Stock market cycles

Case 2 A (1) This explain the cash payment in which the other remaining balance will not be accounted for i. e. it's a credit balance at the existing movement in the purchase of the equipment. It shows the current outstanding equivalence of the equipment that can be equaled to the current value of the equipment.

2) By recording the property, as $175, 000 he has adequately/appropriately recorded the property as per the market price of the common stock held as treasury shares. Since the $ 175, 000 consists of the cash payment of $100, 000 and three yearly installments of market value of $ 25, 000 each, the rationale here is that, $ 175, 000 would have been the actual cash price of the equipment. However, with this installment pricing, he is able to even discount further the share dividend of his 5, 000 shares that may yield dividends worth $ 25, 000 per year. With this implication in mind therefore, his capital equipment purchase of the lesser of $ 75, 000 could be compensated capital investment of 5, 000 share dividends per annum.

(Burk, 1992, p142, par, 3) 3) $ 200, 000 is the compensated value for the equipment. It means that, with the $200, 000 cost price of the equipment it equals to the benefits that can fully accrue over the four years due to the investment of the 5000 shares. This signifies the full compensation of the 5000 shares that is approximated to rise of $100, 000. Since Iroquois Corporation has invested the 5000 shares to provide annual compensation of $ 25, 000 (minimal) such compensations will amount to $ 100, 000 after the four years. This is called full compensation. 4) The other optional value in the price of the equipment is called the distributive value.

It is normally distributive value between the highest possible cost of equipment in the market value of the proposed period of down payment and the actual value that would cost the equipment. It is an average of these two values i. e. $ (200, 000 + 175, 000)/2 = $ 187, 500. This value indicates the most optimal value with a risk element employed to calculate its value. With this value, the equipment cost can be assessed in a plane of the market risks that are subject to affect the prices and trade of the shares.

Since the corporation purchases the shares with an expectation of an increase in their prices, however external risk forces can lead abnormal fluctuations in their benefits. This is made to cater for any in for seen changes in t eh market prices system in the security market. B 1) from the general understanding of accounting all debts are taken as liabilities. They are to be debited on the balance sheet.

Since the accruing balance is a debt to the Iroquois Corporation, it is therefore a debt they owe to the seller therefore a liability. 2) The balance can be treated as treasury stock subscribed, since the equivalence of the shares bought is made to stand for the payment of $ 25, 000 per annum for the equipment remaining balance installments. This is because the balance can adequately be supplemented with the dividends in the shares that the corporation has traded in the name of the equipment. 3) Operating stock, since the balance makes the amount of stock that the company is currently operating/trading with in the company share stock. Case 3 A. (i) Basically, a company’s intention to maintain its securities in different portfolios depends on the intention in the use of these securities.

Held-to-maturity; are the securities in which a company chooses to hold them upto their maturity period. Such security cost is based on the amortization value. The company takes these securities as long term investments. They are to safeguard for any long-term interest of the company.

These are only possible to bonds that have specific maturity period. However, the discretional characteristics of equity securities of having no specific date of maturity deters them from been taken as held-to-maturity. For these securities any fluctuation of a temporary nature on their fair value are never shown as entries in financial statements. They are long term security cover for the company. (Alborn, 1998, p. 57, par 4) Available for sale; are the debt securities or even equity that does not fall under the limits of those held-to-maturity neither those held as trading securities.

These are sold to acquire capital requirements. They are neither held to maturity securities nor of trading securities. Such securities are normally reported in the companies account statements at fair value. However, any abrupt change of the securities fair value at different period should not form equity.

(Alborn, 1998, p. 48, par. 2) Trading securities: are the securities of both the equity nature and even debt which the company buys and are sold as principle purposely with the intention of selling at a near future. Basically these are held purposely for a time to time trading by the company.

They are to be held in the event the company wants to develop/acquire incidental capital for the company. Basically it is used to cater for seasonal time requirements for the company. Their net income is reflected as a component of the general change for the securities market fair value. (ii) These accounts accrue their benefit at different times. Either the impact of the markets fair value on them should also be considered.

Since they have varied impact by the fair value in relation to their financial statements it calls for separate accounts in the financial statements. The difference in the valuations of debt securities or even equity leads to different classification in their portfolio. Broadly, the different investment portfolio requires different reporting styles of their financial entries in their journal. Due to their nature these portfolio perceive difference timing of making reports on their statements. For example, the held-to-maturity statements are mainly done annual, while trading securities may be reported either quarterly or half-yearly. Reports for available-for- sale may be reported more often like on monthly basis.

Due to the nature of reporting, it calls for separate accounts in order to state the possible difference in their effect to the company’s capital accounts. (Board, 2002, p. 85, par. 4) Either the difference in the effect of the markets fair value renders them to be reported differently.

Since not all are reflected at fair value reporting, different accounts should be used to reflect their impact in the company’s statements of accounts. B. 1. Classification of security investments majority depends on two factors; firstly, their portfolio impact to the company capital statement in which security are held for long term, short term or for abrupt trading purposes. Depending on the different importance of the security investments, then can a company choose which portfolio to invest into. Either, the nature of the effect of the market fair value influences to the security.

Since different securities are influenced differently by the fair value of their market, thus are categorized differently. (Michie, 1999, p. 79, par. 3) (ii) Treatment of unrealized losses is reflected at the balance sheets of the different investment portfolios.

Since securities involves discounting by use a market interest rate factor, the net value of the losses accruing as a result of such investments are only revealed as debit balances in their respective balance sheets. Held-to-maturity unrealized losses are weighed out after establishing the relationship between the expected net income and the actual results in its final balance sheet after its maturity. Any deficit to the expected amount in relation to the actual reflected amount is the losses. This is taken as a debit balance accrual. Losses accruing to available-for-sale are equally takes as debit balances after the end of the accounting period, which is normally basis on the accounting period.

Like wise, a debt balance shows accruals as losses on the statements of trading securities after the end of accounting period. References. Bolten, S. (2000) Stock Market Cycles; A Practical Explanation. Westport, CT: Quorum Books Burk, J, (1992) Values in the Market Places.

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