

# Homework 8

Finance



Investor versus investee Affiliation Explain how investors report investments in equity securities when the investor has a controlling influence over an investee.

The investors report is a report that accounts for the total investments in a firm basing on the degree of the influence that the investor is able to implement over the investee's operations and the financial regulations in the firm. The equity security simply refers to the investment issued by another firm which is usually accounted for by determining the amount of control and influence the investor has over the operating decisions on the issuing of stock (Bartzokas & Mani, 2004). From the report, the investor is able influence the decision of the investee on crucial decisions. The investor acquires a significant influence when he/she a stock of 20 & 50 percentage of the total stock.

The report indicates the investor's equity in relation to that of the investee on the income statement after carrying out all the necessary adjustments on the investment balance before determining the dividends received.

According to Organization for Economic Co-operation and Development, (2011) the equity recorded on the investee's income is the investors' share in the report income after carrying out the amortization on the net investment. The report also indicates the losses incurred in the income. The investor also gain the control when the rights offer an opportunity on the current ability that coordinates the relevant activities in the firm. The power of an investor is determined basing on the concepts of relevant activities and the existing rights in the firm. The investor gains the control through the voting rights and the other contractual arrangements in the firm.

In general, the investor acquires full control when the existing rights provide <https://assignbuster.com/homework-8-essay-samples/>

current liability that directly affects the investee's returns. In the assessment process, all the substantive rights are put into consideration. Bartzokas & Mani states that the investor has total control on specific assets of the investee in the firm. The voting rights must not dominate the control of the stock as all the administrative tasks must be put into considerations.

#### References

Bartzokas, A & Mani, S. (2004). Financial systems, corporate investment in innovation, and venture capital. Cheltenham [U. A]: Elgar.

Organization for Economic Co-operation and Development. (2011). The role of institutional investors in promoting good corporate governance. Paris: OECD.