

Compute the carrying value of security investments and the income from security investments in each year from the following four accounting methods.

Held-to-maturity  
 Available-for-sale  
 Trading  
 Equity

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<b>2007</b>	<b>Transaction</b>	<b>Shares Per share</b>	
1/1/07	Holding	100	78.00
12/31/07	Price		80.00
12/31/2007	Earnings		7.00
12/31/2007	Dividends		1.00

<b>2008</b>	<b>Transaction</b>	<b>Shares Per share</b>	
6/30/08	Purchase / (sales)	-30	85.00
12/31/08	Price		88.00
12/31/08	Earnings		8.00
12/30/08	Dividends		2.00

<b>2009</b>	<b>Transaction</b>	<b>Shares Per share</b>	
3/18/09	Purchase / (sales)	40	94.00
12/31/09	Price		100.00
12/31/09	Earnings		9.00
12/30/09	Dividends		3.00

<b>2010</b>	<b>Transaction</b>	<b>Shares Per share</b>	
12/31/2009	Purchase / (sales)	-110	100.00

<b>2007</b>	<b>Transaction</b>	<b>Shares Per share</b>		
1/1/2007	Holding	100	78.00	
12/31/2007	Price		80.00	
12/31/2007	Earnings		7.00	
12/31/2007	Dividends		1.00	

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<b>Date</b>	<b>Transaction</b>	<b>Shares Per share</b>		<b>Held to Maturity</b>	<b>Available for sale</b>	<b>Trading</b>	<b>Equity Method</b>
1/1/2007	Holding at cost	100	78.00	7,800			
1/1/2007	Holding at market value	100	78.00		7,800	7,800	
1/1/2007	Holding for equity method	100	78.00				7,800
12/31/2007	Holding	100	80.00				
	Earnings for equity method	100	7.00				700
	Dividends for equity method	100	1.00				(100)
	Gain unrealized (market)	100	2.00		200	200	
12/31/2007	<b>Carrying value</b>			7,800	8,000	= 8,000	8,400
	Earnings for equity method						700
	Dividends			100	100	100	
	Gain unrealized (market)	100	2.00			200	
	<b>Investment income</b>			100	= 100	300	700

<b>2008</b>	<b>Transaction</b>	<b>Shares Per share</b>	
06/30/08	Purchase / (sales)	(30)	85.00
12/31/08	Price		88.00
12/31/08	Earnings		8.00
12/31/08	Dividends		2.00

<b>Date</b>	<b>Transaction</b>	<b>Shares Per share</b>		<b>Held to Maturity</b>	<b>Available for sale</b>	<b>Trading</b>	<b>Equity Method</b>
12/31/2007	Holding at cost	100	78.00	7,800			
<u>A</u> 12/31/2007	Holding at market value	100	80.00		8,000	8,000	
12/31/2007	Holding for equity method	100	84.00				8,400
6/30/2008	Purchase / (sales)	-30	85.00	(2,550)	(2,550)	(2,550)	(2,550)
12/31/2008	Gain for equity method	-30	1.00				30
	Gain realized	-30	7.00	210			
	Gain realized (market)	-30	5.00		150	150	
	Book Value			(2,340)	(2,400)	(2,400)	(2,520)
	Earnings for equity method	70	8.00				560
	Dividends for equity method	70	2.00				(140)
<u>B</u>	Carrying value before unrealized gain			5,460	5,600	5,600	
	Gain unrealized (market)	70	8.00		560	560	
12/31/2008	<b>Carrying value</b>			5,460	6,160	= 6,160	6,300
<u>C</u>	Average carrying value	$(A+B)/2$			6,800	6,800	
	Gain for equity method						30
	Earnings for equity method						560
	Gain realized	-30	7.00	210	210		
	Dividends			140	140	140	
	Gain realized (market)					150	
	Gain unrealized (market)					560	
<u>D</u>	<b>Investment income</b>			350	= 350	850	590

Investment return

D/C

5.15%

12.50%

2009	Transaction	Shares Per share					
03/18/09	Purchase / sales	40	94.00				
12/31/09	Price		100.00				
12/31/09	Earnings		9.00				
12/31/09	Dividends		3.00				

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Date		Shares Per share		Held to Maturity	Available for sale	Trading	Equity Method
3/18/2009	Holding at cost	70	78.00	5,460			
3/18/2009	Holding at market value	70	88.00		6,160	6,160	
3/18/2009	Holding for equity method	70	90.00				6,300
3/18/2009	Purchase / sales	40	94.00	3,760	3,760	3,760	3,760
12/31/2009	Holding	110	100.00				
	Earnings for equity method	110	9.00				990
	Dividends for equity method	110	3.00				(330)
	Gain unrealized (market)	110	12.00		1,080	1,080	
	<b>Carrying value</b>			9,220	11,000	11,000	10,720
	Gain unrealized (market)	100	12.00			1,080	
	Dividends			330	330	330	
	Earnings						990
	<b>Investment income</b>			330	330	1,410	990

2010	Transaction	Shares Per share					
1/1/2010	Purchase / sales	-110	100.00				
Date		Shares Per share		Held to Maturity	Available for sale	Trading	Equity Method
1/1/2010	Holding at cost	110	83.82	9,220			
1/1/2010	Holding at market value	110	100.00		11,000	11,000	
1/1/2010	Holding for equity method	110	97.45				10,720
1/1/2010	Purchase / sales	-110	100.00	(11,000)	(11,000)	(11,000)	(11,000)
	Gain for equity method	110	2.55				280
	Gain realized	-110	16.18	1,780	1,780		
	<b>Investment income</b>			1,780	1,780	-	280

2007	Investment income			100	100	300	700
2008	Investment income			350	350	850	590
2009	Investment income			330	330	1,410	990
2010	Investment income			1,780	1,780		280
	<b>Total</b>			2,560	2,560	2,560	2,560

## Entries for Available-for-sale Securities

12/31/2007	Cash		100				
12/31/2007	Investment income			100			
12/31/2007	Investments		200				
12/31/2007	Other Comp Income			200			
12/31/2007	Cash		2,550				
12/31/2007	Investment income			210			
12/31/2007	Other Comp Income		60				
12/31/2007	Investments			2,400			

12/31/2008 Investments	560	
12/31/2008 Other Comp Income		560
12/31/2008 Cash	140	
12/31/2008 Investment income		140
3/18/2009 Investments	3,760	
3/18/2009 Cash		3,760
12/31/2009 Cash	330	
12/31/2009 Investment income		330
12/31/2009 Investments	1,080	
12/31/2009 Other Comp Income		1,080
1/1/2010 Cash	11,000	
1/1/2010 Investment income		1,780
1/1/2010 Investments		11,000
1/1/2010 Other Comp Income	1,780	

Assume that a firm owns two of the previously analyzed securities. It uses Held-to-maturity accounting for one security and Available-for-sale accounting for the other. The company will report the following:

### Reporting of Investment Portfolio

<b>Balance Sheet, December 31,</b>	2006	2007	2008	2009
<b>Fixed maturities</b>				
Held-to-maturity (at cost)*	7,800	7,800	5,460	9,220
Available-for-sale (at market)**	7,800	8,000	6,160	11,000
	<u>15,600</u>	<u>15,800</u>	<u>11,620</u>	<u>20,220</u>
* Market values	7,800	8,000	6,160	11,000
** Cost	7,800	7,800	5,460	9,220

<b>Income Statement, year ending December 31,</b>	2007	2008	2009	2010
<b>Held-to-maturity (at cost)</b>				
Interest income	100	140	330	
Gain realized	-	210		1,780
Investment Income	<u>100</u>	<u>350</u>	<u>330</u>	<u>1,780</u>
<b>Available-for-sale (at market)</b>				
Interest income	100	140	330	
Gain realized		210		1,780
Investment Income	<u>100</u>	<u>350</u>	<u>330</u>	<u>1,780</u>

What was the total mark-to-market return ?

### Analysis

<b>Change in Market Value Adjustment</b>	2007	2008	2009	2010
<b>Held-to-maturity portfolio</b>				
Market value	7,800	8,000	6,160	11,000
Cost	7,800	7,800	5,460	9,220
Market Valuation Adjustment	<u>-</u>	<u>200</u>	<u>700</u>	<u>1,780</u>
Reported income	100	350	330	1,780
Change in Market Valuation Adjustment	<u>200</u>	<u>500</u>	<u>1,080</u>	<u>(1,780)</u>
Mark-to-market return	<u>300</u>	<u>850</u>	<u>1,410</u>	<u>-</u>
<b>Available-for-sale portfolio</b>				
Market value	7,800	8,000	6,160	11,000
Cost	7,800	7,800	5,460	9,220
Market Valuation Adjustment	<u>-</u>	<u>200</u>	<u>700</u>	<u>1,780</u>
Reported income	100	350	330	1,780
Change in Market Valuation Adjustment	<u>200</u>	<u>500</u>	<u>1,080</u>	<u>(1,780)</u>
Mark-to-market return	<u>300</u>	<u>850</u>	<u>1,410</u>	<u>-</u>

Same as the returns from "Trading" method