

How investors report investments in equity securities essay examples

[Business](#), [Company](#)



The term investor is used to refer to an entity, which commits funds to certain investment product expecting some financial return. Investee, on the other hand, refers to the company that holds the investors investment. As a system of accounting for investment, the method of reporting depends on the degree of the investors influence he/she can exercise in relation to the investee`s financial and operating policies(Braun, 2009)). An investor with a controlling influence controls more than fifty per cent of investee`s voting stock.

Consolidation of financial statement investments (ARB 51 and SFAS 94) is applied in accounting for a particular investment where an investor has acquired shares that exert significant control over an investee`s operation. A parent-subsidiary relationship evolves from this. The parent is the investor with significant influence and is referred to as the holding company in other terms. (Braun, 2009) postulate that a different set of accounting procedures should be used to consolidate the accounting information and generate financial statements. The financial statements present operation for a controlling entity in a manner as if the entities were a single entity.

Consolidation concepts are applied to the parent company for all revenues, expenses, assets and liabilities are brought together in a process known as consolidation. Assets and liabilities amounts adjustments are determined using investment cost-schedule (Kelly & Earley, 2011). The set of the basic financial statements consists of an income statement, a balance sheet, a statement changes in equity and a statement of cash flows. These statements aid in external reporting.

The financial statements regularly represent a clear picture of the entities

total resources and bring ease understanding and analysis of financial condition in a company. However, this might also expose weakness of both entities (Kelly & Earley, 2011).

References

- Kelly, P & Earley, C. (2011). “ Ethical Leaders in Accounting “ Advances in Accounting Education: Teaching and Curriculum Innovations, 12, pp. 53-54
- Braun, R. (2009), “ Introductory accounting: Principles or financial”, Advances in Accounting Education, Emerald Group Publishing Limited