Exercise 15-8

21e

Exercise 15-8 covers investment acquistion, disposition, and income on short-term held-to-maturity (HTM), available-for -sale (AFS), and trading securities. See page 621 of your textbook for problem details.

Instructor notes are in purple.

a. **Investment Acquistion**

Feb. 15	**Short-Term Investments—HTM (A.G.)**	**160,000**	
	Cash		**160,000**
	Purchased 90-day, 10% debt securities.		

b. **Investment Acquistion**

Mar. 22	**Long-Term Investments—AFS (Fran)**	**35,850**	
	Cash		**35,850**
	Purchased 700 shares of stock		
	(700 x $51.00) + $150 brokerage fee.		

Note that the brokerage fee is part of the purchase price of the investment. Although this stock was selling for $51.00/share, the actual cost to the investor was $51.21/share (rounded) [$35,850/700 shares]. The brokerage fee must be included in the per share cost of the investment.

c. **Receipt of Principal and Interest on HTM Securities**

Jun 15	**Cash**	**164,000**	
	Short-Term Investments—HTM (A.G.)		**160,000**
	Interest Revenue		**4,000**
	Collected proceeds of debt securities		
	with interest		
	$160,000 x .10 x 90/360.		

Interest Revenue is used since this investment was a debt security. Debt securities generate interest, equity securities generate dividends.

d. **Investment Acquistion**

Aug. 1 Short-Term Investments—Trading (MP3)	**100,000**	
Cash		**100,000**
Purchased 8% notes, due Jan 30, 2014		

e.	**Receipt of Dividends**		
Sept. 1	**Cash**	**700**	
	Dividend Revenue		**700**
	Received dividend on Fran shares		
	(700 x $1)		
	Equity Investment = Dividend Revenue		

f.	**Disposition of Investment**		
Oct. 8	**Cash***	**22,275**	
	Long-Term Investments—AFS (Fran)**		**17,925**
	Gain on Sale of Long-Term Investments		**4,350**
	Sold 350 shares of Fran stock.		
	****[(350 x $64) - $125] **($35,850/2)***		

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.

g.	**Receipt of Interest**		
Oct. 30	**Cash**	**2,000**	
	Interest Revenue		**2,000**
	Received cash interest payment		
	($100,000 x .08 x 3/12).		

Extra **Now try this one:**

Assume that on Oct 8 instead of selling half of the Fran shares, 400 shares were sold at $64 per share less the $125 brokerage fee. Journalize the sale of 400 shares of Ross. **See next page for answer.**

Disposition of Investment

Oct. 8	**Cash***	**25,475**	
	Long-Term Investments—AFS (Frain)**		**10,242**
	Gain on Sale of Long-Term Investments		**20,486**

Sold 400 shares of stock.

**** [(400 x $64) - $125]***

*****(400/700) X $35,850***

Note the calculation of the book value of the 400 shares credited to LTI. An alternative would be to multiply $51.21 (determined in the notes for transaction **b*****) by the 400 shares sold. This would give a book value of $20,484. Calculating the book value as shown above gives you a slightly more accurate answer.***

The difference in answers is due to rounding.