

Practice Set INVESTMENTS IN CORPORATE SECURITIES

I. INVESTMENTS IN MARKETABLE SECURITIES

DEBT SECURITIES

On September 1, 2003, The Computer Warehouse purchased ten highly liquid 12%, \$1,000 Easy Company bonds at 104 plus accrued interest and a commission of \$60. Interest was to be paid semiannually on May 31 and November 30. On June 30, 2004, the investment was sold at 105 plus accrued interest. A commission of \$60 was paid. Make the required Journal Entries.

		DR.	CR.
Sept. 1	Debt Marketable Securities (104%) (\$10,000) + \$60	10,460	
	Bond Interest Receivable (10) (\$1,000) (.12) (3/12)	300	
	Cash		10,760
Nov. 30	Cash (10) (\$1,000) (.12) (6/12)	600	
	Bond Interest Receivable		300
	Bond Interest Earned		300
Dec. 31	Bond Interest Receivable (10) (\$1,000) (.12) (1/12)	100	
	Bond Interest Earned		100
May 31	Cash	600	
	Bond Interest Receivable		100
	Bond Interest Earned		500
June 30	Cash (105%) (\$10,000) + \$100 - \$60	10,540	
	Loss on Investment in Marketable Securities	20	
	Debt Marketable Securities		10,460
	Bond Interest Earned		100

Instructions: The Computer Warehouse had made the following investments.
Make the Journal Entry required to mark them down to market.

EQUITY SECURITIES

Given the investments below, make the required Journal Entry:

	Cost	Market
Common Stock, X Company	\$ 35,000	\$ 35,000
Common Stock, Y Company	30,000	32,000
Preferred Stock, Z Company	<u>100,000</u>	<u>95,000</u>
	<u>\$165,000</u>	<u>\$162,000</u>

Dec. 31	Unrealized Loss on Equity Marketable Securities	DR. 3,000	CR.
	Valuation Allowance for Equity Marketable Securities		3,000

II. INVESTMENTS FOR CONTROL: THE EQUITY METHOD

The Computer Warehouse had become very interested in All Star Computing and by purchasing \$200,000 of its Common Stock on March 1, 2004, became by far its largest stockholder, owning 30% of its outstanding stock. During the following year, All Star Computing earned \$100,000, and paid dividends of \$90,000 on December 31, 2005. Make the relevant Journal Entries.

		DR.	CR.
March 1	Investment, All Star Computing	200,000	
	Cash		200,000
Dec. 31	Investment, All Star Computing	30,000	
(2005)	Investment Income Earned		30,000
Dec. 31	Cash	27,000	
(2005)	Investment, All Star Computing		27,000