

On Transaction Monetary Assets and Long-term Stock Ownership Investment

----From the Perspective of Equity

BaYi GUAN, ZhanLi SHANG, XiuLi TAN, Jing ZHANG, ChunLi LV
Yantai Nanshan University, Yantai, Shandong, China

ABSTRACT: As an outcome of financial innovation, transaction monetary assets have internal and natural relationship with the long-term equity investment. Equity is the part of the former, but the whole of the latter. This paper analyzes the differences between transaction monetary assets and long-term stock ownership from five aspects. The accounting method is different with the different investment purpose. In conclusion, it is found that accounting calculation is decided by the goal of investment in both transaction monetary assets and long-term stock ownership investment, so accounting calculation will be more accurate if the goal of investment is certain beforehand.

KEYWORD: Equity; perspective; Transaction monetary assets; Long-term stock ownership investment

Under the double drives of market economy and computer communication technology, internet finance has made remarkable achievements with the rapid growth of financial innovation. Transaction monetary assets is an inevitable outcome of the rapid development of financial instruments innovation. As an important financial instrument, the transaction monetary assets, which involve equity ingredients, have some relations and differences with the long-term stock ownership investment.

1 DIFFERENT PURPOSES AND OPERATIONS

From the perspective of investment purpose, both of them have the same final goal of getting investment income, but the fundamental distinction lies in that one is short-term behavior and the other is long-term one. Transaction monetary assets, with the aim of exploiting the difference in pricing, refers to selling and buying assets such as diversified stocks, bonds, investment funds, warrants, futures and options, financial derivative product. The equity ingredients of Transaction monetary assets are mainly short-term stock investments. Long-term stock ownership investment means long-held equity investment, whose comprehensive investment objectives involves decisions in running or participating in business, and in the distribution of dividends. It consists of two parts, stock investment in subsidiary corporation, the joint ventures and associated entity; equity investment which does not involve any

control, partial control or major impact on the invested enterprises. The fair value of these investments cannot be measured clearly without any open offer in an active market.

Transaction monetary assets are different from Long-term stock ownership investment in the initial investment purpose and positioning. From the perspective of operation, the former is mainly buying and selling with the expectation of short-term profit from capital and income, and the sense of satisfaction can be got from financial returns, and it also meets the demand of risk aversion. Its primary operation method is short-term selling and buying in the secondary market. These phenomenon should show up as the features of buying low and selling high, aiming at making appropriate profits, avoiding the risk, getting short-term rewards and utilizing the capital properly. The goal of Long-term stock ownership investment is to control the process of production, management, decision, or make significant influences on an invested entity for the realization of expected strategy and foundation of long-term cooperation and achievement of dividends. To sum up, the former allows the operation to be flexible; the latter makes investment with the strategic development vision. They need experiment with multi-facts and operate steadily.

2 DIFFERENT NATURE AND CONTENT

Different investment objective and positioning result

from distinct properties of assets. Transaction monetary assets are current asset; its liquidity ranks only next to monetary capital. Long-term stock ownership investment is non-current assets held for more than one year with many restrictive terms in dealing it. The former is a kind of financial assets, which is a flexible financial instrument. Its characteristics lies in strong ability of liquidity, speedy financing, public offer in secondary market, convenient measurement according to fair value, flexible and easy management. Impairment tests and allowance for assets depreciation reserves are not required. The measurement of changes in assets and income is realized by merely changing in fair value. Transaction monetary assets include different kinds of investments and a lot of family members in content. But the comparison in equity ingredients is made between them based on their different investments. As a result, it can show the active innovation of internet finance and market for stock allocation. Nowadays, with the rapid development of internet finance and communication technology, Transaction monetary assets are popular among a lot of investors for its flexibility, convenience and efficiency.

Long-term stock ownership investment shows the traditional mode of ownership investment, which has a long investment cycle, single stable objective and positioning. In spite of market risk and industry life cycle, it regards investment as a long-term undertaking. From the perspective of assets classification, Long-term stock ownership investment belongs to non-current assets, capital equity investment and long-term investment assets. Its investment goal is to control the process of production, management, decision, and make significant influences on the invested entity. The objective of Long-term stock ownership investment can be divided into four kinds according to different contents: subsidiaries whose share holding ratio is more than 50%, joint ventures whose ratio is 50%, joint ventures whose ratio is above 20% (including) and below 50%(not included) and equity investment enterprise whose ratio is less than 20%.

3 DIFFERENT INITIAL MEASUREMENT AND TAX MANAGEMENT

Different investment objective and asset nature determine the distinction in initial measurement and tax management. When obtained the Transaction monetary assets, the transaction fees of the obtained price should be processed as investment income. Because the transaction fees are regard as short-term profit. Cash dividend and interests declared when buying, for the nature of payment in advance, should accounted for as dividends receivable or interests receivable. When received as get back payment in

advance, we should be accounted as bank deposit or other monetary capital-deposited investment fund. Because the Transaction monetary assets has quoted in open market, when obtained it should be measured by its fair value, accounted by its initial investment cost.

The long-term quality of Long-term stock ownership investment determines that the related taxes of the obtained price should be counted in the initial cost no matter cost method or equity method is used. The cash dividends which declared but not yet issued, included in the payable price, should be accounted for as dividends receivable and accounted for as bank deposit directly, not for the cost of Long-term stock ownership investment when the actual payment is received,.

Through cost accounting, Long-term stock ownership investment is merging the Long-term stock ownership investment and the cost should be counted in the initial cost of investment. In other words, whether or not the paid purchase cost equals to the deserved proportion according to the amount of their shares, it should be counted in the initial cost. On the equity method, the purchase cost which is initially paid should exceed fair proportion of Long-term stock ownership investment which is acceptable for the investee and initial investment is counted in investment cost. If the purchase cost which is initially paid is below the identifiable fair proportion of Long-term stock ownership investment in investee, the amount of shares in investee is counted in initial investment cost of Long-term stock ownership investment with the excessive part as a part of non-operating income.

4 DIFFERENT MEASUREMENT IN HOLDING PERIOD

The dividends or profits, distributed by the invested entity while the Transaction monetary assets are held, should be counted in the account of dividends receivable or interest receivable. As investment income processing. At the end of accounting period, Transaction monetary assets are measured by fair value with asset impairment set aside. Yet the difference between fair value and the book balance of the debt to be restructured are handled as changes in the fair value of Transaction monetary assets. Its book value of assets and changes of profit and loss are adjusted by changing fair value profit and loss. In order to ensure that accounting record agrees with actual situation at the end of accounting period, the changes in fair value should be made timely for the book value of Transaction monetary assets may be above or below fair value.

With the cost method of Long-term stock ownership investment, the accounting is not processed no matter how much profit or loss the

invested enterprise achieved. Only when the investors announce cash dividends or profit will be issued, dividends receivable and investment income will be confirmed according to the actual share, regardless of net profit achieved before or after the investment.

With the equity method of Long-term stock ownership investment, relevant accounting process is needed as long as net profit or loss is reported by the invested enterprise. The book value of Long-term stock ownership investment should be adjusted as following. With net profit reported, debit Long-term stock ownership investment –profit or loss should be adjusted, according to the shares, to increase the book value. At the same time, investment income is credited to increase the profit of enterprise. When net loss is reported, the opposite accounting entry is made according to the shares, and the investment and profit of the Long-term stock ownership is decreased till the book value of the investment is reduced to zero. Henceforth, the investment and profit of the book value of Long-term stock ownership can be adjusted with economy having recovered. With the equity method of Long-term stock ownership investment, if the invested enterprise declares the cash dividends and profit in the future accounting periods, it should calculate its deserved share, debit dividends receivable, credit Long-term stock ownership investment -profit or loss adjustment. The received stock dividends, merely recorded for future reference, won't be handled in the accounting.

As for the equity method of examining and calculating Long-term stock ownership investment, the investment in investing enterprise is also changing according to the changes in actual shares of other owners' equity. If other owners' equity in invested enterprise has already increased, debit Long-term stock ownership investment-other changes of equity will be calculated, at the same time, credit capital reserve----other capital reserve will be adjusted. If other owners' equity in invested enterprise is decreased, the opposite accounting entry will be made.

At the end of the accounting period, asset impairment should be realized when the realizable value is below the book value of long-term stock ownership investment. Meanwhile, impairment loss of asset- provision for Long-term stock ownership investment impairment is ascertained. Be cautious in ascertainment of the loss because the impairment is not allowed back in any accounting period after the loss of Long-term stock ownership investment is ascertained.

5 DIFFERENT MEASUREMENT IN DISPOSAL

Transaction monetary assets vary from Long-term stock ownership investment in disposal because of their different measurement in obtained and holding period. The disposition of the former is divided into two stages. Firstly, the actual selling price is compared with the book balance and their balance is recognized as the selling investment income. Meanwhile, the cost and fair value changes in detail of transaction monetary assets are carried forward. Secondly, the income by the transfer of the initial profits or losses in early fair value is carried into investment income accounting for profit confirmation as achieved investment income or loss, then it will influence payment of taxes at the ending period.

The disposition of latter is divided into three steps. Firstly, the actual selling price is compared with the book value and the balance above the book value is realized as investment income, while the balance below the book value is realized as investment loss. If there are cash dividends which have been declared but not paid, debit Long-term stock ownership investment -changes in profit or loss, credit dividends receivable, is carried forward and so is the cost of Long-term stock ownership investment, the profit or loss and other equity account also need to be adjusted . Secondly, capital reserve from other equity changes, except that from other invested enterprise, is carried forward as the second item of investment income or loss. Thirdly, if there are impairment in Long-term stock ownership investment, it needs to be transferred into investment income to increase the investment income in current period.

6 CONCLUSION

That Transaction monetary assets or Long-term stock ownership investment have different investment goal determines which account they should be counted in accounting. Different investment goals, benefit periods and accounting measurements are reflected in various operation and accounting.

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