

1. Marketable securities are stocks, bonds, and other financial instruments that organizations hold instead of holding cash.
2. Organizations hold marketable securities for three reasons: (1) to earn a higher rate of return than cash can earn, (2) they are relatively liquid and can be converted cheaply into cash, and (3) they are passive investments that require management's attention only in deciding what securities to buy and sell.
3. A debt security is a contract specifying amounts owed and time of payments.
4. Debt securities have a maturity date. Also, there is an upper bound on the promised payments of a debt security. The promised payments on debt securities are interest and repayment of principal.
5. An equity security represents a residual claim against the assets of a company. Examples of equity securities include common and preferred stocks.
6. The economic value of debt and equity securities at any point in time is equal to the present value of the expected future cash flows. This is captured by the market price of the security.
7. A zero-coupon bond is a bond that does not promise any regular coupon payments. The only payment is a lump sum at the maturity date.
8. A company issuing zero coupon bonds does not have to pay interest on them until the maturity date, often many years into the future. This can be an advantage to cash strapped companies.
9. The three categories of marketable securities classified by Generally Accepted Accounting Principles are trading, available-for-sale and held-to-maturity.
10. Trading securities are valued on the balance sheet at their market value on the balance sheet date.
11. An unrealized holding gain or loss represents the difference between the current market price of a security and its acquisition cost.
12. Unrealized holding gains or losses for trading securities are reported in income on the company's income statement.
13. Unrealized holding gains or losses for available-for-sale securities are not reported on the income statement. Cumulative unrealized gains or losses are reported in the equity section of the balance sheet as part of accumulated other comprehensive income.
14. GAAP for available-for-sale securities follows economic values, but treat holding gains and losses as equity adjustments, not as income items. Neither unrealized holding gains or losses are reported on the income statement.
15. Available-for-sale securities are reported on the balance sheet at their market value on the balance sheet date.
16. Accumulated holding gains and losses on available-for-sale marketable securities are reported on the balance sheet in the Other Accumulated Comprehensive Income account in shareholders' equity.
17. Held-to-maturity securities will be adjusted each year to reflect the interest earned at the expected interest rate on the date of investment. No changes are assumed in the rate of interest. The economic reality is that, if interest rates change, the market value of the security will not match that which is reported on the balance sheet.
18. The quick ratio is the total of assets that can be quickly converted into cash divided by current liabilities. Marketable securities that are short-term investments are included in the numerator.
19. Marked-to-market means that the value of a security on the balance sheet has been adjusted to reflect its fair market value on the balance sheet date.
20. GAAP for available-for-sale securities follows economic values, but treats holding gains and losses as equity adjustments, not as income items. Neither unrealized holding gains or losses are reported on the income statement.
21. Accumulated other comprehensive income (loss) appears in the balance sheet in the stockholders' equity section. It will have a debit balance if there are cumulative unrealized losses and a credit balance if there are cumulative unrealized gains.
22. Because holding gains on held-to-maturity securities are not reported in comprehensive income, management can trigger a gain or loss by selling the security whenever there is a disparity between the security's reported balance sheet value and its fair market value on the date of sale.