

Exercise 15-1

21e

Exercise 15-1 covers investment acquisition, disposition, and income on short-term trading securities. See page 619 of your textbook for problem details.

Instructor comments are in purple.

(a) Investment Acquisition

Mar. 22	Short-Term Investments—Trading (RIP)	10,080	
	Cash		10,080
	<i>Purchased 1,000 shares of RIP common stock</i> <i>([1,000 x \$10] + \$80)</i>		
	<i>Note that the brokerage fee is part of the purchase price of the investment. Although this stock was selling for \$10.00/share, the actual cost to the investor was \$10.08/share [\$10,080/1,000 shares]. The brokerage fee must be included in the per share cost of the investment.</i>		

(b) Receipt of Interest

Sep 1	Cash	1,000	
	Dividend Revenue		1,000
	<i>Received dividend on stock</i> <i>(1,000 x \$1.00)</i>		
	<i>Dividend Revenue is used since this investment was an equity security. Equity securities generate dividends, debt securities generate interest.</i>		

(c) Disposition of Investment

Oct. 8	Cash*	7,450	
	Short-Term Investments—Trading (RIP)**		5,040
	Gain on Sale of Short-Term Investments		2,410
	<i>Sold 500 shares of RIP stock.</i> <i>*([500 x \$15] - \$50) **(\$10,080/2)</i>		

Note that gains (losses) are only recorded for trading or available for sale securities. The brokerage fee is not an expense but is shown as a deduction from the proceeds of the sale. Recall that the purchase price of this investment included a brokerage fee. When an investment is sold, it's total cost must be removed from the accounting records. In this example, since half of the shares were sold, half of the total original cost was credited to the investment account.

Extra

Now try this one:

On November 1, sold the remaining 500 shares of RIP common stock for \$8 per share less a \$50 brokerage fee.

Disposition of Investment

Oct. 30	Cash*	3,950	
	Loss on Sale of Short-Term Investments	1,090	
	Short-Term Investments—Trading (RIP)**		5,040
	<i>Sold 500 shares of stock</i>		
	<i>* [(500 x \$8) - \$50]</i>		
	<i>**(\$10,080/2)</i>		

Note that this disposition resulted in a loss on the sale of the investment since the proceeds were less than the book value of the investment.

Also note that after this transaction, the balance in the Long-Term Investments account is -0- since all shares have been sold.