

Exercise 15-2

20e

Exercise 15-2 covers investment acquisition, disposition, and income on short-term trading securities. See page 617 of your textbook for problem details.

Instructor comments are in purple.

(a) Investment Acquisition

| | | |
|--|--------|--------|
| Mar. 22 Short-Term Investments—Trading (FIX) | 21,150 | |
| Cash | | 21,150 |

*Purchased 700 shares of FIX common stock
([700 x \$30] + \$150)*

Note that the brokerage fee is part of the purchase price of the investment. Although this stock was selling for \$30.00/share, the actual cost to the investor was \$30.21/share (rounded) [\$21,150/700 shares]. The brokerage fee must be included in the per share cost of the investment.

(b) Receipt of Interest

| | | |
|------------------|-----|-----|
| Sep 1 Cash | 700 | |
| Dividend Revenue | | 700 |

*Received dividend on FIX shares
(700 x \$1.00)*

Dividend Revenue is used since this investment was an equity security. Equity securities generate dividends, debt securities generate interest.

(c) Disposition of Investment

| | | |
|--|--------|--------|
| Oct. 8 Cash* | 13,860 | |
| Short-Term Investments—Trading (FIX)** | | 10,575 |
| Gain on Sale of Short-Term Investments | | 3,285 |

Sold 350 shares of FIX stock.

**([350 x \$40] - \$140) **(\$21,150/2)*

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 350 shares of FIX common stock for \$28 per share less a \$125 brokerage fee.

Disposition of Investment

| | | |
|--|-------|--------|
| Oct. 8 Cash* | 9,675 | |
| Loss on Sale of Short-Term Investments | 900 | |
| Short-Term Investments—Trading (FIX)** | | 10,575 |
| <i>Sold 350 shares of stock</i> | | |
| <i>* [(350 x \$28) - \$125]</i> | | |
| <i>**(\$21,150/2)</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.