Investments In Class Assignments Student Version Wild 22e

QS 15-3

Short-term equity investments P1

On April 18, Riley Co. made a short-term investment in 300 common shares of XLT Co. The purchase price is $42 per share and the broker's fee is $250. The intent is to actively manage these shares for profit. On May 30, Riley Co. receives $1 per share from XLT in dividends. Prepare the April 18 and May 30 journal entries to record these transactions.

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QS 15-4

Recording trading securities P1

Prepare Hertog Company's journal entries to reflect the following transactions for the current year.

|  |  |  |
| --- | --- | --- |
| May | 7 | Purchases 200 shares of Kraft stock as a short-term investment in trading securities at a cost of $50 per share plus $300 in broker fees. |
| June | 6 | Sells 200 shares of its investment in Kraft stock at $56 per share. The broker’s commission on this sale is $150. |

QS 15-5

Multiyear fair value adjustments to trading securities P1

Kitty Company began operations in 2014 and maintains short-term investments in trading securities. The year-end cost and fair values for its portfolio of these investments follow. Prepare journal entries to record each December 31 year-end fair value adjustment for these securities.



Exercise 15-2

Accounting for short-term trading securities P1

Prepare journal entries to record the following transactions involving the short-term securities investments of Duke Co., all of which occurred during year 2015.

1. On March 22, purchased 1,000 shares of RIP Company stock at $10 per share plus an $80 brokerage fee. These shares are categorized as trading securities.
2. On September 1, received a $1.00 per share cash dividend on the RIP Company stock purchased in transaction *a*.
3. On October 8, sold 500 shares of RIP Co. stock for $15 per share, less a $50 brokerage fee.

(c) Dr. Cash $7,450

Exercise 15-3

Accounting for trading securities P1

Brooks Co. purchases various investments in trading securities at a cost of $66,000 on December 27, 2015. (This is its first and only purchase of such securities.) At December 31, 2015, these securities had a fair value of $72,000.

1. Prepare the December 31, 2015, year-end adjusting entry for the trading securities' portfolio.
2. Explain how each account in the entry of part 1 is reported in financial statements.
3. 3. Prepare the January 3, 2016, entry when Brooks sells a portion of its trading securities (that had originally cost $33,000) for $35,000.

Check  (3) Gain, $2,000

QS 15-6

Debt securities transactions P2

On February 1, 2015, Garzon purchased 6% bonds issued by PBS Utilities at a cost of $40,000, which is their par value. The bonds pay interest semiannually on July 31 and January 31. For 2015, prepare entries to record Garzon's July 31 receipt of interest and its December 31 year-end interest accrual.

Exercise 15-4

Accounting for short-term held-to-maturity securities P2

Prepare journal entries to record the following transactions involving the short-term securities investments of Natura Co., all of which occurred during year 2015.

1. On June 15, paid $1,000,000 cash to purchase Remedy's 90-day short-term debt securities ($1,000,000 principal), dated June 15, that pay 10% interest (categorized as held-to-maturity securities).
2. On September 16, received a check from Remedy in payment of the principal and 90 days' interest on the debt securities purchased in transaction *a*.

QS 15-7

Available-for-sale securities P3

Journ Co. purchased short-term investments in available-for-sale securities at a cost of $50,000 on November 25, 2015. At December 31, 2015, these securities had a fair value of $47,000. This is the first and only time the company has purchased such securities.

1. Prepare the December 31, 2015, year-end adjusting entry for the securities' portfolio.
2. For each account in the entry for part 1, explain how it is reported in financial statements.
3. Prepare the April 6, 2016, entry when Journ sells one-half of these securities for $26,000.

 QS 15-8

Available-for-sale securities P3

Hiker Company completes the following transactions during the current year. Prepare the May 9 and June 2 journal entries and the December 31 adjusting entry. This is the first and only time the company purchased such securities.

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| --- | --- | --- |
| May | 9 | Purchases 200 shares of Higo stock as a short-term investment in available-for-sale securities at a cost of $25 per share plus $150 in broker fees. |
| June | 2 | Sells 100 shares of its investment in Higo stock at $28 per share. The broker's commission on this sale is $90. |
| Dec. | 31 | The closing market price (fair value) of the Higo stock is $23 per share. |

QS 15-9

Recording fair value adjustment for securities P3

During the current year, Reed Consulting Group acquired long-term available-for-sale securities at a $70,000 cost. At its December 31 year-end, these securities had a fair value of $58,000. This is the first and only time the company purchased such securities.

1. Prepare the necessary year-end adjusting entry related to these securities.
2. Explain how each account used in part 1 is reported in the financial statements.

QS 15-10

Recording long-term equity securities P3

On May 20, 2015, Montero Co. paid $1,000,000 to acquire 25,000 common shares (10%) of ORD Corp. as a long-term investment. On August 5, 2016, Montero sold one-half of these shares for $625,000. What valuation method should be used to account for this stock investment? Prepare entries to record both the acquisition and the sale of these shares.

Exercise 15-5

Accounting for short-term available-for-sale securities P3

Prepare journal entries to record the following transactions involving the short-term securities investments of Krum Co., all of which occurred during year 2015.

1. On August 1, paid $450,000 cash to purchase Houtte's 9% debt securities ($450,000 principal), dated July 30, 2015, and maturing January 30, 2016 (categorized as available-for-sale securities).
2. On October 30, received a check from Houtte for 90 days' interest on the debt securities purchased in transaction *a*.

Exercise 15-10

Multiyear fair value adjustments to available-for-sale securities P3

Ticker Services began operations in 2013 and maintains long-term investments in available-for-sale securities. The year-end cost and fair values for its portfolio of these investments follow. Prepare journal entries to record each year-end fair value adjustment for these securities.



Exercise 15-6

Transactions in short-term and long-term investments P1 P2 P3

Prepare journal entries to record the following transactions involving both the short-term and long-term investments of Cancun Corp., all of which occurred during calendar-year 2015. Use the account Short-Term Investments for any transactions that you determine are short term.

1. On February 15, paid $160,000 cash to purchase American General's 90-day short-term notes at par, which are dated February 15 and pay 10% interest (classified as held-to-maturity).
2. On March 22, bought 700 shares of Fran Industries common stock at $51 cash per share plus a $150 brokerage fee (classified as long-term available-for-sale securities).
3. On May 15, received a check from American General in payment of the principal and 90 days' interest on the notes purchased in transaction *a*.
4. On July 30, paid $100,000 cash to purchase MP3 Electronics's 8% notes at par, dated July 30, 2015, and maturing on January 30, 2016 (classified as trading securities).
5. On September 1, received a $1.00 per share cash dividend on the Fran Industries common stock purchased in transaction *b*.
6. On October 8, sold 350 shares of Fran Industries common stock for $64 cash per share, less a $125 brokerage fee.
7. On October 30, received a check from MP3 Electronics for three months' interest on the notes purchased in transaction *d*.

QS 15-11

Equity method transactions P4

Montero Co. holds 100,000 common shares (40%) of ORD Corp. as a long-term investment. ORD Corp. paid a $100,000 dividend on November 1, 2015, and reported a net income of $700,000 for 2015. Prepare Montero's entries to record (*a*) the receipt of the dividend and (*b*) the December 31, 2015, year-end adjustment required for the investment account.

Exercise 15-12

Securities transactions; equity method P4

Prepare journal entries to record the following transactions and events of Kodax Company.

|  |
| --- |
| *2015* |
| Jan. | 2 | Purchased 30,000 shares of Grecco Co. common stock for $408,000 cash plus a broker's fee of $3,000 cash. Bushtex has 90,000 shares of common stock outstanding and its policies will be significantly influenced by Kodax. |
| Sept. | 1 | Grecco declared and paid a cash dividend of $1.50 per share. |
| Dec. | 31 | Grecco announced that net income for the year is $486,900. |
| *2016* |
| June | 1 | Grecco declared and paid a cash dividend of $2.10 per share. |
| Dec. | 31 | Grecco announced that net income for the year is $702,750. |
| Dec. | 31 | Kodax sold 10,000 shares of Grecco for $320,000 cash. |