements with regard to marketable securities is incorrect?

A. In the trading portfolio of marketable equity securities, unrealized gains and losses are recorded on the income statement.

B. In the available-for-sale portfolio of marketable debt securities, unrealized gains and losses are recorded on the income statement.

C. The held-to-maturity portfolio consists only of debt securities.

D. Debt securities may be transferred from the held-to-maturity to the available-for-sale portfolio.

Answer (B) is correct. REQUIRED: The false statement about marketable securities.

DISCUSSION: Assuming the fair value option has not been elected, unrealized holding gains and losses on available-for-sale debt securities are reported in other comprehensive income.

Answer (A) is incorrect. Investments in equity securities that do not result in significant influence or control over the investee are reported at fair value with unrealized holding gains and losses recognized in earnings. Answer (C) is incorrect. Debt securities are never classified as held-to-maturity. Unlike equity securities, debt may be classified as held to maturity. Therefore, a held-to-maturity portfolio will only consist of debt securities. Answer (D) is incorrect. Debt securities may be transferred from any classification to any other classification.
Page 94, Subunit 2.10, Essay Question 1: These edits add the calculations for goods available for sale and cost of goods sold to the answer explanation.

**Essay Question 1 — Unofficial Answers**

1. a. The beginning inventory was $65,600 \((8,000 \times 8.20)\).
   
   b. Purchases is given as $368,900. Company B records purchases at gross amounts.
   
   c. Purchase discounts is given as $18,000. In a periodic system used in conjunction with the gross method, the amount of purchase (cash) discounts is subtracted to determine goods available for sale.
   
   d. Freight-in is given as $5,000. In a periodic system, freight-in is an addition to goods available for sale. Ordinarily, it is not allocated to cost of goods sold and ending inventory.
   
   e. Goods available for sale is the sum of beginning inventory, net purchases, and freight-in. 
   \[
   \text{Goods available for sale} = 65,600 + (368,900 - 18,000) + 5,000 = 421,500.
   \]
   
   f. Company B applies the LCM method to total inventory. Per-unit replacement cost ($8) is the per-unit market amount because it is less than NRV ($8.80) and greater than NRV minus a normal profit margin ($8.80 – 1.05 = 7.75). Total inventory at market is therefore $176,000 \([(55,000 \text{ units purchased} – 33,000 \text{ units sold}) \times 8\)]. Because the ending inventory is assumed to consist of 8,000 units from beginning inventory, 12,000 units from the first quarter layer, and 2,000 units from the second quarter layer; total inventory at cost is $180,400 \([(8,000 \times 8.20) + (12,000 \times 8.25) + (2,000 \times 7.90)]\). Under the direct method, the $4,400 loss ($180,400 cost – $176,000 market) is debited to cost of goods sold and credited to inventory.
   
   g. Cost of goods sold equals goods available for sale minus ending inventory adjusted for the direct writedown to market. \[
   \text{COGS} = 421,500 – (180,400 + 4,400) = 236,700.
   \]

**Study Unit 6 – Cost Allocation Techniques**

Page 198, Subunit 6.1, New item 3.b.2)d): This update adds information related to manufacturing contribution margin.

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\text{d) Manufacturing contribution margin considers only the actual costs of manufacturing (i.e., direct materials, direct labor, and variable manufacturing overhead).}
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**Study Unit 10 – Cost and Variance Measures**

Page 387, Subunit 10.4, Question 20: “Jackson’s direct materials usage (quantity) variance for May is . . .” was relocated to Subunit 10.3, where the topic is covered in greater detail.