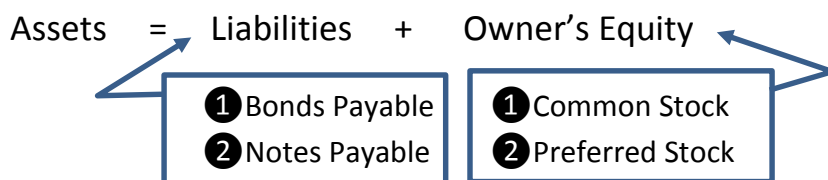


Investments and Fair Value Accounting

- Debt vs. Equity Securities



- Why have Investments? Excess Cash, earn interest income, sinking fund
- Short term vs. long term section of Balance Sheet



Debt Investment (buying, not selling)

Date	Description	PR	Debit	Credit
May 17	Investments—US Treasury Bonds		1,800	
2016	Interest Receivable (not expense)		135	
	Cash			18,135

Purchased \$18,000 T-Bond, 6% + accrued interest for 45 days
(Feb 1 issue date)

July 31	Cash		540	
2016	Interest Receivable			135
	Interest Revenue (plug figure)			405

Receive 1st interest payment $\$18,000 * .06 * 6/12 = \540

Dec. 31	Interest Receivable		450	
2016	Interest Revenue			450

Year-end accrual $\$18,000 * .06 * 5/12 = \450

Jan 31	Cash		540	
2017	Interest Revenue			90
	Interest Receivable			450

Received 2nd Semi-annual interest payment of \$540

Jan 31	Cash ($\$18,000 * .98$)		17,640	
2017	Loss on Sale		360	
	Investments—US Treasury Bonds			18,000

Sold Treasury Bonds a 98%

Equity Investments (stocks)

- Cost Method (<20% ownership)

		Cost Method	Post Ref.	Debit	Credit
1	1-May	Investment-Lisa Company Stock		\$ 100,000.00	
2		cash			\$ 100,000.00
3		Purchased 2,000 shares @ \$49.90 plus broker fees			
4					
5	31-Jul	Cash		\$ 800.00	
6		Dividend Revenue			\$ 800.00
7		Received Divs 2,000 shares @ \$.40			
8					
9	1-Sep	Cash [(\$54.50 * 1,500) - \$160 fees]		\$ 81,590.00	
10		Investment-Lisa Company Stock			\$ 75,000.00
11		Gain on Sale			\$ 6,590.00
12		Sold 1,500 or 2,000 shares \$54.50 plus commission			
13					

- Equity Method [on next page]

- Equity Method (20-50% ownership)

		Equity Method	Post Ref.	Debit	Credit
1	2-Jan	Investment in Flanders Corp		\$ 350,000.00	
2		cash			\$ 350,000.00
3		Purchased 40%			
4					
5	31-Dec	Investment in Flanders Corp		\$ 42,000.00	
6		Income of Flanders Corp			\$ 42,000.00
7		Net income \$105,000 * 40%			
8					
9	31-Dec	Cash		\$ 18,000.00	
10		Investment in Flanders Corp			\$ 18,000.00
11		Dividends of \$45,000 * 40%			
12					
13	1-Jan	Cash (market value)		\$ 400,000.00	
14		Investment in Flanders Corp			\$ 374,000.00
15		Gain on Sale			\$ 262,000.00
16		Sold Flanders Stock (350,000+42,000-18,000)			
17					

- Consolidation (>50% ownership so Parent/Subsidiary Relationship)
 - Prepare Consolidated Financial Statements

Valuing and Reporting Investments (based on intent of management)

- Trading Securities – **Stocks and Bonds listed with Current Assets. Fair Value Accounting Applies so Unrealized Gains/Losses are recorded.**

Name	# of shares	Total COST	Total Fair Value
Armor company	400	\$5,000	\$7,200
Mavin, Inc.	500	11,000	7,500
Polaris Co.	200	8,000	10,600
		\$24,000	\$25,300

Journal Entry

		Trading Securities	Post Ref.	Debit	Credit
1	31-Dec	Allowance for Trading Investments		\$ 1,300.00	
2	2015	Unrealized Gain on Trading Investments			\$ 1,300.00
3		To record increase in Fair Value of trading securities			
4					

Balance Sheet Representation

	Balance Sheet (Partial)			
1	Cash			\$ 120,000.00
2	Trading Investments at Cost		\$ 24,000.00	
3	Allowance for Trading Investments		\$ 1,300.00	
4	Trading Investments at Fair Value			\$ 25,300.00

What if you sold some securities, bought others and then had another year end accrual?

Name	# of shares	Total COST	Total Fair Value
Armor company	400	\$5,000	\$7,200
Mavin, Inc.	500	11,000	8,000
Polaris Co.	200	8,000	12,000
Mullin Petits Gâteaux	600	21,000	18,000
		\$40,000	\$38,000

		Trading Securities	Post Ref.	Debit	Credit
1	31-Dec	Unrealized Loss on Trading Investments		\$ 3,300.00	
2	2016	Allowance for Trading Investments			\$ 3,300.00
3		To record decrease in Fair Value of trading securities			
4					

The Allowance account represents a *swing* of \$3,300

Allowance for Trading Securities	
Gain (2015)	1300
	3,300
Loss (2016)	2,000

- Available for Sale Securities

Same Data:

Name	# of shares	Total COST	Total Fair Value
Armor company	400	\$5,000	\$7,200
Mavin, Inc.	500	11,000	7,500
Polaris Co.	200	8,000	10,600
		\$24,000	\$25,300

Same Journal Entry

		Trading Securities	Post Ref.	Debit	Credit
1	31-Dec	Allowance for Trading Investments		\$ 1,300.00	
2	2015	Unrealized Gain on Trading Investments			\$ 1,300.00
3		To record increase in Fair Value of trading securities			
4					

BUT the Unrealized Gain goes in the Owner's Equity Section (becomes an owner's equity account) as a Positive value NOT TO THE INCOME STATEMENT AS "OTHER REVENUE". The Allowance is still shown in the current asset section like before.

		Balance Sheet (Partial)		
1		Cash		\$ 120,000.00
2		Trading Investments at Cost	\$ 24,000.00	
3		Allowance for Trading Investments	\$ 1,300.00	
4		Trading Investments at Fair Value		\$ 25,300.00

- Held to Maturity Securities

These securities would be only Notes Payable and Bonds Payable since stock securities have no maturity date. ALL THE REGULAR ACCOUNTING ENTRIES ARE VALID. For example from a previous lecture:

Notes Receivable – interest bearing:

General Journal					
					Page 556
	date	description	post ref.	Dr.	Cr.
1	12-Jun	Notes Receivable		\$ 1,200.00	
2		Accounts Receivable			\$ 1,200.00
3		to convert A/R to a N/R			
4					
5					
6	11-Aug	Cash		\$ 1,220.00	
7		Notes Receivable			\$ 1,200.00
8		Interest Income			\$ 20.00
9		Payment of notes receivable			
10					

If there was a year-end accrual, you would:

General Journal					
					Page 556
	date	description	post ref.	Dr.	Cr.
1	12-Jun	Interest Receivable		\$ P*R*T	
2		Interest Revenue			\$ P*R*T
3		to record year end accrual			