Chapter 16 investments

Finance, Investment



CHAPTER 15 INVESTMENTS CONTENT ANALYSIS OF EXERCISES AND PROBLEMS Time Range (minutes) 10-15 10-15 10-15 15-20 15-20 10-15 Number E15-1 E15-2 E15-3 E15-4 E15-5 E15-6 Content Trading Securities. (Easy) Journal entries. Unrealized holding gain. Balance sheet disclosure. Trading Securities. (Moderate) Journal entries. Income statement and balance sheet disclosures. Long-Term Investments. (Easy) Securities available for sale. Purchase and adjusting entries. Available-for-Sale Securities. (Easy) Journal entries. Compute unrealized increase/decrease

balance. Available-for-Sale Securities. (Easy) Journal entries.

Balance sheet disclosure. Held-to-Maturity Bond Investment. (Easy) Premium, straight-line amortization, journal entries. Error in recording interest at acquisition. Held-to-Maturity Bond Investment. (Easy) Discount, semiannual interest receipts, straight-line and effective interest methods of amortization, journal entries. Held-to-Maturity Bond Investment. (Moderate) Discount, semiannual interest receipts, sale at gain. Effective interest method. Journal entries. Bond Investment. (Moderate) Discount, semiannual interest receipts, amortization schedule using effective interest method, journal entries.

Bond Investment. (Moderate) Premium, semiannual interest receipts, amortization schedule using effective interest method, journal entries. Bond Investment. (Moderate) Premium, semiannual interest receipts, sale at loss. Effective interest method. Journal entries. Transfer Between Categories. (Easy) Reclassification from " held-to-maturity" to " available-for-sale securities. " Journal entries for interest and reclassification. E15-7 10-20 E158 10-20 E15-9 10-20 E15-10 10-20 E15-11 E15-12 15-20 10-15 15-1 Number E15-13 E15-14 E15-15 E15-16 E15-17 E15-18 E15-19 E15-20

Content Impairment of Investment in Bonds. (Moderate) Journal entries for impairment. IFRS differences. Equity Method. (Easy) Stock investment. No goodwill. Journal entries, balance sheet presentation. Equity Method. (Easy) Stock investment. Journal entries. Income and depreciation. Dividends received. Equity Method. (Moderate) Stock investment. Earned income, received dividends. Journal entries. Convertible Bonds. (Easy) Purchase and conversion. Journal entries (including memorandum entry). Stock Dividends. (Easy) Journal entries for stock acquisition, stock dividend, and sale of a 1% interest.

Life Insurance Policies. (Easy) Journal entries to record purchase, premium payments, change in cash surrender value. Sinking Fund. (Moderate) Purchased securities, collected dividends and interest, wrote up to fair value, sold securities, paid expenses, retired bond. Journal entries. (Appendix). Derivatives. (Moderate) Loan and derivative (interest rate swap: fair value hedge). Journal entries, including present value calculations. Financial statementdisclosures (one year). Trading Securities. (Moderate) Journal entries. Income statement and balance sheet disclosures.

Trading Securities. (Moderate) Journal entries. Income statement and balance sheet disclosures. Available-for-Sale Securities. (Moderate) Journal entries. Income statement and balance sheet disclosures (current and noncurrent). Effect of including unrealized holding gains and losses in income. Available-for-Sale Securities. (Moderate) Journal entries. Income statement and balance sheet (current and noncurrent) disclosures for two quarters. Temporary Available-for-Sale Investments. (Challenging) Journal entries. Income statement and balance sheet disclosures for four quarters.

Investment in Available-for-Sale Bonds. (Challenging) Purchase at discount and at premium. Effective interest method of amortization. Sale. Journal entries. Income statement and balance sheet disclosures. Time Range (minutes) 15-25 10-20 10-15 10-20 15-20 5-15 10-15 10-15 E15-21 15-25 P15-1 P15-2 P15-3 15-20 15-20 20-30 P15-4 25-35 P15-5 30-45 P15-6 40-60 15-2 Number P15-7 Content Investments in Available-for-Sale Bonds and Equity Securities. (Challenging) Fair value method. Record various transactions. Income/loss determination. Determine carrying value of Temporary Investment account.

Temporary Investments, Funds, Bank Reconciliation. (Challenging) Marketable securities and petty cash fund. Journal entries. Bank reconciliation. Bond Investment. (Challenging) Effective interest method. Premium. Journal entries to record purchase, interest receipt, partial sale, retirement. Bond Investment. (Challenging) Discount. Straight-line method, effective interest method. Amortization schedules. Journal entries. Bond Investment. (Moderate) Between interest dates. Discount. Straight-line method. Journal entries to record purchase, interest, retirement.

Error in recording interest at acquisition. Bond Investment. (Challenging) Premium. Straight-line method, effective interest method. Amortization schedules. Journal entries. Bond Investment. (Challenging) Discount. Effective interest method. Partial sale. Journal entries. Comparison of Fair Value and Equity Methods. (Challenging) Stock investments. Journal entries to record purchase, income, dividends, sale. Equity Method. (Challenging) Goodwill computation. Year-end balance in investment account. Cash flow from operating activities under the indirect method. Equity Method. (Moderate) Stock investments. Journal entries to record purchase, income, dividends, sale. Change from Fair Value to Equity Method. (Challenging) Change from 10% to 40% ownership. Calculate dividend revenue, unrealized increase, investment income, and carrying value of investment for two years. Life Insurance Policies. (Moderate) Journal entries to record annual premiums, change in cash surrender value, policy redemption.

Time Range (minutes) 30-45 P15-8 30-45 P15-9 30-45 P15-10 30-45 P15-11 20-30 P15-12 30-45 P15-13 P15-14 30-40 30-45 P15-15 P15-16 20-30 30-40 P15-17 P15-18 30-40 25-40 P15-19 20-30 15-3 Number P15-20 Content (Appendix). Derivatives. (Moderate) Loan and derivative (interest rate swap: fair value hedge). Journal entries, including present value computations. Financial statement disclosures (two years). Time Range (minutes) 20-45 ANSWERS TO QUESTIONS Q15-1 Companies purchase securities of other corporations for a number of different reasons.

One reason is to obtain additional income by investing excess cash. A second reason is to create long-term relationships with suppliers. A third reason is to obtain significant influence or control over related companies. The three categories of investments in debt and equity securities when there is no significant influence are trading securities, available-for-sale securities, and held-tomaturity debt securities. (a) A debt security represents a creditor relationship with another company. (b) An equity security represents an

Chapter 16 investments – Paper Example

ownership interest in another company. c) The fair value is the amount at which a security could be exchanged in a current transaction between willing parties. Q15-4 When an investor owns between 20% and 50% of the voting common stock of the investee, the investor is presumed to have significant influence over the investee. When this occurs, the equity method is used to account for the investments. When the investor controls the investee by owning more than 50% of the voting common stock of the investee, then the investor issues consolidated financial statements which are the combined financial statements of both companies.

Q15-5 To account for an investment in trading securities, the investment is initially recorded at cost. It is subsequently reported at fair value and the unrealized holding gains and losses are included in income. Any interest and dividend revenue, as well as realized gains and losses on sales, are likewise included in income. To account for an investment in available-for-sale securities, the investment is initially recorded at cost. It is subsequently reported at fair value, and the total unrealized holding gains and losses are reported as a component of accumulated other comprehensive income in stockholders' equity.

The unrealized holding gains and losses for the period are reported in other comprehensive income. Interest and dividend revenue, as well as realized gains and losses on sales, are included in income. To account for an investment in held-to-maturity debt securities, the investment is initially recorded at cost and subsequently reported at amortized cost. Any unrealized holding gains and losses are not recorded, and interest revenue and gains and losses on sales are all included in income. 15-4 Q15-2 Q15-3 Q15-6 Q15-7 Q15-8

An investment in available-for-sale securities is reported at fair value, as determined by the year-end selling prices on a securities exchange, and any changes in unrealized holding gains and losses are included in other comprehensive income. An adjusting entry is made at the end of each period to an Unrealized Increase/Decrease account and an Allowance account to reflect any change in fair value. The total unrealized increase/decrease is reported as accumulated other comprehensive income in stockholders' equity. Gains and losses on sales of securities are reported in the income statement.

They are measured as the difference between the selling price and the cost (in the case of an equity security) or the amortized cost (in the case of a debt security). In addition, because the security is no longer in the portfolio of available-for-sale securities, the cumulative balance in the allowance account and the cumulative unrealized increase/decrease in the value of the security reported for that security at the previous balance sheet date must be " reversed" out of the accounts. Bonds carrying a stated interest rate above the prevailing yield for securities with a similar amount of risk are purchased at a premium.

Premium amortizations result in an effective interest rate that is lower than the stated rate. Thus, interest revenue is lower. Bonds carrying a stated interest rate below the prevailing market rate for securities with a similar amount of risk are purchased at a discount. Discount amortizations result in an effective interest rate that is higher than the stated rate. Thus, interest https://assignbuster.com/chapter-16-investments/ revenue is higher. The two methods available to recognize interest revenue and account for premiums and discounts on investments in held-to-maturity bonds are the straight-line and effective interest methods.

Under the straight-line method, an equal amount of premium or discount is amortized each period as an adjustment of interest revenue. Under the effective interest method, the market (yield) rate at the time of issuance is multiplied times the previous carrying value to determine the interest revenue. (a) When an investment in a debt security is transferred from the " held to maturity" category to the " available for sale" category, an unrealized holding gain or loss is computed by comparing the current fair value to the carrying value (amortized cost) of the bond and is reported as a component of other comprehensive income. b) When an investment in a debt security is transferred from the " available for sale" category to the " held for maturity" category, any unrealized holding gain or loss on the date of transfer continues to be reported as a component of other comprehensive income. The amount is amortized over the remaining life as an adjustment of the yield. Q15-9 Q15-10 Q15-11 Q15-12 Q15-13 Q15-14 Current asset Temporary investment (at cost) Plus: Allowance for change in value of investment Temporary investment (at market value) \$XXXX XXX \$XXX 15-5 Q15-15 IFRS allow the reversal of an impairment loss.

The reversal of this impairment loss is reported on the income statement. U. S. GAAP does not permit the reversal of an impairment loss. When an investor corporation owns a sufficiently large percentage of common stock, it is able to exert significant influence over the operating and financial policies of the investee corporation. In particular, the investor may be able to

Chapter 16 investments – Paper Example

influence the investee's dividend policy. The dividends paid may be affected by the investor's cash needs, desire to raise its income, or by tax considerations. The equity method is used to account for this investment.

It acknowledges the existence of a material economic relationship between the investor and the investee, is based upon the requirements of accrual accounting, and reflects the changes in the stockholders' equity of the investee company. When the equity method is used, an investment in common stock is initially recorded at its acquisition cost. However, in contrast to the fair value method, income is recorded by the investor as an increase to the Investment account and as investment income (based on the investor's percentage ownership) when it is reported by the investee.

Dividends received (or receivable) are recorded as reductions in the carrying value of the Investment account whenever they are paid (or declared) by the investee. Furthermore, (1) since a material relationship is presumed, the effects of all intercompany items of revenue and expense are removed from the investor's accounts to avoid " double-counting," and (2) if the acquisition cost is greater than the proportionate book value of the investee, additional depreciation may be recognized.

It is necessary to eliminate intercompany revenues and expenses in the determination of investor net income, depreciate the proportionate share of any difference between the fair values and book values of investee depreciable assets implied by the acquisition of the investee shares, and treat the proportionate share of investee extraordinary items as investor extraordinary items (the proportionate share of investee results of discontinued operations is treated in a similar manner). The facts and

Chapter 16 investments – Paper Example

ircumstances that preclude an investor who owns more than a 20% investment of an investee from using the equity method include: (1) the investee challenges the investor's ability to exercise significant influence through litigation or complaints to governmental regulatory authorities; (2) the investor and investee sign an agreement that the investor surrenders significant rights as a shareholder; (3) a small group of shareholders who operate the investee hold majority ownership and ignore the views of the investor; (4) the investor needs more financial information to apply the equity method than is available to the investee's other shareholders, and cannot obtain this information; (5) the investor cannot obtain representation on the investee's board of directors. a) When an investor acquires enough additional common stock during a year to change from the fair value method to the equity method, the investor is required to restate its investment in the investee by debiting the Investment account and crediting Retained Earnings for its previous percentage of investee earnings (less dividends) for the period from the original date of acquisition to the date that significant influence was obtained. It also eliminates any adjustments of the Allowance and Unrealized Increase/Decrease accounts made under the fair value method. Q15-16 Q15-17 Q15-18 Q15-19 15-6 Q15-19 (continued) (b) When an investor using the equity method sells a portion of the investment such that its portion of ownership falls below 20%, the use of the equity method is no longer appropriate and the investor no longer accrues its share of investee earnings. However, previously recorded income remains as a part of the carrying value of the Investment account. The investment is then accounted for under the fair value method.

Q15-20 Under IFRS, Morgan and Parker could account for the joint venture arrangement using either the equity method or proportionate consolidation. Under the equity method, Morgan and Parker would report their investment in the associate (equity method investee) at cost, adjusted for their proportionate share of the income less their proportionate share of any dividends paid by the investee. Under proportionate consolidation, Morgan and Parker would report consolidated financial statements for their proportionate share of the joint venture. (Consolidations are covered in a later accounting course.) Under U. S. GAAP, the use of proportionate consolidation for joint venture arrangements is not allowed.

Many insurance policies allow a portion of accumulated premiums to build up as a savings plan; and, if the policy is canceled, this savings plan, or cash surrender value of the policy, is returned to the company purchasing the life insurance policy. When a company is guaranteed a return equal to the amount of the cash surrender value of the policy, a part of each premium paid represents an investment. The portion of the yearly premium that does not increase the cash surrender value of the policy is recorded as the amount of insurance expense, typically in the year-end adjustment of prepaid insurance. The amount of cash surrender value of life insurance policies is included as a long-term investment on the balance sheet. The increase each year is stated in the policy.

A fund involves setting aside cash and other assets to accomplish specific objectives; whereas, an appropriation of retained earnings only reduces retained earnings available for dividends and does not provide any cash. Funds may be current, such as petty cash funds, or they may be long-term, such as those to retire long-term bonds or preferred stock, or those to purchase long-term assets. Q15-21 Q15-22 ANSWERS TO MULTIPLE CHOICE 1. 2. a b 3. 4. a c 5. 6. b b 7. 8. c a 9. 10. c c 15-7 SOLUTIONS TO REVIEW EXERCISES RE15-1 Investment in Available-For-Sale Securities* Interest Revenue (\$12, 000 x 0. 10 x 4/12) Cash *\$12, 000 + \$6, 000 RE15-2 Interest: Cash (\$12, 000 x 0. 0 x 6/12) Interest Revenue Dividends: Cash Dividend Revenue (\$1 x 300) RE15-3 Unrealized Increase/Decrease in Value of Available-For-Sale Securities* Allowance for Change in Value of Investment *(\$12, 300 - \$12, 000) + (\$5, 500 - \$6, 000) RE15-4 Cash Investment in Available-For-Sale Securities Gain on Sale of Available-For-Sale Securities Allowance for Change in Value of Investment Unrealized Increase/Decrease in Value of Available-For-Sale Securities RE15-5 Investment in Held-To-Maturity Debt Securities Cash 215, 443 215, 443 6, 400 6, 000 400 200 600 18, 000 400 18, 400 600 300 300 200 500 500 15-8 RE15-6 Cash (\$200, 000 x 0. 12 x ?) Investment in Held-To-Maturity Debt Securities Interest Revenue (\$215, 443 x 0. 10 x ? RE15-7 Investment in Trading Securities Investment in Available-For-Sale Securities Gain on Transfer of Securities Unrealized Increase/Decrease in Value of Available-For-Sale Securities Allowance for Change in Value of Investment RE15-8 Realized Loss on Decline in Value Investment in Held-To-Maturity Debt Securities RE15-9 Investment in Stock: Eagle Corporation (0. 30 x \$120, 000) Investment Income Investment Income Investment in Stock: Eagle Corporation [(\$620, 000 - \$600, 000) x 0. 30] ? 8 Cash (0. 30 x \$48, 000) Investment in Stock: Eagle Corporation RE15-10 Note: No journal entry is required, only a memorandum entry is made for a stock dividend. Memo: Received 1, 500 shares of Gamecock Company stock

as a stock dividend. The cost of the shares is now \$22 per share, computed as follows: (\$99, 000 ? 4, 500). 36, 000 750 750 14, 400 14, 400 15, 520 15, 520 12, 500 9, 400 3, 100 12, 000 1, 228 10, 772 2, 300 2, 300 36, 000 15-9 RE15-11 Cash (750 x \$28) Investment in Available-For-Sale Securities (750 x \$22) Gain on Sale of Investment [750 x (\$28 - \$22)] Unrealized Increase/Decrease in Value of Available-For-Sale Securities [750 x (\$24 -\$22)] Allowance for Change in Value of Investment RE15-12 Prepaid Insurance Cash Insurance Expense Cash Surrender Value of Life Insurance Prepaid Insurance 12, 000 10, 500 1, 500 12, 000 21, 000 16, 500 4, 500 1, 500 1, 500 12, 000 15-10 SOLUTIONS TO EXERCISES E15-1 1. 2010 Dec. 10 21 31 Investment in Trading Securities Cash (500 x \$76) Investment in Trading Securities Cash (800 x \$34) Investment in Trading Securities Unrealized Gain on Increase in Value of Trading Securities 38, 000 27, 200 700* 700 12/31/10 Fair Value \$39, 500 26, 400 \$65, 900 Cumulative Change in Fair Value \$1, 500 (800) \$ 700 38, 000 27, 200 *Security 500 shares of C Company common stock 800 shares of D Company common stock Totals 2. 3. E15-2 1. 2010 Oct. Nov. 26 26 Cost \$38, 000 27, 200 \$65, 200 700 unrealized gain on increase in value of trading securities; reported on 2010 income statement. Current assets: Temporary investment in trading securities (at fair value) \$65, 900 Investment in Trading Securities Cash (300 x \$35) Cash (200 x \$25) Loss on Sale of Trading Securities Investment in Trading Securities Investment in Trading Securities Cash (400 x \$41) Investment in Trading Securities Unrealized Gain on Increase in Value of Trading Securities 10, 500 5, 000 200 16, 400 500* 10, 500 5, 200 16, 400 Dec. 10 31 500 15-11 E15-2 (continued) 1. (continued) *Security 300 shares

of F Company common stock 400 shares of G Company common stock Totals 2. 3.

E15-3 2010 During the year Investment in Available-for-Sale Securities Cash (900 x \$18) Investment in Available-for-Sale Securities Cash (800 x \$22) Dec. 31 Unrealized Increase/Decrease in Value of Available-for-Sale Securities Allowance for Change in Value of Investment 12/31/10 Fair Value \$14, 000 15, 300 16, 000 \$45, 300 Cost \$10, 500 16, 400 \$26, 900 12/31/10 Fair Value \$11, 400 16, 000 \$27, 400 Cumulative Change in Fair Value \$ 900 (400) \$ 500 \$ (200) 500 \$27, 400 Loss on sale of trading securities Unrealized gain on increase in value of trading securities Current assets: Temporary investment in trading securities (at fair value) 16, 200 16, 200 17, 600 17, 600 1, 500 1, 500* Cumulative Change in Fair Value \$(1, 000) (900) (1, 600) \$(3, 500) Security X Company common stock Y Company common stock Z Company common stock Totals Cost \$15, 000 16, 200 17, 600 \$48, 800 \$1, 500 credit adjustment = \$3, 500 required ending credit balance - \$2, 000 beginning credit balance 15-12 E15-3 (continued) Noncurrent assets: Investment in available-for-sale securities (at cost) Less: Allowance for change in value of investment Investment in available-for-sale securities (at fair value) Stockholders' equity: Accumulated Other Comprehensive Income: Unrealized decrease in value of available-for-sale securities E15-4 1. 2010 May 3 Investment in Available-for-Sale Securities Cash Cash Investment in Available-for-Sale

Securities Gain on Sale of Available-for-Sale Securities (\$25, 000 - \$20, 000) Unrealized Increase/Decrease in Value of Available-for-Sale Securities (\$25, 000 - \$20, 000) Allowance for Change in Value of Investment Cash Dividend

Revenue Allowance for Change in Value of Investment Unrealized Increase/Decrease in Value of Available-for-Sale Securities \$48, 800 (3, 500) \$45, 300 \$ (3, 500) 13, 500 25, 000 13, 500 July 16 20, 000 5, 000 16 5, 000 5, 000 800 800 Dec. 31 31 5, 000* 5, 000 12/31/10 Fair Value \$32, 000 15, 500 \$47, 500 Cumulative Change in Fair Value \$2, 000 2, 000 \$4, 000 *Security B Company common stock C Company common stock Totals Cost \$30, 000 13, 500 \$43, 500 15-13 E15-4 (continued) 1. (continued) \$5, 000 debit adjustment = \$4,000 required ending debit balance + \$5,000 credit adjustment (7/16/10) - \$4, 000 beginning debit balance 2. \$4, 000 credit balance [\$4, 000 beginning credit balance - \$5, 000 debit adjustment (7/16/10) + \$5, 000 ending credit adjustment] E15-5 1. 010 June 8 Investment in Available-for-Sale Securities Cash Cash Loss on Sale of Available-for-Sale Securities (\$35, 400 - \$37, 000) Investment in Availablefor-Sale Securities Allowance for Change in Value of Investment Unrealized Increase/Decrease in Value of Available-for-Sale Securities Cash Dividend Revenue Allowance for Change in Value of Investment Unrealized Increase/Decrease in Value of Available-for-Sale Securities 50, 000 35, 400 1, 600 50, 000 Oct. 11 37, 000 2, 800 2, 800 900 900 Oct. 11 Dec. 31 31 400* 400 12/31/10 Fair Value \$43, 900 49, 600 \$93, 500 Cumulative Change in Fair Value \$1, 900 (400) \$1, 500 *Security N Company common stock O Company common stock Totals Cost \$42, 000 50, 000 \$92, 000 15-14 E15-5 (continued) 1. continued) 400 debit adjustment = 1, 500 required ending debit balance - [\$1, 700 beginning credit balance - \$2, 800 debit adjustment (10/11/10)] \$92, 000 1, 500 \$93, 500 2. Noncurrent assets: Investment in available-for-sale securities (at cost) Plus: Allowance for change in value of

investment Investment in available-for-sale securities (at fair value) Stockholders' equity: Accumulated Other Comprehensive Income: Unrealized increase in value of available-for-sale securities \$ 1, 500 E15-6 1. 2010 Mar. 31 Investment in Held-to-Maturity Debt Securities Interest Revenue (\$400, 000 x 0. 12 x 3/12) Cash Cash (\$400, 000 x 0. 12 x 6/12) Interest Revenue [(\$400, 000 x 0. 2 x 6/12) - \$600] Investment in Held-to-Maturity Debt Securities [(\$413, 800 \$400, 000) x 3/69] Cash Interest Revenue (\$24, 000 -\$1, 200) Investment in Held-to-Maturity Debt Securities (\$13, 800 x 6/69) 413, 800 12, 000 24, 000 23, 400 600 24, 000 22, 800 1, 200 425, 800 June 30 Dec. 31 2. If the company failed to separately record the interest at acquisition, the interest revenue for 2010 would be overstated and the value of the held-tomaturity debt securities would also be overstated. Therefore, excess amortization would be recognized over the remaining life of the bond, resulting in an understatement of interest revenue. 15-15 E15-7 1. 2010 Jan. 1 Investment in Held-to-Maturity Debt Securities Cash Cash (\$500, 000 x 0. 09 x 6/12) Investment in Held-to-Maturity Debt Securities [(\$500, 000 \$483, 841. 79) ?] Interest Revenue Cash Investment in Held-to-Maturity Debt Securities Interest Revenue Investment in Held-to-Maturity Debt Securities Cash Cash (\$500, 000 x 0. 09 x 6/12) Investment in Held-to-Maturity Debt Securities (\$24, 192. 09 - \$22, 500) Interest Revenue (\$483, 841. 79 x 0. 10 x 6/12) Cash Investment in Held-to-Maturity Debt Securities Interest Revenue $[($483, 841, 79 + $1, 692, 09) \times 0.10 \times 6/12] 483, 841, 79 22, 500, 00 2,$ 019. 78 22, 500. 00 2, 019. 78 483, 841. 79 June 30 24, 519. 78 Dec. 31 24, 519. 78 2. 2010 Jan. 1 483, 841. 79 22, 500. 00 1, 692. 09 483, 841. 79 June 30 24, 192. 09 22, 500. 00 1, 776. 69 24, 276. 69 Dec. 31 15-16 E15-8 2009

Nov. 1 Investment in Held-to-Maturity Debt Securities Cash 673, 618. 61 673, 618. 1 REID CORPORATION Bond Investment Interest Revenue and Discount Amortization Schedule (Partial) Effective Interest Method Cash Debita \$35, 000 35, 000 x 0. 10 x ? carrying value x 0. 11 x ? from footnote b - amount from footnote a carrying value + amount from footnote c Cash Investment in Held-to-Maturity Debt Securities Interest Revenue Cash Investment in Heldto-Maturity Debt Securities Interest Revenue Cash Investment in Held-to-Maturity Debt Securities (from schedule) Gain on Sale of Debt Securities 35, 000. 00 2, 049. 02 35, 000. 00 2, 161. 72 700, 000. 00 677, 829. 35 22, 170. 65 37, 161. 72 37, 049. 02 Interest Revenue Creditb \$37, 049. 02 37, 161. 2 Investment in Debt Securities Debitc \$2, 049. 02 2, 161. 72 Carrying Value of Debt Securitiesd \$673, 618. 61 675, 667. 63 677, 829. 35 Date 11/01/09 04/30/10 10/31/10 a\$700, 000 bPrevious cAmount dPrevious 2010 Apr. 30 Oct. 31 Nov. 1 15-17 E15-9 1. 2010 Jan. 1 Investment in Held-to-Maturity Debt Securities Cash 190, 165. 35 190, 165. 35 2. RODGERS COMPANY Bond Investment Interest Revenue and Discount Amortization Schedule Effective Interest Method Cash Debita \$10, 000 10, 000 10, 000 10, 000 10, 000 10, 000 Interest Revenue Creditb \$11, 409. 92 11, 494. 52 11, 584. 19 11, 679. 24 11, 779. 99 11, 886. 79 Investment in Debt Securities Debitc \$1, 409. 92 1, 494. 52 1, 584. 19 1, 679. 24 1, 779. 99 1, 886. 9 Carrying Value of Debt Securitiesd \$190, 165. 35 191, 575. 27 193, 069. 79 194, 653. 98 196, 333. 22 198, 113. 21 200, 000. 00 Date 01/01/10 06/30/10 12/31/10 06/30/11 12/31/11 06/30/12 12/31/12 a\$200, 000 bPrevious cAmount dPrevious (face value) x 0. 10 (face rate of interest) x ? (year) carrying value x 0. 12 (effective interest rate) x ? (year) from footnote b - amount from footnote a

Chapter 16 investments – Paper Example

carrying value + amount from footnote c Cash Investment in Held-to-Maturity Debt Securities Interest Revenue Cash Investment in Held-to-Maturity Debt Securities Interest Revenue 10, 000. 00 1, 409. 92 11, 409. 92 3. 2010 June 30 2012 June 30 10, 000. 00 1, 779. 99 11, 779. 99 15-18 E15-10 1. 2010 Jan. Investment in Held-to-Maturity Debt Securities Cash LYNCH COMPANY Bond Investment Interest Revenue and Premium Amortization Schedule Effective Interest Method Cash Debita \$3, 250 3, 250 3, 250 3, 250 3, 250 3, 250 Interest Revenue Creditb \$3, 073. 76 3, 063. 19 3, 051. 98 3, 040. 10 3, 027. 50 3, 014. 12e Investment in Debt Securities Creditc \$176. 24 186. 81 198. 02 209. 90 222. 50 235. 88 Carrying Value of Debt Securitiesd \$51, 229. 35 51, 053. 11 50, 866. 30 50, 668. 28 50, 458. 38 50, 235. 88 50, 000. 00 51, 229. 35 51, 229. 35 2. Date 01/01/10 06/30/10 12/31/10 06/30/11 12/31/11 06/30/12 12/31/12 a\$50, 000 (face value) x 0. 13 (face rate of interest) x ? (year) carrying value x 0. 12 (effective interest) rate) x ? year) from footnote a - amount from footnote b carrying value amount from footnote c due to \$0. 03 rounding error Cash Investment in Held-to-Maturity Debt Securities Interest Revenue Cash Investment in Heldto-Maturity Debt Securities Interest Revenue 3, 250. 00 176. 24 3, 073. 76 3, 250. 00 235. 88 3, 014. 12 bPrevious cAmount dPrevious eDifference 3. 2010 June 30 2012 Dec. 31 15-19 E15-11 2010 Jan. 1 Investment in Held-to-Maturity Debt Securities Cash 307, 493. 34 307, 493. 34 GLOVER CORPORATION Bond Investment Interest Revenue and Premium Amortization Schedule (Partial) Effective Interest Method Cash Debita \$18, 000 18, 000 Interest Revenue Creditb \$16, 912. 13 16, 852. 30 Investment in Debt Securities Creditc \$1, 087. 87 1, 147. 0 Carrying Value of Debt Securitiesd

\$307, 493. 34 306, 405. 47 305, 257. 77 Date 01/01/10 06/30/10 12/31/10 a\$300, 000 bPrevious cAmount dPrevious (face value) x 0. 12 x ? year carrying value x 0. 11 x ? year from footnote a - amount from footnote b carrying value - amount from footnote c Cash Interest Revenue Investment in Held-to-Maturity Debt Securities Cash Interest Revenue Investment in Held-to-Maturity Debt Securities Cash Loss on Sale of Debt Securities Investment in Held-to-Maturity Debt Securities (from schedule) 18, 000 2010 June 30 16, 912. 13 1, 087. 87 Dec. 31 18, 000 16, 852. 30 1, 147. 70 2011 Jan. 1 300, 000. 00 5, 257. 77 305, 257. 77 15-20 E15-12 2010 Dec. 1 Cash (\$100, 000 x 0. 08) Interest Revenue (\$107, 023. 56 x 0. 07) Investment in Held-to-Maturity Debt Securities (\$8, 000 \$7, 491. 65) Investment in Available-for-Sale Securities Investment in Held-to-Maturity Debt Securities (\$107, 023. 56 - \$508. 35) Unrealized Increase/Decrease in Value of Available-for-Sale Securities Allowance for Change in Value of Investment [\$106, 515. 21 (\$100, 000 x 1. 05)] 8, 000 7, 491. 65 508. 35 106, 515. 21 106, 515. 21 31 31 1, 515. 21 1, 515. 21 E15-13 1. June 1, 2010 Investment in Held-to-Maturity Debt Securities Cash 2011 Realized Loss on Decline in Value Investment in Held-to-Maturity Debt Securities 2012 No entry 2.

Under IFRS, the company would make the same journal entries as in Requirement 1 for 2010 and 2011. In 2012, it would recognize the recovery of the impairment as follows: 2012 Investment in Held-to-Maturity Debt Securities Realized Loss Recovery on Increase in Value 3, 000 10, 000 10, 000 4, 000 4, 000 3, 000 15-21 E15-14 1. 2010 Jan. 1 Investment in Stock: Crowell Corporation Cash Cash (\$50, 000 x 0. 30) Investment in Stock: Crowell Corporation Investment in Stock: Crowell Corporation Investment Income (\$120, 000 x 0. 30) Cash (\$50, 000 x 0. 30) Investment in Stock: Crowell Corporation Investment in Stock: Crowell Corporation Investment Income (\$140, 000 x 0. 30) 160, 000 15, 000 160, 000 Mar. 31 5, 000 36, 000 36, 000 15, 000 15, 000 42, 000 42, 000 June 30 Sept. 30 Dec. 31 2. Investment in Stock: Crowell Corporation Original investment \$160, 000 Share of 06/30 investment income 36, 000 Share of 12/31 investment income 42, 000 Balance, 12/31/10 \$208, 000 03/31 dividend 09/30 dividend \$15, 000 15, 000 E15-15 2010 Jan. Dec. 1 31 31 31 Investment in Stock: North Company Cash Investment in Stock: North Company Investment Income (\$45, 000 x 0. 40) Investment Income (\$15, 000 ? 12 years) Investment in Stock: North Company 15-22 144, 000 18, 000 1, 250 5, 600 144, 000 18, 000 1, 250 5, 600 E15-16 2010 Jan.

During the year 1 Investment in Stock: Fink Company Cash (3, 000 x \$16) Investment in Stock: Fink Company Investment Income (\$22, 000 x 0. 30) Cash (\$6, 000 x 0. 30) Investment in Stock: Fink Company 31 Investment Income Investment in Stock: Fink Company a[(\$115, 000 48, 000 6, 600 1, 800 750a 48, 000 6, 600 1, 800 750 Dec. - \$90, 000) x 0. 30] ? 10 years E15-17 2009 Jan. 1 Investment in Available-for-Sale Securities Cash 19, 760 19, 760 2011 July 1 Memorandum entry: On this date, the Taylor Corporation exchanged its investment in Kalanda Corporation 12% convertible bonds with a carrying value of \$19, 880a for 300 shares of Kalanda common stock with a fair value of \$21, 600.

The cost per share is \$66. 27 (\$19, 880 ? 300 shares). a\$19, 760 + (5 x \$24*) *Amortization per period = \$24 [(\$20, 000 - \$19, 760) ? 10 periods]

E15-18 2010 Mar. 2 Investment in Available-for-Sale Securities Cash 60, 000 60, 000 May 1 Memorandum entry: Received 1, 000 (5, 000 x 0. 20) additional shares of Foreman Company common stock as a stock dividend. The cost of the shares is now \$10 per share as follows: 60, 000 = 105, 0000 = 105, 0000, 0000 = 1000 + (5, 000 x 0. 20) 15-23 E15-18 (continued) 2011 Feb. 1 Cash (1, 500 x \$12) Investment in Available-for-Sale Securities (1, 500 x \$10) Gain on Sale of Investment in Available-for-Sale Securities 18, 000 15, 000 3, 000 E15-19 2010 Jan. Dec. 31 Prepaid Insurance Cash Insurance Expense Cash Surrender Value of Life Insurance (\$103, 900 - \$98, 450) Prepaid Insurance Cash Gain on Death of Officer Cash Surrender Value of Life Insurance 13, 300 7, 850 5, 450 13, 300 13, 300 2011 Jan. 1 50, 000 43, 520 6, 480 E15-20 2010 Jan. Feb. July 1 3 30 Sinking Fund Cash Cash Sinking Fund Securities Sinking Fund Cash Sinking Fund Cash Loss on Sale of Sinking Fund Securities Sinking Fund Securities Sinking Fund Cash Sinking Fund Revenues Allowance for Change in Value of Sinking Fund Securities [\$355, 000 - (\$400, 000 - \$48, 000)] Unrealized Increase/Decrease in Value of Sinking Fund Securities 425, 000 400, 000 45, 000 3, 000 49, 000 48, 000 49, 000 425, 000 400, 000 Dec. 31 31 3, 000 3, 000 15-24 E15-20 (continued) 2011 Dec. 1 31 31 Sinking Fund Cash Sinking Fund Revenues Sinking Fund Expenses Sinking Fund Cash Sinking Fund Cash Sinking Fund Securities Gain on Sale of Sinking Fund Securities 40, 000 4, 500 360, 000 40, 000 4, 500 352, 000 8, 000 31 Unrealized Increase/Decrease in Value of Sinking Fund Securities Allowance for Change in Value of Sinking Fund Securities 31 31 E15-21 Bonds Payable Sinking Fund Cash Cash Sinking Fund Cash 3, 000 3, 000 500, 000 14, 500 500, 000 14, 500 Note to Instructor: This interest rate swap is a fair value

hedge. Original Bank Loan (not required) Cash Notes Payable Interest Payment on Loan: December 31, 2010 Interest Expense Cash a7% 3, 000, 000 3, 000, 000 210, 000a 210, 000 x \$3 million Interest Rate Swap Payment: December 31, 2010 Cash Interest Expense b(7% 12, 000b 12, 000 - 6. 6%) x \$3 million 15-25

E15-21 (continued) Fair Values and Gains and Losses, December 31, 2010 Loss in Value of Derivative Liability from Interest Rate Swap cPresent 53, 497c 53, 497 value = $(8\% - 7\%) \times 3 , 000, 000 x 1. 783265 (n= 2, i= 0. 08 from Table 4 in the TVM Module) = \$30, 000 x 1. 783265 = \$53, 497 (rounded down to balance) A swap derivative loss and liability exist because the 8% current market rate is higher than the 7% fixed interest rate that Anglar receives on the derivative. Notes Payable Gain in Value of Debt dPresent 53, 497d 53, 497 value of principal = \$3, 000, 000 x 0. 857339 (n= 2, i= 0. 08 from Table 3 in the TVM Module) = \$2, 572, 017 = \$210, 000 x 1. 783265 (n= 2, i= 0. 08 from Table 4 in the TVM Module) = \$374, 486 = \$2, 572, 017 + \$374, 486 = \$2, 946, 503

Present value of interest Total present value Decrease in value of debt = \$3, 000, 000 - \$2, 946, 503 = \$53, 497 The increase in interest rates decreases the value of note payable by the same amount as the increase in the value of the swap derivative liability. 15-26 E15-21 (continued) 2. Income Statement for Year Ending December 31, 2010 Other Items: Interest expense Loss in value of derivative Gain in value of debt e\$210, 000 \$ (198, 000)e (53, 497) 53, 497 - \$12, 000 Balance Sheet, December 31, 2010 Long-Term Liabilities: Notes payable Liability from interest rate swap f\$3, 000, 000 - \$53, 497 \$2, 946, 503f 53, 497 \$3, 000, 000 15-27 SOLUTIONS TO

PROBLEMS P15-1 1. 2010 Nov. 19 29 Investment in Trading Securities Cash (200 x \$86) Investment in Trading Securities Cash (300 x \$63) Cash (100 x \$89) Investment in Trading Securities (100 x \$86) Gain on Sale of Trading Securities Investment in Trading Securities Cash (400 x \$37) Cash (100 x \$62) Loss on Sale of Trading Securities Investment in Trading Securities (100 x \$63) Unrealized Loss on Decrease in Value of Trading Securities Investment in Trading Securities 17, 200 18, 900 8, 600 300 14, 800 6, 200 100 6, 300 200 14, 800 17, 200 18, 900 Dec. 15 17 31 200* Cumulative Change in Fair Value \$ 100 (400) 100 \$(200) \$ 300 (100) (200) \$35, 800 *Security 100 shares of M Company common stock 200 shares of P Company preferred stock 400 shares of T Company common stock Totals 2. Cost \$ 8, 600 12, 600 14, 800 \$36, 000 12/31/10 Fair Value \$ 8, 700 12, 200 14, 900 \$35, 800

Gain on sale of trading securities Loss on sale of trading securities Unrealized loss on decrease in value of trading securities Current assets: Temporary investment in trading securities (at fair value) 3. 15-28 P15-2 1. 2010 July 2 14 Cash (100 x \$1. 50) Dividend Revenue Cash (600 x \$20) Loss on Sale of Trading Securities Investment in Trading Securities Investment in Trading Securities Cash (300 x \$36) Cash (100 x \$30) Investment in Trading Securities Gain on Sale of Trading Securities Investment in Trading Securities Cash (500 x \$22) Unrealized Loss on Decrease in Value of Trading Securities Investment in Trading Securities 150 12, 000 600 10, 800 3, 000 150 12, 600 10, 800 2, 800 200 11, 000 Aug. 9 24 Sept. 17 30 11, 000 350 350* *Security 300 shares of P Company preferred stock 500 shares of U Company common stock Totals 2. Cost \$10, 800 11, 000 \$21, 800 Cumulative 9/30/10 Change in Fair Value Fair Value \$10, 950 \$ 150 10, 500 (500) \$21, 450 \$(350) \$ 150 (600) 200 (350) \$21, 450 Dividend revenue Loss on sale of trading securities Gain on sale of trading securities Unrealized loss on decrease in value of trading securities Current assets: Temporary investment in trading securities (at fair value) 3. 15-29 P15-3 1. 2010 Mar. 31 Investment in Available-for-Sale Securities Interest Revenue (\$10, 000 x 0. 08 x 3/12) Cash Cash (200 x \$30) Loss on Sale of Available-for-Sale Securities {200 x [\$30 - (\$23, 100 ? 700)]} Investment in Available-for-Sale Securities [200 x (\$23, 100 ? 00)] Allowance for Change in Value of Investment Unrealized Increase/Decrease in Value of Available-for-Sale Securities [200/700 x (\$21, 700 - \$23, 100)] Cash Interest Revenue (\$10, 000 x 0. 08 x 6/12) Cash (100 x \$24) Investment in Availablefor-Sale Securities [100 x (\$8, 400 ? 400)] Gain on Sale of Available-for-Sale Securities {100 x [\$24 (\$8, 400 ? 400)]} Unrealized Increase/Decrease in Value of Available-for-Sale Securities $[100/400 \times (\$9, 400 - \$8, 400)]$ Allowance for Change in Value of Investment 10, 000 200 10, 200 May 17 6, 000 600 6, 600 400 17 400 400 400 2, 400 2, 100 300 June 30 Oct. 12 12 250 250 15-30 P15-3 (continued) 1. (continued) Dec. 31 Cash Interest Revenue (\$10, 000 x 0. 8 x 6/12) Dividend Revenue [(300 x \$1) + (500 x \$1. 50)] Allowance for in Value of Investment Unrealized Change Increase/Decrease in Value of Available-for-Sale Securities 1, 450 400 1, 050 550* 550 12/31/10 Fair Value \$ 7, 500 15, 500 10, 100 \$33, 100 Cumulative Change in Fair Value \$1, 200 (1, 000) 100 \$ 300 31 *Security 300 shares of I Company common stock 500 shares of O Company common stock \$10, 000 face value of U Company 8% bonds Totals \$550 debit adjustment = Cost \$ 6,

300 16, 500 10, 000 \$32, 800 \$300 required ending debit balance + [\$400 beginning credit balance - \$400 debit adjustment (5/17/10) + \$250 credit adjustment (10/12/10)] \$ 600 1, 050 (600) 300 2.

Interest revenue Dividend revenue Loss on sale of available-for-sale securities Gain on sale of available-for-sale securities Current assets: Temporary investment in available-for-sale securities (at cost) Plus: Allowance for change in value of investment Temporary investment in available-for-sale securities (at fair value) Noncurrent assets: Investment in available-for-sale securities (at cost) Less: Allowance for change in value of investment Investment in available-for-sale securities (at fair value) 3. \$6, 300 1, 200 \$7, 500 \$26, 500 (900) \$25, 600 15-31 P15-3 (continued) 3. (continued) Stockholders' equity: Accumulated Other Comprehensive Income: Unrealized increase in value of available-for-sale securities 4. Holly include of \$700 [the change in the unrealized would а gain increase/decrease on the portfolio from \$(400) to \$300]. \$ 300 P15-4 1. 2010 Jan. Cash (400 x \$45) Investment in Available-for-Sale Securities (400 x \$43) Gain on Sale of Available-for-Sale Securities [(400 x \$45) - \$17, 200] Unrealized Increase/Decrease in Value of Available-for-Sale Securities Allowance for Change in Value of Investment (400 x \$1) Investment in Available-for-Sale Securities Cash (700 x \$45) Cash Dividend Revenue Unrealized Increase/Decrease in Value of Available-for-Sale Securities Allowance for Change in Value of Investment 18, 000 17, 200 800 6 400 400 31, 500 2, 500 Feb. 3 31, 500 2, 500 Mar. 31 31 2, 300 2, 300* 15-32 P15-4 (continued) 1. (continued) 3/31/10 Fair Value \$ 29, 500 18, 000 28, 000 30, 100 \$105, 600 Cumulative Change in Fair Value \$ (500) 800 -(1, 400) \$ (1,

100) Cost *Security 500 shares of Keene Company common stock \$ 30, 000 400 shares of Sachs, Inc. common stock 17, 200 400 shares of Bacon Company common stock 28, 000 700 shares of Jackson Corp. common stock 31, 500 Totals \$106, 700 \$2, 300 credit adjustment \$1, 100 required ending credit balance + [\$1, 600a beginning debit balance - \$400 credit adjustment (1/6/10)] a[800 x (\$44 - \$43)] + [400 x (\$72 - \$70)] Apr. 14 Investment in Available-for-Sale Securities Cash (300 x \$52) Cash (400 x \$42) Loss on Sale of Available-for-Sale Securities [(400 x \$42) - \$17, 200] Investment in Available-for-Sale Securities Unrealized Increase/Decrease in Value of Available-for-Sale Securities Allowance for Change in Value of Investment Cash Dividend Revenue Allowance for Change in Value of Investment Unrealized Increase/Decrease in Value of Available-for-Sale Securities 15, 600 16, 800 400 17, 200 15, 600 May 11 11 800 800 2, 800 2, 800 June 30 30 2, 600* 2, 600 15-33 P15-4 (continued) 1. continued) 6/30/10 Fair Value \$ 31, 000 27, 600 32, 200 15, 000 \$105, 800 Cumulative Change in Fair Value \$ 1, 000 (400) 700 (600) \$ 700 Cost *Security 500 shares of Keene Company common stock \$ 30, 000 400 shares of Bacon Company common stock 28, 000 700 shares of Jackson Corp. common stock 31, 500 300 shares of Quinn Company common stock 15, 600 Totals \$105, 100 \$2, 600 debit adjustment = \$700 required ending debit balance + [\$1, 100 beginning credit balance + \$800 credit adjustment (5/11/10)] \$ 800 2, 500 Second Quarter 2010 Loss on sale of securities \$ (400) Dividend revenue 2, 800 3/31/10 \$47, 200 300 \$47, 500 6/30/10 \$30, 000 1, 000 \$31, 000 2. First Quarter 2010 Gain on sale of securities Dividend revenue 3.

Assets Current assets: Temporary investment in available-for-sale securities (at cost) Plus: Allowance for change in value of investment Temporary investment in available-for-sale securities (at fair value) Noncurrent assets: Investment in available-for-sale securities (at cost) Less: Allowance for change in value of investment Investment in available-for-sale securities (at fair value) Stockholders' Equity Accumulated Other Comprehensive Income: Unrealized increase (decrease) in value of available-for-sale securities \$59, 500 (1, 400) \$58, 100 \$75, 100 (300) \$74, 800 \$ (1, 100) \$ 700 15-34 P15-5 1. 2010 Jan. Mar. 6 31 31 Cash Dividend Revenue Cash Dividend Revenue Allowance for Change in Value of Investment Unrealized Increase/Decrease in Value of Available-for-Sale Securities 265 500 65 500 1, 180* 1, 180 Cumulative 3/31/10 Change in Fair Value Fair Value \$13, 470 \$ (805) 13, 765 1, 115 18, 940 1, 490 15, 500 (3, 600) \$61, 675 \$(1, 800) *Security 400 shares of Turben Co. common stock 500 shares of Cook Corp. common stock 700 shares of Hill Corp. common stock 200 shares of Web Engines preferred stock Totals \$1, 180 debit adjustment June 30 30 Cost \$14, 275 12, 650 17, 450 19, 100 \$63, 475 = \$1, 800 required ending credit balance - \$2, 980 (\$63, 475 - \$60, 495) beginning credit balance 1, 075 1, 075 Cash (\$375 + \$700) Dividend Revenue Allowance for Change in Value of Investment Unrealized Increase/Decrease in Value of Available-for-Sale Securities 50* 450 6/30/10 Fair Value \$13, 300 14, 125 19, 300 15, 400 \$62, 125 Cumulative Change in Fair Value \$ (975) 1, 475 1, 850 (3, 700) \$(1, 350) *Security 400 shares of Turben Co. common stock 500 shares of Cook Corp. common stock 700 shares of Hill Corp. common stock 200 shares of Web Engines preferred stock Totals Cost \$14, 275 12, 650 17, 450 19, 100 \$63,

475 15-35 P15-5 (continued) 1. (continued) \$450 debit adjustment = July 6 \$1, 350 required ending credit balance - \$1, 800 beginning credit balance 13, 750 525 14, 275 975 975 500 500 Cash Loss on Sale of Available-for-Sale Securities (\$13, 750 - \$14, 275) Investment in Available-for-Sale Securities Allowance for Change in Value of

Investment Unrealized Increase/Decrease in Value of Available-for-Sale Securities Cash Dividend Revenue Allowance for Change in Value of Investment Unrealized Increase/Decrease in Value of Available-for-Sale Securities 6 Sept. 29 30 805* 805 Cumulative 9/30/10 Change in Fair Value Fair Value \$14, 230 \$ 1, 580 19, 500 2, 050 15, 900 (3, 200) \$49, 630 \$ 430 *Security 500 shares of Cook Corp. common stock 700 shares of Hill Corp. common stock 200 shares of Web Engines preferred stock Totals \$805 debit adjustment = Cost \$12, 650 17, 450 19, 100 \$49, 200 \$430 required endingdebit balance + [\$1, 350 beginning credit balance - \$975 debit adjustment (7/6/10)] 19, 780 17, 450 2, 330 Nov. 2 Cash Investment in Available-for-Sale Securities Gain on Sale of Available-for-Sale Securities (\$19, 780 - \$17, 450) 15-36 P15-5 (continued) 1. (continued) Nov. Unrealized Increase/Decrease in Value of Available-for-Sale Securities Allowance for Change in Value of Investment Cash Dividend Revenue Allowance for Increase/Decrease in Value of Available-for-Sale Securities Unrealized Change in Value of Investment 2, 050 2, 050 375 375 Dec. 30 31 550* 550 Cumulative 12/31/10 Change in Fair Value Fair Value \$14, 280 \$ 1, 630 16, 400 (2, 700) \$30, 680 \$(1, 070) *Security 500 shares of Cook Corp. common stock 200 shares of Web Engines preferred stock Totals \$550 debit adjustment = Cost \$12, 650 19, 100 \$31, 750 \$1, 070 required ending credit balance + [\$430 beginning

debit balance - \$2, 050 credit adjustment (11/2/10)] March 31 \$765a --For Quarter Ended June 30 Sept. 30 \$1, 075b \$500 – 525 – – Dec. 31 \$ 375 – 2, 330 2. Dividend revenue Loss on sale of securities Gain on sale of securities a\$265 b\$375 + \$500 + \$700 15-37 P15-5 (continued) 3.

Current assets: Temporary investment in available-for-sale securities (at cost) Plus (Less): Allowance for change in value of investment Temporary investment in available-for-sale securities (at fair value) March 31 Balance Sheet as of June 30 Sept. 30 Dec. 31 \$63, 475 (1, 800) \$61, 675 \$63, 475 (1, 350) \$62, 125 \$49, 200 430 \$49, 630 \$31, 750 (1, 070) \$30, 680 Stockholders' equity: Accumulated Other Comprehensive Income: Unrealized increase(decrease) in value of available-forsale securities \$ (1, 800) \$ (1, 350) P15-6 1. 2010 Jan. 1 Investment in Available-for-Sale Securities Cash (\$30, 000 x 0. 97) Investment in Available-for-Sale Securities Cash (\$40, 000 x 1. 01) Cash (\$30, 000 x 0. 08 x 1/2) Investment in Available-for-Sale Securities Interest Revenue (\$29, 100 x 0. 0 x 1/2) Cash (\$40, 000 x 0. 10 x 1/2) Investment in Available-for-Sale Securities Interest Revenue (\$40, 400 x 0. 098 x 1/2) \$ 430 \$ (1, 070) 29, 100 29, 100 1 40, 400 1, 200 255 40, 400 June 30 1, 455 2, 000 20 1, 980 30 15-38 P15-6 (continued) 1. (continued) June 30 Allowance for Change in Value of Investment Unrealized Increase/Decrease in Value of Available-for-Sale Securities 225* 225 Cumulative Change in Fair Value \$ (195) 420 \$ 225 *Security \$30, 000 face value of Bradford Co. bonds \$40, 000 face value of Morris Co. bonds Totals a\$29, 100 b\$40, 400 c\$30, 000 d\$40, 000 Amortized 6/30/10 Cost Fair Value a \$29, 160c \$29, 355 b 40, 800d 40, 380 \$69, 960 \$69, 735 ost + \$255 amortization of discount cost - \$20 amortization of premium x 0. 972 x 1. 02

1 Investment in Available-for-Sale Securities Cash (\$25, 000 x 0. 92) Interest Receivable (\$25, 000 x 0. 11 x 5/12) Investment in Available-for-Sale Securities Interest Revenue (\$23, 000 x 0. 12 x 5/12) Cash [(\$25, 000 x 0. 91) + \$1, 146] Loss on Sale of Available-for-Sale Securities Investment in Available-for-Sale Securities Interest Receivable 23, 000 July 23, 000 Nov. 30 1, 146 4 1, 150 23, 896 254* 23, 004 1, 146 30 *\$23, 004 carrying value (\$23, 000 cost + \$4 amortization of discount) \$22, 750 proceeds (excluding interest) 15-39 P15-6 (continued) 1. (continued) Dec. 31 Cash (\$30, 000 x 0. $8 \times 1/2$ Investment in Available-for-Sale Securities Interest Revenue (\$29, 355 x 0. 10 x 1/2) Cash (\$40, 000 x 0. 10 x 1/2) Investment in Available-for-Sale Securities Interest Revenue (\$40, 380 x 0. 098 x 1/2) Cash (\$40, 000 x 1. 02) Investment in Available-for-Sale Securities (\$40, 380 - \$21) Gain on Sale of Available-for-Sale Securities (\$40, 800 - \$40, 359) Unrealized Increase/Decrease in Value of Available-for-Sale Securities Allowance for Change in Value of Investment (from 6/30/10 schedule) Unrealized Increase/Decrease in Value of Available-for-Sale Securities Allowance for Change in Value of Investment 1, 200 268 1, 468 2, 000 21 1, 979 40, 800 40, 359 441 31 31 31 420 420 31 28 628* 12/31/10 Fair Value \$28, 800b \$28, 800 Cumulative Change in Fair Value \$(823) \$(823) *Security \$30, 000 face value of Bradford Co. bonds Totals a\$29, 355 b\$30, 000 Cost \$29, 623a \$29, 623 amortized cost (6/30/10) + \$268 amortization of discount x 0. 96 = \$823 required ending credit balance + [\$225 beginning (6/30/10) debit balance - \$420 credit adjustment (12/31/10)] \$628 credit adjustment 15-40 P15-6 (continued) 2. Interest revenue Loss on sale of securities Gain on sale of securities a\$1, 455 b\$1, 150 For Semiannual Period Ended 12/31/10

6/30/10 a \$4, 597b \$3, 435 - (254) - 441 + \$1, 980 + \$1, 468 + \$1, 979 Balance Sheet As of 06/30/10 12/31/10 \$69, 753 225 \$69, 960 \$29, 623 (823) \$28, 800 3.

Current assets: Temporary investment in available-for-sale securities (at amortized cost) Plus (Less): Allowance for change in value of investment Temporary investment in available-for-sale securities (at fair value) Stockholders' equity: Accumulated Other Comprehensive Income: Unrealized increase (decrease) in value of available-for-sale securities \$225 \$(823) P15-7 1. 2010 Feb. 3 Investment in Available-for-Sale Securities Cash (3, 000 x \$12) Investment in Available-for-Sale Securities Interest Revenue (\$20, 000 x 0. 12 x 3/12) Cash Cash Interest Revenue (\$20, 000 x 0. 12 x 6/12) Dividend Revenue (3, 000 x \$0. 25) 36, 000 36, 000 Apr. 1 20, 000 600 1, 950 1, 200 750 20, 600 June 30 15-41 P15-7 (continued) 1. (continued) Sept. 1 Investment in Available-for-Sale Securities Cash (4, 000 x \$22) Investment in Available-for-Sale Securities Interest Revenue (\$30, 000 x 0. 11 x 5/12) Cash Cash Interest Revenue (\$30, 000 x 0. 11 x 6/12) Cash (\$30, 000 x 1. 1) Investment in Available-for-Sale Securities Gain on Sale of Available-for-Sale Securities (\$30, 300 - \$30, 000) Cash Dividend Revenue (3, 000 x \$0. 25) Cash Loss on Sale of Available-for-Sale Securities (\$35, 300 - \$36, 000) Investment in Available-for-Sale Securities Cash Interest Revenue (\$20, 000 $x = 0.12 \times 6/12$) Allowance for Change in Value of Investment Unrealized Increase/Decrease in Value of Available-for-Sale Securities 88, 000 88, 000 Nov. 1 30, 000 1, 375 1, 650 1, 650 30, 300 30, 000 300 750 35, 300 700 36, 000 1, 200 1, 200 4, 200* 4, 200 750 31, 375 Dec. 1 1 30 30 31 31 15-42 P15-7 (continued) 1. (continued) Cost *Security \$20, 000 face value of

Solomon Co. bonds \$ 20, 000 4, 000 shares of Woodman Corp. ommon stock 88, 000 Totals \$108, 000 a\$20, 000 b4, 000 Cumulative 12/31/10 Change in Fair Value Fair Value \$ 200 \$ 20, 200a 92, 000b 4, 000 \$112, 200 \$4, 200 x 1. 01 x \$23 \$2, 075 (-\$600+\$1, 200-\$1, 375+\$1, 650+\$1, 200) 1, 500 (\$750+\$750) 300 (700) 2. Interest revenue Dividend revenue Gain on sale of securities Loss on sale of securities 3. Current assets: Temporary investment in available-for-sale securities (at cost) Plus: Allowance for change in value of investment Temporary investment in available-for-sale securities (at fair value) \$108, 000 4, 200 \$112, 200 P15-8 Note to Instructor: This problem contains petty cash journal entries and a bank reconciliation, previously covered in Chapter 7. 1. 2010 Jan. Investment in Available-for-Sale Securities $[(150 \times \$20) + (200 \times \$30) + (100 \times \$25)]$ Cash Investment in Available-for-Sale Securities (\$20, 000 + \$12, 000) Interest Revenue [(\$20, 000 x 0. 12 x 5/12) + (\$12,000 x 0.10 x 4/12)] Cash Petty Cash Cash 11, 500 11, 500 Feb. 1 32, 000 1, 400 500 33, 400 500 1 15-43 P15-8 (continued) 1. (continued) Feb. 28 Cash Interest Revenue [\$20, 000 x 0. 12 x 6/12] Postage Expense Office Supplies Expense Transportation Expense Miscellaneous Expense Cash Cash Short and Over Cash a\$125. 50 1, 200 1, 200 110. 00 170. 65 45. 00 43. 50 5. 35a 28 369. 15 5. 35 28 - (\$500. 00 - \$369. 15) 2, 100 200 1, 500 800 Mar. 31 Cash (\$1, 500 + \$600) Interest Receivable (\$20, 000 x 0. 12 x 1/12; A Co. bonds) Dividend Revenue Interest Revenue [(\$12, 000 x 0. 0 x 6/12) + (\$20, 000 x 0. 12 x 1/12)] Unrealized Increase/Decrease in Value of Available-for-Sale Securities Allowance for Change in Value of Investment b\$42, 600 31 900 900b - (\$11, 500 + \$32, 000) 140. 00 75. 30 54. 20 31 Postage Expense Office Supplies Expense Miscellaneous Expense Cash 269.

50 15-44 P15-8 2. (continued) PAYNE CORPORATION Bank Reconciliation March 31, 2010 Balance per bank statement Add: Deposits in transit Deduct: Outstanding checks Adjusted cash balance Balance per company records Add: Note collected by bank Interest on note Deduct: Bank service charge NSF check returned Adjusted cash balance 3. 2010 Mar. 31 Cash Notes Receivable Interest Revenue