EXERCISES

Ex. 13–1

a. 2012
   Apr.  1  Investments—Reynolds Co. Bonds ............  56,000
         Cash .........................................................  56,000

b. 2012
   Oct.  1  Cash .........................................................  1,260
         Interest Revenue .....................................  1,260
         $56,000 \times 4.5\% \times 6/12.

c. 2012
   Oct.  1  Cash .........................................................  19,800*
         Loss on Sale of Investments .......................  200
         Investments—Reynolds Corp. Bonds...  20,000
         \*$20,000 \times 99\%

d. 2012
   Dec. 31  Interest Receivable .............................  637
         Interest Revenue .....................................  637
         Accrued interest, $56,000 \times 4.5\% \times 91/360.

Ex. 13–2

a. 2012
   Sept.  1  Investments—Carlisle Corp. Bonds ..........  40,000
         Cash .........................................................  40,000

b. 2012
   Dec. 31  Interest Receivable .............................  1,200
         Interest Revenue .....................................  1,200
         Accrued interest, $40,000 \times 9\% \times 4/12.

c. 2013
   Mar.  1  Cash .........................................................  1,800
         Interest Receivable .....................................  1,200
         Interest Revenue .....................................  600*
         \*$40,000 \times 9\% \times 2/12

d. 2013
   Mar.  1  Cash .........................................................  10,300*
         Gain on Sale of Investments .......................  300
         Investments—Carlisle Corp. Bonds .....  10,000
         \*$10,000 \times 103\%
Ex. 13–3

a. 2012
   July 12  Investments—Davis County Bonds ........... 24,000
   Interest Receivable .................................. 192*
   Cash .................................................. 24,192
   *$24,000 × 4% × 72/360

b. Nov. 1  Cash ................................................. 480*
   Interest Receivable .................................. 192
   Interest Revenue .................................... 288
   *$24,000 × 4% × ½

c. Dec. 1  Cash .................................................. 5,800*
   Loss on Sale of Investments ......................... 220
   Interest Revenue .................................... 20
   Investments—Davis County Bonds ........ 6,000
   *Bond sale ($6,000 × 0.98) .......................... $5,880
   Accrued interest ..................................... 20
   Less brokerage commission ......................... (100)
   Total proceeds ...................................... $5,800

d. Dec. 31 Interest Receivable .......................... 120
   Interest Revenue .................................... 120
   To accrue interest.
Ex. 13–4

a. 2012

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 21</td>
<td>Investments—Government Bonds ............. 50,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Receivable .......................... 125*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash ............................................... 50,125</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*$50,000 × 4.5% × 20/360</td>
<td></td>
</tr>
<tr>
<td>June 30</td>
<td>Cash ........................................... 1,125*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Receivable ............................ 125</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Revenue ................................ 1,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*$50,000 × 4.5% × ½</td>
<td></td>
</tr>
<tr>
<td>Sept. 5</td>
<td>Cash ......................................... 23,481*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Loss on Sale of Investments ...................... 720</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Revenue .............................. 201</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investments—Government Bonds .............. 24,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*Bond sale ($24,000 × 97%) .................. $23,280</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accrued interest .................................. 201</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total proceeds from sale .................... $23,481</td>
<td></td>
</tr>
</tbody>
</table>

b. 2012

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 31</td>
<td>Interest Receivable .......................... 585</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Revenue ................................ 585</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accrued interest, $26,000 × 4.5% × ½.</td>
<td></td>
</tr>
</tbody>
</table>

Ex. 13–5

Interest earned (May 1 to September 1) ................................................... $1,100¹
Interest earned on sold bonds (September 1 to October 1) ............... 100²
Interest earned on remaining bonds (September 1 to December 1)... 700³
Total interest earned in 2012 ......................................................... $1,900

¹$66,000 × 5% × 4/12
²$24,000 × 5% × 1/12
³$42,000 × 5% × 4/12
Ex. 13–6

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb. 17</td>
<td>Investments—Lycore Co. Stock</td>
<td>$90,200*</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>$90,200</td>
</tr>
<tr>
<td></td>
<td>*(4,000 shares × $22.50) + $200</td>
<td></td>
</tr>
<tr>
<td>July 11</td>
<td>Cash</td>
<td>$3,200*</td>
</tr>
<tr>
<td></td>
<td>Dividend Revenue</td>
<td>$3,200</td>
</tr>
<tr>
<td></td>
<td>*(0.80 × 4,000 shares)</td>
<td></td>
</tr>
<tr>
<td>Dec. 4</td>
<td>Cash</td>
<td>$28,175*</td>
</tr>
<tr>
<td></td>
<td>Gain on Sale of Investments</td>
<td>$5,625</td>
</tr>
<tr>
<td></td>
<td>Investments—Lycore Co. Stock</td>
<td>$22,550**</td>
</tr>
<tr>
<td></td>
<td>*(1,000 shares × $28.30) – $125</td>
<td></td>
</tr>
<tr>
<td></td>
<td>**($90,200/4,000 shares) × 1,000 shares</td>
<td></td>
</tr>
</tbody>
</table>

Ex. 13–7

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 12</td>
<td>Investments—Inskip Company Stock</td>
<td>$68,572*</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>$68,572</td>
</tr>
<tr>
<td></td>
<td>*(1,400 shares × $48.90) + $112</td>
<td></td>
</tr>
<tr>
<td>Apr. 10</td>
<td>Cash</td>
<td>$308*</td>
</tr>
<tr>
<td></td>
<td>Dividend Revenue</td>
<td>$308</td>
</tr>
<tr>
<td></td>
<td>*(0.22 × 1,400 shares)</td>
<td></td>
</tr>
<tr>
<td>June 3</td>
<td>Cash</td>
<td>$39,985*</td>
</tr>
<tr>
<td></td>
<td>Loss on Sale of Investments</td>
<td>$4,097</td>
</tr>
<tr>
<td></td>
<td>Investments—Inskip Company Stock</td>
<td>$44,082**</td>
</tr>
<tr>
<td></td>
<td>*(900 shares × $44.50) – $65</td>
<td></td>
</tr>
<tr>
<td></td>
<td>**900 shares × ($68,572/1,400 shares)</td>
<td></td>
</tr>
</tbody>
</table>
Ex. 13–8

Feb.  2  Investments—Parr Inc. Stock..............................  22,520*
       Cash.................................................................  22,520
   *(800 shares × $28) + $120

Apr.  16  Cash ...............................................................  96*
       Dividend Revenue............................................  96
   *800 shares × $0.12

June 17 Investments—Parr Inc. Stock......................  19,950*
       Cash.................................................................  19,950
   *(600 shares × $33) + $150

Aug. 19  Cash .................................................................  40,800*
       Gain on Sale of Investments..........................  11,630
       Investments—Parr Inc. Stock .......................  29,170**
   *(1,000 shares × $41) – $200
   **800 shares purchased........................................  $22,520
   200 shares × ($19,950/600 shares).....................  6,650
   Total cost ..........................................................  $29,170

Nov. 14 Cash .................................................................  60*
       Dividend Revenue............................................  60
   *400 shares × $0.15
Ex. 13–9

Feb. 2 Investments—Randolph Co. Stock ...................... 56,125*  
Cash ........................................................................... 56,125  
*(500 shares × $112) + $125

Apr. 21 Investments—Sterling Co. Stock ...................... 39,298*  
Cash ........................................................................... 39,298  
*(1,400 shares × $28) + $98

Aug. 15 Cash ................................................................. 24,720*  
Gain on Sale of Investments ........................................ 2,270  
Investments—Randolph Co. Stock ...................... 22,450**  
*(200 shares × $124) – $80  
**200 shares × ($56,125/500 shares)

Sept. 8 Cash ................................................................. 11,180*  
Loss on Sale of Investments ...................................... 2,855  
Investments—Sterling Co. Stock ...................... 14,035**  
*(500 shares × $22.50) – $70  
**500 shares × ($39,298/1,400 shares)

Oct. 31 Cash ................................................................. 78*  
Dividend Revenue .................................................... 78  
*(500 shares – 200 shares) × $0.26

Ex. 13–10

a. Investment in Teller Corp. Stock ...................... 282,000  
Income of Teller Corp. ........................................ 282,000  
Record 30% share of Teller Corp.  
net income, $940,000 × (60,000 shares/200,000 shares).

b. Cash ................................................................. 150,000*  
Investment in Teller Corp. Stock ...................... 150,000  
*60,000 shares × $2.50

c. Penn’s investment in Teller Corp. represents 30% of the outstanding shares of Teller Corp. An investment amount in excess of 20% of the outstanding common stock of the investee is presumed to represent significant control. The equity method is appropriate when the investor can exercise significant control over the investee.
Ex. 13–11

a.  
2012
Jan. 15 Investment in Escape Tours Inc. Stock .............. 3,591,000*
   Cash ................................................................. 3,591,000
   *94,500 shares × $38 per share
July 2 Cash ................................................................. 96,600*
   Investment in Escape Tours Inc. Stock ...... 96,600
   *$230,000 × (94,500 shares/225,000 shares)
Dec. 31 Investment in Escape Tours Inc. Stock .............. 291,900
   Income of Escape Tours Inc. ................. 291,900
   Record 42% share of Escape Tours Inc.
   net income, $695,000 × (94,500 shares/
   225,000 shares).

b. Initial acquisition cost ................................................... $3,591,000
   Equity earnings for 2012 ............................................... 291,900
   Cash dividends received ...............................................
   Investment in Escape Tours Inc. Stock balance, December 31, 2012 .................................................... $3,786,300

Ex. 13–12

2012
Jan. 10 Investment in Crest Co. Stock ............................ 123,000
   Cash ................................................................. 123,000
July 15 Cash ................................................................. 4,500*
   Investment in Crest Co. Stock ....................... 4,500
   *$15,000 × 30%
Dec. 31 Loss of Crest Co. ................................................ 7,500
   Investment in Crest Co. Stock ...................... 7,500
   Record 30% share of Crest Co.
   net loss, $25,000 × 30%.

b. Initial acquisition cost ................................................... $123,000
   Equity loss for 2012 ..................................................... (7,500)
   Cash dividends received ...............................................
   Investment in Crest Co. Stock balance, December 31, 2012 .................................................... $111,000
Ex. 13–12  (Concluded)

c. Under the equity method, the investor will record their proportionate share of net increase (or decrease) of the book value of the investee resulting from earnings and dividend distributions. The fair value method uses market price information to value the investment in the investee. These two methods result in different valuations because the equity method is based upon book accounting, while the fair value approach uses market information. The two methods need not be related to each other over time. While changes in book value can influence market prices, many other variables can influence the market price of a stock.

Ex. 13–13

<table>
<thead>
<tr>
<th>(in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Moss Company stock, December 31, 2012 ................</td>
</tr>
<tr>
<td>Plus equity earnings in Moss Company..................</td>
</tr>
<tr>
<td>Less dividends received..................................</td>
</tr>
<tr>
<td>Investment in Moss Company stock, December 31, 2013 .............</td>
</tr>
</tbody>
</table>

*The Moss Company investment is accounted for under the equity method. Since there were no purchases or sales of Moss Company stock, a dividend must have been received. This would explain how the ending balance of the investment account went from $105 to $116, with $15 million in equity earnings. Since the investment is accounted for under the equity method, the fair value is not used for valuation purposes.

Ex. 13–14

- a. $23,000  $36,000 [from (c)] – $13,000 [from (b)]
- b. $13,000  $9,000 – (–$4,000)
- c. $36,000  $192,000 – $156,000
- d. $119,000  $123,000 – $4,000
- e. $22,000  $19,000 + $3,000
- f. $155,000  $146,000 + $9,000
- g. $6,000  $9,000 – $3,000
- h. $178,000  $172,000 + $6,000
- i. $211,000  $192,000 + $19,000
Ex. 13–15

a. 2012

Mar. 3 Investments—Cardio Solutions, Inc. Stock ...... 198,000
Cash ................................................................. 198,000
9,000 shares × $22 per share.

Dec. 31 Valuation Allowance for Trading Investments... 63,000
Unrealized Gain on Trading Investments..... 63,000
To record increase in fair value of
trading investments, 9,000 shares ×
($29 per share – $22 per share).

b. The unrealized gain or unrealized loss for trading investments is disclosed in
the income statement as “other income” (or a separate item if significant).
Unrealized losses would be deducted in determining net income, while un-
realized gains would be added in determining net income.

Ex. 13–16

a. 2012

Dec. 31 Unrealized Loss on Trading Investments .......... 2,900
Valuation Allowance for Trading Investments 2,900
To record decrease in fair value of trading
investments, $45,100 – $48,000.

b. 2013

Apr. 3 Investments—Luke, Inc. ................................. 18,100*
Cash ................................................................. 18,100
*(500 shares × $36 per share) + $100
Ex. 13–17

a. 2012
Dec. 31 Valuation Allowance for Trading Investments . 12,600*
Unrealized Gain on Trading Investments ..... 12,600
To record increase in fair value of trading investments.

*$158,500 – $145,900, as determined from the following schedule:

<table>
<thead>
<tr>
<th>Fair Value</th>
<th>Cost (Dec. 31, 2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>B&amp;T Transportation, Inc. ...........................</td>
<td>$ 74,200</td>
</tr>
<tr>
<td>Citrus Foods, Inc. ......................................</td>
<td>26,500</td>
</tr>
<tr>
<td>Stuart Housewares, Inc. ..............................</td>
<td>45,200</td>
</tr>
<tr>
<td>Total ................................................................</td>
<td>$145,900</td>
</tr>
</tbody>
</table>

<sup>1</sup>3,400 shares × $26 per share
<sup>2</sup>1,500 shares × $19 per share
<sup>3</sup>800 shares × $52 per share

b. There would be no adjusting entry for December 31, 2013, if the market prices remained unchanged from December 31, 2012. This is because the unrealized gain from the difference between the cost and market has already been recognized on December 31, 2012. Only changes in market prices would be recognized subsequent to December 31, 2012.

Ex. 13–18

a. Retained earnings, December 31, 2011 .............................. $614,000
   Plus net income.......................................................... 126,000
   Less dividends............................................................ 35,000
   Retained earnings, December 31, 2012 ............................. $705,000

b. Trading investments (at cost)........................................... $121,000*
   Less valuation allowance for trading investments.......... 34,000
   Trading investments (at fair value) .............................. $ 87,000

*$166,000 – $45,000
Ex. 13–19

a. $46,000 $50,000 – $4,000
b. $50,000 $201,000 – $151,000
c. $84,000 $78,000 + $6,000
d. $6,000 Same as valuation allowance for available-for-sale investments
e. $59,000 $68,000 – $9,000
f. ($9,000) Same as valuation allowance for available-for-sale investments
g. ($7,000) ($15,000) + $8,000
h. ($11,000) Same as unrealized gain (loss) from available-for-sale investments
i. $84,000 $95,000 – $11,000
j. $186,000 $201,000 – $15,000

Ex. 13–20

a.
2012
Aug. 10 Investments—Pacific Wave, Inc. Stock.............. 64,000
Cash................................................................. 64,000
8,000 shares × $8 per share.

Dec. 31 Unrealized Gain (Loss) on Available-for-Sale Investments................................................. 16,000
Valuation Allowance for Available-for-Sale Investments................................................. 16,000
To record decrease in fair value of available-for-sale investments, 8,000 shares × ($8 per share – $6 per share).

b. Unrealized Gain (Loss) on Available-for-Sale Investments is disclosed in the Stockholders’ Equity section of the balance sheet, separately from the retained earnings or paid-in capital accounts. On December 31, 2012 the account would show a debit balance of $16,000, that would be subtracted from stockholders’ equity.
Ex. 13–21

a. 1.  
2012  
Dec. 31 Valuation Allowance for Available-for-Sale Investments .................................................. 3,300  

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized Gain (Loss) on Available-for-Sale Investments</td>
<td>3,300</td>
</tr>
</tbody>
</table>

To record increase in fair value of available-for-sale investments, $65,800 – $62,500.

2.  
2013  
May 10 Investments—Violet Inc. ...................................... 37,925*

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments—Violet Inc.</td>
<td>37,925*</td>
</tr>
<tr>
<td>Cash</td>
<td>37,925</td>
</tr>
</tbody>
</table>

*(900 shares × $42 per share) + $125

b. Unrealized gains and losses for available-for-sale securities are accumulated over time and reported as a credit (positive) or debit (negative) balance in the Stockholders’ Equity section. As a result, the changes in fair value are not reflected on the income statement, as is the case with trading securities. Bypassing the income statement is supported on the grounds that available-for-sale securities will be held for a longer time than trading securities; thus, fluctuations in market prices have a greater opportunity to “cancel out” over time.
Ex. 13–22

a.  
2012  
Dec. 31 Unrealized Gain (Loss) on Available-for-Sale Investments ................................................. 7,400  
Valuation Allowance for Available-for-Sale Investments ................................................................. 7,400*  
To record increase in fair value of available-for-sale investments.  

*$129,400 – $136,800, as determined from the following schedule:

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbotford Electronics, Inc.</td>
<td>$ 42,500</td>
</tr>
<tr>
<td>Ryan Co.</td>
<td>28,200</td>
</tr>
<tr>
<td>Sharon Co.</td>
<td>66,100</td>
</tr>
<tr>
<td>Total</td>
<td>$136,800</td>
</tr>
</tbody>
</table>

1 1,500 shares × $22 per share  
2 400 shares × $65 per share  
3 2,200 shares × $32 per share

b. There is no income statement impact from the December 31, 2012, adjusting entry. Unrealized Gain (Loss) on Available-for-Sale Investments is disclosed in the Stockholders’ Equity section of the balance sheet. On December 31, 2012, Unrealized Gain or Loss on Available-for-Sale Investments would be disclosed as follows:

Unrealized gain (loss) on available-for-sale investments .......... ($7,400)
Ex. 13–23

a. NEWTON COMPANY
Balance Sheet (selected items)
December 31, 2012

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Available-for-sale investments, at cost ....................................</td>
<td>$72,000</td>
</tr>
<tr>
<td>Plus valuation allowance for available-for-sale investments</td>
<td>(700)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$72,700</strong></td>
</tr>
</tbody>
</table>

*Computation:
Market:
- Starlight Products, Inc.: 700 shares × $55 ........... $38,500
- Reynolds Co.: 1,900 shares × $18 ...................... 34,200
- **Total**                                             $72,700

Cost ($31,000 + $41,000) ........................................... 72,000
Unrealized gain .......................................................... $ 700

b. NEWTON COMPANY
Balance Sheet (selected items)
December 31, 2012

<table>
<thead>
<tr>
<th>Stockholders’ Equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained earnings ...................................................................</td>
<td>$250,000</td>
</tr>
<tr>
<td>Unrealized gain (loss) on available-for-sale investments ...........</td>
<td>700</td>
</tr>
</tbody>
</table>

Ex. 13–24

NORCROSS CORPORATION
Stockholders’ Equity
December 31, 2012

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock.................................................................</td>
<td>$ 50,000</td>
</tr>
<tr>
<td>Paid-in capital in excess of par value</td>
<td>350,000</td>
</tr>
<tr>
<td>Retained earnings ...........................................................</td>
<td>375,000*</td>
</tr>
<tr>
<td>Unrealized gain (loss) on available-for-sale investments ...........</td>
<td>(25,000)**</td>
</tr>
<tr>
<td><strong>Total</strong> .......................................................................</td>
<td><strong>$750,000</strong></td>
</tr>
</tbody>
</table>

*$265,000 + $110,000
**$40,000 + ($150,000 – $215,000), or $150,000 – $175,000