

P10-1 040317

a. Marketable securities - trading 1,200,000
 Cash 1,200,000

To record purchase of marketable securities - trading

Unrealized loss on marketable securities - trading 240,000
 Marketable securities - trading 40,000

To record unrealized loss on marketable securities - trading

b. The purchase of the securities does not affect the income statement. The unrealized loss will reduce operating income by \$240,000.

c. Balance in marketable securities - trading at 1/1/03 \$960,000
 Cost of securities sold in 2003 (250,000)
 Purchase price of securities purchase in 2003 400,000
 Balance before adjustment: 1,110,000
 Fair market value at 12/31/2002 (847,000)
 Fair market value adjustment 263,000

Unrealized loss on marketable securities - trading 263,000
 Marketable securities - trading 263,000

To record unrealized loss on marketable securities - trading

d. The securities will be presented at fair market value of \$847,000.

e. Since the securities are trading securities, losses are recognized in operating income. Because it is a non-cash loss, the loss will be added back to net income to arrive at cash provided by operating activities.

P10-2

a. $\$500,000 / (1.04)^2 = \$462,278.10$
 b. December 31, 2003 = $\$462,278.10 \times 1.04 = \$480,769.22$
 December 31, 2004 = $\$480,769.22 \times 1.04 = \$500,000.00$

c. Marketable Securities - Held-to-maturity 462,278.10
 Cash 462,278.10
 Marketable Securities - Held-to-maturity 18,491.12
 Interest revenue 18,491.12
 Marketable Securities - Held-to-maturity 19,230.78

Interest revenue 19,230.78

d. As interest rates rise, the market value of the security will fall, as the expected return will no longer be attractive to investors. However, as the security approaches maturity, its value will return to the maturity value of \$500,000. The accounting for held-to-maturity securities does not recognize unexpected changes in interest rates. Instead, the book value is adjusted, based on the expected rate of return on the date the security was purchased.

e. December 31, 2003: $\$500,000 / 1.03 = \$485,436.89$

December 31, 2004: Maturity value is \$500,000. The market value of the security will return to its maturity value as it approaches the maturity date.

Those who purchase the security on December 31, 2003 will have received a rate of return of 3%. The difference between the purchase price and the maturity value was \$14,563.11. $\$14,563.11 / \$485,436.89 = 3\%$

f. The adjusting entries would be the same as those in requirement c. The accounting for held-to-maturity securities does not recognize unexpected changes in interest rates. Instead, the book value is adjusted, based on the expected rate of return on the date the security was purchased.

P10-3

a. Marketable securities - trading 73
 Unrealized gain on marketable securities - trading 73

b. Unrealized loss on marketable securities - trading 4
 Marketable securities - trading 4

c. The unrealized gains and losses would have been recognized in Ford's income statement, resulting in a net increase in Ford's 2000 net income of \$69 million. On the balance sheet, both assets and equity would have increased by \$69 million. The unrealized gains and losses would have had no effect on Ford's statement of cash flows during 2000.

d. Marketable securities - available-for-sale 8
 Unrealized gain on marketable securities - available for sale 8

e. Gains or losses on available-for-sale securities are not recognized on the income statement, so they would have had no effect on Ford's income statement during 2000. The unrealized gain would be reported as a component of stockholders' equity in accumulated other comprehensive income. Both assets and equity on the balance sheet would increase. Cash flows would be unaffected by the unrealized gain.

f. Since there were no material gains or losses on the sales of available-for-

sale securities, the sales would have had no effect on net income. On the balance sheet, the transactions would have resulted in an asset exchange (cash for available-for-sale securities) resulting in no change in total assets, liabilities or equity. On the cash flow statement, the company would report the proceeds as an inflow in the investing section.

P10-4

a.	Feb 10			
	Marketable securities - trading	15,475		
	Cash		15,475	
	(to record the purchase of trading securities)			
	June 30			
	Marketable securities - trading	27,540		
	Cash		27,540	
	(to record the purchase of trading securities)			
	Sept 30			
	Marketable securities - available - for-sale	18,450		
	Cash		18,450	
	(to record the purchase of available-for-sale securities)			

Trading securities

b.	Cost	Fair Market Value at Dec 31	
	Feb 10	\$15,475	\$17,438
	June 30	27,540	26,540
	TOTALS	\$43,015	\$43,978
			Unrealized Gain: \$963
	Available-for-sale securities		
	Cost	Fair Market Value at Dec 31	
	Sept 30	\$18,450	\$18,495
			Unrealized Gain: \$45
	Dec 31	Marketable securities - trading	963
		Unrealized gain on marketable securities - trading	963
		(to record unrealized gain on portfolio of trading securities)	
		Marketable securities - available-for-sale	45
		Unrealized gain on marketable securities - available-for-sale	45

(to record unrealized gain on available-for-sale securities)

c. Income Statement: Net income will increase by \$963, due to the unrealized gain on trading securities.

Balance Sheet: The asset Marketable securities - trading will increase \$963; the asset Marketable securities - available-for-sale will increase \$45; Retained Earnings will increase \$963. Accumulated Other Comprehensive Income, a component of Stockholders' Equity, will increase \$45. Cash Flow Statement - There will be a cash outflow in investing activities of \$18,450, the amount paid for the available-for-sale securities. There will be a cash outflow of \$43,015 in the operating section for the amount paid for the trading securities. (This answer ignores taxes.) There will also be an adjustment in the operating section for the \$963 gain on trading securities. It will be subtracted.

P10-5

a.	$\$10,000 / (1 + 0.07)^3 = \$8,162.98$		
b.	December 31, 2003	$= \$8,162.98 \times 1.07 = \$8,734.39$	
	December 31, 2004	$= \$8,734.39 \times 1.07 = \$9,345.79$	
	December 31, 2005	$= \$10,000$ (maturity value)	
c.	1/1/03		
	Marketable securities - held-to-maturity	8,162.98	
	Cash		8,162.98
	(to record purchase of held-to-maturity securities)		
	12/31/03		
	Marketable securities - held-to-maturity	571.40	
	Interest revenue		571.40
	(to record interest revenue, computed using the interest rate from time of purchase, on held-to-maturity securities)		
	12/31/04		
	Marketable securities - held-to-maturity	611.40	
	Interest revenue		611.40
	(to record interest revenue on held-to-maturity securities)		
	12/31/05		
	Marketable securities - held-to-maturity	654.20	
	Interest revenue		654.20
	(to record interest revenue on held-to-maturity securities)		
	12/31/05		
	Cash	10,000.00	
	Marketable securities - held-to-maturity		10,000.00

(to record maturity of marketable securities - held-to-maturity)

d. As interest rates rise, the market value of the security will fall, as the original 7% expected return will no longer be attractive to investors. However, as the security approaches maturity, its value will return to the maturity value of \$10,000.00. The accounting for held-to-maturity securities does not recognize unexpected changes in interest rates. Instead, the book value is adjusted, based on the expected rate of return on the date the security was purchased.

P10-6

a.	Marketable securities - available-for-sale	278.42	
	Unrealized gain on marketable securities - available-for-sale		278.42

(to record the unrealized appreciation on marketable securities - available-for-sale)

b. Rhionne's income statement will not be affected as the holding gain will be treated as an equity adjustment. The balance sheet will reflect the increased value of the security in the Marketable securities - available-for-sale account; the holding gain will be reflected in the Other Accumulated Comprehensive Income account in the shareholders' equity section of the balance sheet.

c.	Marketable securities - trading	278.42	
	Unrealized gain on marketable securities - trading		278.42

(to record the unrealized appreciation on marketable securities - trading)

d. Rhionne's income statement will reflect the unrealized gain as part of net income for the period. The balance sheet will reflect the increased value of the security in the Marketable securities - trading account. Retained earnings will be higher because the gain will be recognized in the income statement.

P10-7

a.	12/31/01		
	Marketable securities - trading	10,000.00	
	Unrealized gain on marketable securities - trading		10,000.00

(to record the unrealized gain on marketable securities - trading)

	12/31/02		
	Unrealized loss on marketable securities - trading	2,000.00	
	Marketable securities - trading		2,000.00

(to record the unrealized loss on marketable securities - trading)

	12/31/03		
	Marketable securities - trading	4,000.00	
	Unrealized gain on marketable securities - trading		4,000.00

(to record the unrealized gain on marketable securities - trading)

b. 2/24/04

	Cash	114,500.00	
	Marketable securities - trading		112,000.00
	Gain on marketable securities - trading		2,500.00

(to record the sale and realized gain on marketable securities - trading)

c. Income increased in 2001, 2003, and 2004 and decreased in 2002.

P10-8

a.	12/31/01		
	Marketable securities - available-for-sale	10,000.00	
	Unrealized gain on marketable securities - available-for-sale		10,000.00

(to record unrealized gain on securities - available-for-sale)

12/31/02

	Unrealized loss on marketable securities - available-for-sale	2,000.00	
	Marketable securities - available-for-sale		2,000.00

(to record unrealized loss on marketable securities - available-for-sale)

12/31/03

	Marketable securities - available-for-sale	4,000.00	
	Unrealized gain on marketable securities - available-for-sale		4,000.00

(to record unrealized gain on marketable securities - available-for-sale)

b. 2/24/04

	Cash	114,500.00	
	Unrealized gain on marketable securities - available-for-sale	12,000.00	
	Marketable securities - available-for-sale		112,000.00

	Gain on sale of marketable securities - available-for-sale		14,500.00
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(to record the sale of marketable securities - available-for-sale)

c. The income statement will not be affected in 2001, 2002, and 2003. The entire gain will be recorded in the income statement in 2004, when the securities are sold.

P10-9 (\$,000,000's)

a.	Marketable securities - available-for-sale	1,686	
	Cash		1,686

(to record purchase of available-for-sale securities)

This journal entry is an aggregate one. Individual adjusting entries would have been made at the end of every year the securities were held.

	Marketable securities - available-for-sale	270	
	Unrealized gain on marketable securities - available-for-sale		270

(to record unrealized gains on available-for-sale securities)

b.	Cash	1,500	
	Unrealized gain on marketable securities - available-for-sale	270	
	Loss on sale of marketable securities - available-for-sale	186	
	Marketable securities - available-for-sale		1,956

(to record sale of marketable securities - available-for-sale)