

Cash, Receivables & Marketable Securities



ProActive プロアクティブ／グアム大学日本事務局

CURRENT ASSETS (流動資産)

代表的な資産は

- Cash (現金)
- Marketable Securities (有価証券)
- Accounts Receivable (売掛金)
- Notes Receivable (手形)
- Inventories (商品在庫)
- Prepaid expenses (前払い費用)

1. Cash で重要なのは :

Definition, Cash Equivalents, Bank Reconciliation

2. Marketable Securities で重要なのは :

他社の株や社債を投資目的で購入している場合の会計処理です。特に株式の場合、カテゴリーは特殊比率により3つあります。

- 特殊比率 0~20% : このカテゴリーが Marketable Securities と呼び、Cost method で処理します。Asset 1 でまさに学びます。
- 20~50% : Equity Method (持分法), 税効果会計と連結の Topic で学習します。
- 50%以上の比率 : 連結。Consolidations。

3. Accounts Receivable では :

Bad Debts Expense (貸倒費用) の計上法がポイントになります。

4. Notes Receivable では :

現在価値です。日本人受験生が苦手とする Topic です。でも大丈夫、僕がいるから。

5. Inventories では :

なんといっても Pricing でしょう。いろんな Method で 12月31日の Inventory 残高を算出します。

6. Prepaid expenses は Non-Factor だね! いくつか過去問題が問題集に出ていたりしますが、3年に1回、1問でるかなー?

総括 :

CPA の試験では 1~5 が満遍なく出題されます。難しい Topic ではないのでグイグイ覚えていきましょう。

CASH

A. Definition

1. Cash on the balance sheet is _____ that is _____ & _____
and available to be spent in _____

2. Be careful of cash you can't _____

- Examples:
- a. _____
 - b. _____
 - c. _____

B. Cash Equivalents

Three-Month Rule: Highly liquid securities with an _____ maturity of _____ or less are treated as cash.

- Examples:
- a. _____
 - b. _____
 - c. _____

C. Bank Reconciliation — Primary area for exam questions

Work space and additional notes:

MULTIPLE-CHOICE QUESTION 1

1. In preparing its August 31, Year 2 bank reconciliation, Apex Corp. had available the following information:

Balance per bank statement, 8/31	\$18,050
Deposit in transit, 8/31	3,250
Return of customer's check for insufficient funds, 8/31	600
Outstanding checks, 8/31	2,750
Bank service charges for August	100

At August 31, Year 2, Apex's correct cash balance is

- a. \$18,550
- b. \$17,950
- c. \$17,850
- d. \$17,550

Work Space:

Bank Balance, 8/31	\$	_____
Deposit in Transit		_____
Returned Check		_____
Outstanding Checks		_____
Service Charges		_____
Correct Cash Balance	\$	_____

Additional notes:

Independently answer multiple-choice question 2.

MULTIPLE-CHOICE QUESTION 2

2. The following information pertains to Grey Co. at December 31, 20X3:

Checkbook balance	\$12,000
Bank statement balance	16,000
Check drawn on Grey's account, payable to a vendor, dated and recorded 12/31/X3 but not mailed until 1/10/X4	1,800

On Grey's December 31, 20X3 balance sheet, what amount should be reported as cash?

- a. \$12,000
- b. \$13,800
- c. \$14,200
- d. \$16,000

(4827)

Cash in checking account	\$
Held check	
Cash and cash equivalents	\$

Adjusting Journal Entry:

Cash _____
 Accounts _____

Work space and notes:

Independently answer multiple-choice questions 3-6.

MULTIPLE-CHOICE QUESTIONS 3 - 6

3. At October 31st Dingo Inc. had cash accounts at three *different* banks. One account balance is segregated solely for a November 15th payment into a bond sinking fund. A second account, used for branch operations, is overdrawn. The third account, used for regular corporate operations, has a positive balance. How should these accounts be reported in Dingo's October 31st classified balance sheet?

- a. The segregated account should be reported as a noncurrent asset, the regular account should be reported as a current asset and the overdraft should be reported as a current liability.
- b. The segregated and regular accounts should be reported as current assets, and the overdraft should be reported as a current liability.
- c. The segregated account should be reported as a noncurrent asset, and the regular account should be reported as a current asset net of the overdraft.
- d. The segregated and regular accounts should be reported as current assets net of the overdraft.

(3446)

Work space and notes:

Items 4 and 5 are based on the following data:

Poe Inc. had the following bank reconciliation at March 31:

Balance per bank statement, 3/31	\$ 46,500
Add: Deposit in transit	<u>10,300</u>
	56,800
Less: Outstanding checks	<u>(12,600)</u>
Balance per books, 3/31	<u>\$ 44,200</u>

Data per bank for the month of April 20X7 follow:

Deposits	\$ 58,400
Disbursements	49,700

All reconciling items at March 31 cleared the bank in April. Outstanding checks at April 30 totaled \$7,000. There were no deposits in transit at April 30.

4. What is the cash balance per books at April 30?

- a. \$48,200
- b. \$52,900
- c. \$55,200
- d. \$58,500

(0875)

Bank Balance, 3/31	\$ 46,500
Deposits	<u> </u>
Disbursements	<u> </u>
Bank Balance, 4/30	<u>\$ </u>
Outstanding Checks	<u> </u>
Book Balance, 4/30	<u>\$ </u>

Work space and notes:

5. What is the amount of cash disbursements per books in April?

- a. \$44,100
- b. \$49,200
- c. \$54,300
- d. \$56,700

(9003)

Disbursements per Bank	\$	
Outstanding Checks, 3/31		
Outstanding Checks, 4/30		
Disbursements per Book	\$	

6. At June 30, Almond Co.'s cash balance was \$10,012 before adjustments, while its ending bank statement balance was \$10,772. Check number 101 was issued June 2 in the amount of \$95, but was erroneously recorded in Almond's general ledger balance as \$59. The check was correctly listed in the bank statement at \$95. The bank statement also included a credit memo for interest earned in the amount of \$35, and a debit memo for monthly service charges in the amount of \$50. What was Almond's adjusted cash balance at June 30?

- a. \$9,598
- b. \$9,961
- c. \$10,048
- d. \$10,462

(8106)

Unadjusted Cash Balance at 6/30	\$	
Check error		
Interest income		
Service Charge		
Adjusted Cash Balance	\$	

Work space and notes:

DIRECT WRITE-OFF METHOD

A. Accounting for Bad Debts — Two Methods

1. _____
2. _____

B. Direct Write-off Method

1. No entry for bad debts until customer _____
2. At default, the customer's account is _____

Example Journal Entry

Year 1:	Accounts receivable	_____	
	Sales		_____
Year 4:	Bad debt expense	_____	
	Accounts receivable		_____

3. Theoretically, the direct write-off method is _____ because of the _____ concept.
4. Acceptable under GAAP as long as bad debt expenses are _____

5. *Material* bad debt expense requires the _____

Work space and additional notes:

ALLOWANCE METHOD

Allowance Method: A company will _____ accounts receivable expected to become bad debts and set up a _____ for bad debts on the _____ sheet.

Remember, there are _____ approaches to the Allowance Method.

A. _____ approach

B. _____ approach

Work space and additional notes:

Independently answer multiple-choice questions 7-8.

MULTIPLE-CHOICE QUESTION 7

Income Statement Approach

7. The following information pertains to Oro Corp:

Credit sales for the year ended December 31	\$450,000
Credit balance in allowance for uncollectible accounts at January 1	10,800
Bad debts written off during the year	18,000

According to past experience 3% of Oro's credit sales have been uncollectible. After provision is made for bad debt expense for the year ended December 31, the allowance for uncollectible accounts balance would be:

- a. \$6,300
- b. \$13,500
- c. \$24,300
- d. \$31,500

Work space:

Allowance Account

|

Additional notes:

MULTIPLE-CHOICE QUESTION 8

Balance Sheet Approach

8. Based on the aging of its accounts receivable at December 31 Terry Company determined that the net realizable value of the receivables at that date is \$190,000. Additional information is as follows:

Accounts receivable at 12/31	\$220,000
Allowance for doubtful accounts at 1/1 — credit balance	32,000
Accounts written off as uncollectible at 9/30	24,000

Terry's doubtful accounts expense for the year ended December 31 is:

- a. \$38,000
- b. \$30,000
- c. \$26,000
- d. \$22,000

Work space:

Allowance Account			
	A/R per books, 12/31	\$	220,000
	A/R per aging, 12/31		<u>(190,000)</u>
	Allowance, 12/31	<u>\$</u>	<u> </u>

Adjusting Journal Entry:

Bad Debt Expense		
Allowance		

Additional notes:

RESTORED ACCOUNT (RECOVERY)

Example: Written-off Account Later Collected

Allowance for bad debts	300	
Accounts receivable		300
<i>To originally write-off entry</i>		

Now payment is received for the account previously written off as a bad debt. **Reverse** the original entry; **record** cash payment.

Accounts receivable	300	
Allowance for bad debts		300
<i>To reverse the original write-off entry</i>		

Cash	300	
Accounts receivable		300
<i>To record the payment received</i>		

Additional notes:

Independently answer multiple-choice questions 9-11.

MULTIPLE-CHOICE QUESTIONS 9 - 11

Balance Sheet Approach

9. Inge Co. determined that the net value of its accounts receivable at December 31 based on an aging of the receivables, was \$325,000. Additional information is as follows:

Allowance for uncollectible accounts at 1/1	\$30,000
Uncollectible accounts written-off during the year	18,000
Uncollectible accounts recovered during the year	2,000
Accounts receivable at 12/31	350,000

What would be Inge's uncollectible accounts expense?

- a. \$5,000
- b. \$11,000
- c. \$15,000
- d. \$21,000

(9005)

Allowance Acct.	
	30,000
18,000	2,000
14,000	plug
<u>25,000</u>	

Adjusting Journal Entry:

Bad Debt Expense			
Allowance			

Additional notes:

10. At January 1 Jamin Co. had a credit balance of \$260,000 in its allowance for uncollectible accounts. Based on past experience, 2% of Jamin's credit sales have been uncollectible. During the year, Jamin wrote off \$325,000 of uncollectible accounts. Credit sales for the year were \$9,000,000. In its December 31 balance sheet, what amount should Jamin report as allowance for uncollectible accounts?

- a. \$115,000
- b. \$180,000
- c. \$245,000
- d. \$440,000

(5545)

Allowance Acct.	
	

11. Hall Co.'s allowance for uncollectible accounts had a credit balance of \$24,000 at December 31. During the year, Hall wrote off uncollectible accounts of \$96,000. The aging of accounts receivable indicated that a \$100,000 allowance for doubtful accounts was required at December 31. What amount of uncollectible accounts expense should Hall report for the year?

- a. \$172,000
- b. \$120,000
- c. \$100,000
- d. \$96,000

(4088)

Allowance Acct.	
	24,000
96,000	
72,000	<input style="width: 60px; height: 20px;" type="text"/> plug
	100,000 (given)

Additional notes:

ASSIGNING, FACTORING & PLEDGING ACCOUNTS RECEIVABLE

- A. Pledging / Assigning Accounts Receivable: Company pledges / assigns the rights to its receivables to a financial institution as security for a loan.
1. Assignment of accounts receivable normally is done with recourse, i.e., if the customers default, the assigning company is still liable to the bank for the money.
 2. Assignment usually is done without notification, meaning the customers don't know their debts have been assigned, and continue paying the company.
 3. Must be **footnoted**.
- B. Factoring Accounts Receivable: Receivables sold to a factor.
1. Without Recourse: If the customers default, the company that sold its receivables is **not** liable to the factor for the money; **sale is final**.

Factoring Without Recourse			
Cash		XXX	
Loss*		PLUG	
Accounts receivable			XXX

* Almost always a loss, because the factor will give you a discounted price

2. With Recourse: If customers default, the company that sold its receivables is **still** liable to the factor for the money; **sale is not final**.

Factoring With Recourse

A/R factored / assigned
Accounts receivable

XXX

XXX

Additional notes:

Answer multiple-choice question 12

MULTIPLE-CHOICE QUESTION 12

Discounting Notes Receivable: Exchange a note receivable for cash

12. Rand Inc. accepted from a customer a \$40,000, 90-day, 12% interest-bearing note dated August 31, 20X7. On September 30, 20X7, Rand discounted the note at the Apex State Bank at 15%. However, the proceeds were not received until October 1, 20X7. In Rand's September 30, 20X7 balance sheet, the amount receivable from the bank, based on a 360-day year, includes accrued interest revenue of

- a. \$170
- b. \$200
- c. \$300
- d. \$400

(0896)

Face amount of note	\$40,000
Add: Interest to maturity ($\$40,000 \times 12\% \times \boxed{}/360$)	1,200
Maturity value of note	\$41,200
Less: Bank discount ($\boxed{} \times 15\% \times \boxed{}/360$)	(1,030)
Proceeds from discounted note	\$40,170
Less: Face amount of note	(40,000)

Accrued interest revenue, 9/30	\$

Adjusting Journal Entry:

Receivable from Bank	_____	
N/R Discounted		_____
Interest Receivable		_____

Additional notes:

MULTIPLE-CHOICE QUESTION 13

Non-Interest-Bearing Notes (Seller): Interest must be *imputed*.

13. On January 1, 20X5, Elia Company sold a building which had a carrying amount of \$350,000, receiving a \$125,000 down payment and, as additional consideration, a \$400,000 noninterest-bearing note due on January 1, 20X8. There was no established exchange price for the building and the note had no ready market. The prevailing rate of interest for a note of this type at January 1, 20X5, was 10%. The present value of 1 at 10% for three periods is 0.75. What amount of interest income should be included in Elia's 20X5 income statement?

- a. \$0
- b. \$30,000
- c. \$35,000
- d. \$40,000

Seller's Perspective			
<i>January 1, 2005:</i>			
Cash	125,000		
Note Receivable [\$400,000 x .75]	300,000		
Building			350,000
Gain			75,000
<i>To record the sale</i>			
 <i>December 31, 2005:</i>			
Note Receivable [\$300,000 x .10]	_____		
Interest Revenue / Income			_____
<i>To record 12-31 interest</i>			
 <i>December 31, 2006</i>			
Note Receivable [\$330,000 x .10]	_____		
Interest Revenue / Income			_____

Total interest imputed in this note receivable is _____

Additional notes:

MULTIPLE-CHOICE QUESTION 13 (continued)

Buyer's Perspective

January 1, 2005:

Building	425,000	
Cash		125,000
Notes payable [$\$400,000 \times .75$]		300,000
<i>To record the purchase</i>		

December 31, 2005:

Interest expense [$\$300,000 \times .10$]	_____	
Notes payable		_____
<i>To record 12-31 interest accrual</i>		

December 31, 2006:

Interest expense [$\$330,000 \times .10$]	_____	
Notes payable		_____
<i>To record 12-31 interest accrual</i>		

Independently answer multiple-choice questions 14-15.

MULTIPLE-CHOICE QUESTIONS 14 - 15

Non-Interest-Bearing Notes: Seller Side

Items 14 and 15 are based on the following:

On January 2, 20X2, Emme Co. sold equipment with a carrying amount of \$480,000 in exchange for a \$600,000 noninterest-bearing note due January 2, 20X5. There was no established exchange price for the equipment. The prevailing rate of interest for a note of this type at January 2, 20X2, was 10%. The present value of 1 at 10% for three periods is 0.75.

14. In Emme's 20X2 income statement, what amount should be reported as interest income?

- a. \$9,000
- b. \$45,000
- c. \$50,000
- d. \$60,000

(4415)

<i>January 2, 20X2:</i>			
Note Receivable [\$600,000 x .75]	450,000		
Loss	30,000		
Equipment			480,000

<i>December 31, 20X2:</i>			
Note Receivable	45,000		
Interest Income			45,000
$(\$600,000) \times (.75) \times (.10) = \$45,000$			

15. In Emme's 20X2 income statement, what amount should be reported as gain(loss) on sale of machinery?

- a. \$(30,000)
- b. \$ 30,000
- c. \$120,000
- d. \$270,000

(4416)

Independently answer multiple-choice questions 16.

MULTIPLE-CHOICE QUESTION 16

16. On January 1, 20X3, Mill Co. exchanged equipment for a \$200,000 noninterest-bearing note due on January 1, 20X6. The prevailing rate of interest for a note of this type at January 1, 20X3, was 10%. The present value of \$1 at 10% for three periods is 0.75. What amount of interest income should be included in Mill's 20X4 income statement?

- a. \$0
- b. \$15,000
- c. \$16,500
- d. \$20,000

(0888)

<i>January 1, 20X3:</i>		
Note Receivable [\$200,000 x .75]	150,000	
Sales		150,000
<i>December 31, 20X3:</i>		
Note Receivable [\$150,000 x 10%]	15,000	
Interest Income		15,000
<i>December 31, 20X4:</i>		
Note Receivable [\$165,000 x 10%]	16,500	
Interest Income		16,500

Additional notes:

Independently answer multiple-choice question 17.

MULTIPLE-CHOICE QUESTION 17

Non-Interest-Bearing Note: Seller side with an annuity

17. On December 30, 20X4, Chang Co. sold a machine to Door Co. in exchange for a noninterest-bearing note requiring ten annual payments of \$10,000. Door made the first payment on December 30, 20X4. The market interest rate for similar notes at date of issuance was 8%. Information on present value factors is as follows:

<u>Period</u>	<u>Present value of \$1 at 8%</u>	<u>Present value of ordinary annuity of \$1 at 8%</u>
9	0.50	6.25
10	0.46	6.71

In its December 31, 20X4 balance sheet, what amount should Chang report as note receivable?

- a. \$45,000
- b. \$46,000
- c. \$62,500
- d. \$67,100

(5544)

Chang Co. Note Receivable Journal Entry:

Cash		
Note Receivable [\$10,000 x 6.25]		
Sales		

例題

On December 30 of the current year, Bart Inc. purchased a machine from Fell Corp. in exchange for a noninterest-bearing note requiring eight payments of \$20,000. The first payment was made on December 30, and the others are due annually on December 30. At date of issuance, the prevailing rate of interest for this type of note was 11%. Present value factors are as follows:

<u>Period</u>	<u>PVA of ordinary annuity of 1 at 11%</u>	<u>PV of annuity in advance of 1 at 11%</u>
7	4.712	5.231
8	5.146	5.712

On Bart's current year December 31 balance sheet, the note payable to Fell was

- a. \$ 94,240
- b. \$102,920
- c. \$104,620
- d. \$114,240

(5/90, PI, #29, amended, 1045)

MULTIPLE-CHOICE QUESTION 18

Note Receivable with Unreasonable Interest Rates

18. On December 31, 20X1, Jet Co. received two \$10,000 notes receivable from customers in exchange for services rendered. On both notes, interest is calculated on the outstanding principal balance at the annual rate of 3% and payable at maturity. The note from Hart Corp., made under customary trade terms, is due in nine months and the note from Maxx Inc. is due in five years. The market interest rate for similar notes on December 31, 20X1, was 8%. The compound interest factors to convert future values into present values at 8% follow:

Present value of \$1 due in nine months: .944

Present value of \$1 due in five years: .680

At what amounts should these two notes receivable be reported in Jet's December 31, 20X1 balance sheet?

	Hart	Maxx
a.	\$9,440	\$6,800
b.	\$9,652	\$7,820
c.	\$10,000	\$6,800
d.	\$10,000	\$7,820

(2582)

Hart Corp. Note Receivable Journal Entry:

Note Receivable		
Sales		

Maxx Inc. Note Receivable:

Unreasonable Interest (10,000 x 3% x 5 yrs)	\$ 1,500
Principal	10,000
Maturity Value	11,500
Discount Rate	x .680
Present Value	\$ 7,820

Maxx Note Receivable Journal Entry:

Note Receivable		
Sales		

INVESTMENTS: HELD TO MATURITY

A. Held-to-Maturity (HTM) Securities

1. _____ securities only (like bonds)
2. Management has both the _____ and _____ to hold the securities to maturity
3. Classified (current or noncurrent) on balance sheet based on the _____ date
4. Carry on balance sheet at _____ cost
 - a. Effective - Interest Method: Theoretically preferred
 - (1) Interest proceeds = stated rate x face amount
 - (2) Interest earned = effective yield x carrying amount
 - (3) Difference is amount of premium or discount amortized

Effective Interest Method Journal Entry:

Corporation A purchases bonds with a face amount of \$500,000 and a stated interest of 9% for \$469,500 with an effective yield of 10%. Management has the intent and ability to hold the debt to maturity.

December 31:

Cash (\$500,000 x 0.09)	45,000	
Investment in Bonds (PLUG)	1,950	
Interest Income (\$469,500 x 0.10)		46,950

To record annual interest income from investment in bonds

b. Straight-Line Method

- (1) Interest proceeds = stated rate x face amount
- (2) Premium or discount divided by remaining life of bonds
- (3) Difference is amount of premium or discount amortized
- (4) Interest income becomes a plug figure

Straight Line Interest Method Journal Entry:

Corporation A purchases bonds with a face amount of \$500,000 and a stated interest of 9% for \$469,500 with an effective yield of 10%. Management has the intent and ability to hold the debt to maturity.

December 31:

Cash ($\$500,000 \times 0.09$)	45,000	
Investment in Bonds [$\$30,500 \div 10$]	3,050	
Interest Income		48,050

To record annual interest income from investment in bonds

Additional notes:

INVESTMENTS: TRADING

B. Trading Securities

1. Investments in _____ or _____ securities held for the purpose of _____ in the near term
2. Classified on balance sheet as _____
3. Carried on balance sheet at _____
4. Unrealized _____ gains & losses from a trading portfolio belong on the _____

Trading Securities Example:

Security	Cost	Market, 12-31
A	\$ 8,000	\$12,000
B	10,000	5,000
C	20,000	27,000
Investment A		4,000
Unrealized gain (I/S)		4,000
Unrealized loss (I/S)		5,000
Investment B		5,000
Investment C		7,000
Unrealized gain (I/S)		7,000
Cash		25,000
Realized loss(I/S)		2,000
Investment C		27,000
<i>To record sale of Investment C for \$25,000 in Year 6</i>		

5. Realized gains & losses always go to the _____

INVESTMENTS: AVAILABLE FOR SALE

C. Available-for-Sale (AFS) Securities

1. Debt or equity securities **not** classified as either HTM or _____
2. Debt is classified on _____ by _____ date
3. Equity securities are classified by management's _____
4. AFS portfolio is carried on balance sheet at **aggregate** _____
5. Unrealized _____ gains & losses from AFS portfolio go directly to _____ as an item of _____ .

Available for Sales Securities Example: Year 5

<u>Security</u>	<u>Cost</u>	<u>Market, 12-31</u>
Q	\$ 3,000	\$10,000
R	5,000	15,000
S	7,000	1,000
Aggregate	<u>\$15,000</u>	<u>\$26,000</u>

Market adjustment (B/S)	11,000	
OCI(B/S)		11,000

To record year-end adjustments to carrying value, Year 5

On the December 31 balance sheet:

Available-for-sale at cost	\$15,000
Market adjustment	<u>11,000</u>
Aggregate market value	<u>\$26,000</u>

Additional notes:

Available for Sales Securities Example: Year 6

<u>Security</u>	<u>Cost</u>	<u>Market, 12-31</u>
Q	\$ 3,000	\$9,000
R	5,000	3,000
S	7,000	2,000
Aggregate	<u>\$15,000</u>	<u>\$14,000</u>

OCI

Market adjustment

To make year-end adjustment to carrying value, Year 6

<u>Market Adjustment</u>	
11,000	<input type="text"/>
	plug
	1,000

On the balance sheet, end of Year 6:

Available- for- sale at cost	\$15,000
Market adjustment	<u>(1,000)</u>
Aggregate market value	<u>\$14,000</u>

Sell Investment R in Year 7:

Cash	8,000	
Investment R (original cost)		5,000
Realized gain (I/S)		3,000

Additional notes:

IMPAIRMENT

D. Permanent Impairment

1. Applies to _____ and _____ securities only, not _____
2. Extreme _____, such as _____
3. Must be _____ decline

Sample Impairment Journal Entry:

Realized loss	XXX	
Investment in bonds		XXX

MULTIPLE CHOICE QUESTION 19

Trading Securities: Accounted for at Fair value

19. At year end, Rim Co. held several investments with the intent of selling them in the near term. The investments consisted of \$100,000, 8%, five-year bonds, purchased for \$92,000, and equity securities purchased for \$35,000. At year end, the bonds were selling on the open market for \$105,000 and the equity securities had a market value of \$50,000. What amount should Rim report as trading securities in its year-end balance sheet?

- a. \$50,000
- b. \$127,000
- c. \$142,000
- d. \$155,000

(7751)

Trading Securities Example:

Security	Cost	Market
Bonds	\$ 92,000	\$105,000
Equity	35,000	50,000
Aggregate	\$127,000	\$155,000

MULTIPLE CHOICE QUESTION 20

20. During Year 9, Scott Corp. purchased marketable equity securities and classified them as available-for-sale. Pertinent data follow:

<u>Security</u>	<u>Cost</u>	<u>Fair value at 12/31/X4</u>
D	\$36,000	\$40,000
E	50,000	30,000
F	10,000	16,000
	<u>\$96,000</u>	<u>\$86,000</u>

Scott appropriately carries these securities at fair value. The amount of unrealized loss on these securities in Scott's Year 9 income statement should be:

- a. \$20,000
- b. \$14,000
- c. \$10,000
- d. \$0

(4568)

Aggregate Market Adjustment Journal Entry:

OCI _____
Market Adjustment _____

Additional notes:

Independently answer multiple-choice question 21

MULTIPLE CHOICE QUESTION 21

21. The following information pertains to Smoke Inc.'s investments in marketable equity securities, classified as available-for-sale:

- At year end, Smoke has a security with a \$70,000 cost and a \$50,000 fair value. (No Market Adjustment account exists.)
- A marketable equity security costing \$50,000, has a \$60,000 fair value on December 31. Smoke believes the **recovery** from an earlier lower fair value is permanent.

What is the net effect of the above two items on the balances of Smoke's Market Adjustment account for available-for-sale marketable equity securities as of December 31?

- a. No effect
- b. Creates a \$10,000 debit balance
- c. Creates a \$20,000 credit balance
- d. Creates a \$10,000 credit balance

(4578)

Smoke Inc. Market Adjustment Journal Entry:

Aggregate Market Adjustment Journal Entry:

OCI	_____	
Market Adjustment		_____

Additional notes:

Independently answer multiple-choice questions 22.

MULTIPLE CHOICE QUESTION 22

22. During Year 7, Wall Co. purchased 2,000 shares of Hemp Corp. common stock for \$31,500 as an available-for-sale investment. The market value of this investment was \$29,500 at December 31, Year 7. Wall sold all of the Hemp common stock for \$14 per share on December 15, Year 8, incurring \$1,400 in brokerage commissions and taxes. On the sale, Wall should report a realized loss of

- a. \$4,900
- b. \$3,500
- c. \$2,900
- d. \$1,500

(0978)

Realized Loss Journal Entry:

Cash [\$28,000 - \$1,400]	_____	
Realized Loss	_____	
Investment in Hemp		_____

Additional notes:

Independently answer multiple-choice question 23.

MULTIPLE CHOICE QUESTION 23

23. At the end of year 1, Lane Co. held trading securities that cost \$86,000 and which had a year-end market value of \$92,000. During year 2, all of these securities were sold for \$104,500. At the end of year 2, Lane had acquired additional trading securities that cost \$73,000 and which had a year-end market value of \$71,000. What is the impact of these stock activities on Lane's year 2 income statement?

- a. Loss of \$2,000
- b. Gain of \$10,500
- c. Gain of \$16,500
- d. Gain of \$18,500

(8325)

<u>Year 1 Adjustment Entry:</u>		
Securities		
Unrealized Holding Gain	_____	_____
 <u>Year 2 Sale:</u>		
Cash		
Realized Gain	_____	_____
Security		_____
 <u>Year 2 Adjustment:</u>		
Unrealized Holding Loss		
Trading Securities	_____	_____

Additional notes:

Answer multiple-choice questions 24 and 25

MULTIPLE CHOICE QUESTIONS 24 - 25

On the **day** of the transfer, write the **individual** investment to fair market value. Securities must always enter their new portfolio at fair market value. For trading securities, unrealized gains/losses go to the Income Statement. For HTM and AFS, unrealized gains/losses go the balance sheet as OCI.

Transfer from Trading:

Investment A	5,000	
Unrealized gain		5,000
<i>To record value increase before transfer of Investment A when FMV is \$8,000</i>		
<i>(cost \$3,000)</i>		

Transfer to Trading:

Investment A	5,000	
Unrealized gain		5,000
<i>To record value increase before transfer of Investment A when FMV is \$8,000</i>		
<i>(cost \$3,000)</i>		

Transfer from HTM to AFS:

Investment A	5,000	
OCI		5,000
<i>To record value increase before transfer of Investment A when FMV is \$8,000</i>		
<i>(cost \$3,000)</i>		

Transfer from AFS to HTM:

Investment A	5,000	
OCI		5,000
<i>To record value increase before transfer of Investment A when FMV is \$8,000</i>		
<i>(cost \$3,000)</i>		

Items 24 and 25 are based on the following:

Sun Corp. had investments in equity securities classified as trading costing \$650,000. On June 30, 20X5, Sun decided to hold the investments indefinitely and accordingly reclassified them from trading to available-for-sale on that date. The investment's fair value was \$575,000 at December 31, 20X4; \$530,000 at June 30, 20X5; and \$490,000 at December 31, 20X5.

24. What amount of loss from investments should Sun report in its Year 5 income statement?

- a. \$45,000
- b. \$85,000
- c. \$120,000
- d. \$160,000

(4045)

June 30 Year 5 Transfer (Trading to AFS) Journal Entry:

Unrealized Loss	_____	
Investments		_____

25. What amount should Sun report as net unrealized loss on investments in equity securities in other comprehensive income at the end of Year 5?

- a. \$40,000
- b. \$45,000
- c. \$85,000
- d. \$160,000

(4046)

December 31 Year 5 Journal Entry:

OCI	_____	
Market Adjustment		_____

Additional notes:

COST METHOD

Cost Method Sample Journal Entry:

Investment A	28,000	
Cash		28,000
<i>To record purchase of 2,000 shares @ \$14 per share</i>		
Cash	2,000	
Dividend Income		2,000
<i>To record receipt of \$2,000 dividend</i>		

Additional notes:

DERIVATIVES & HEDGES

A. Definitions

1. Derivative : Investment that derives its _____ from some other security or commodity
 - A derivative investment can be either an _____ or a liability
 - If you are in a _____ position, that's an asset. If you are in a _____ position, that's a _____
2. Hedging: Strategy of investing in a _____ for the purpose of _____ the potential _____ in another security or transaction

B. Non-Hedge Derivatives

1. Record on balance sheet as asset or liability at _____
2. Report _____ holding gains & losses are on _____

FAIR VALUE & CASH FLOW HEDGES

Hedge Derivative Types

- A. Fair Value Hedge: Protects against potential loss from the change in the fair market value of a(n) _____ or a(n) _____
1. Record on balance sheet as asset or liability at _____
 2. Report unrealized holding gains & losses are on _____
- B. Cash-Flow Hedge: Protects against potential loss from the future cash flow of an asset or liability
1. Record on balance sheet as asset or liability at _____
 2. Unrealized holding gains & losses on a cash flow hedge depend on whether hedge is _____ or _____
 3. Effective cash flow hedge IS counterbalance losses elsewhere. That gain goes directly to _____ as an item of _____
 4. Ineffective cash flow hedge is NOT counterbalancing a loss. That loss goes directly to the _____ and included in earnings.

Effective (hedge was profitable and offset derivative loss) Journal Entry:

Investment X	10,000	
Other Comprehensive Income (B/S)		10,000

In the period when the loss from the derivate is realized on the income statement:

Other Comprehensive Income (B/S)	10,000	
Gain on derivatives (I/S)		10,000

Note: Now the Income Statement shows both the loss and the counter balancing derivative gain

Ineffective (hedge was not profitable, and did not offset derivative loss) Journal Entry

Loss	3,000	
Investment Z		3,000

MULTIPLE CHOICE QUESTIONS 26 - 28

26. Which of the following financial instruments is not considered a derivative financial instrument?

- a. Interest-rate swaps
- b. Currency futures
- c. Stock – index options
- d. Bank certificates of deposit

(8072)

27. If it is not practicable for an entity to estimate the fair value of a financial instrument, which of the following should be disclosed?

- I. Information pertinent to estimating the fair value of the financial instrument
- II. The reasons it is not practicable to estimate fair value

- a. I only
- b. II only
- c. Both I and II
- d. Neither I nor II

(6455)

28. Which of the following risks are inherent in an interest rate swap agreement?

- I. The risk of exchanging a lower interest rate for a higher interest rate
- II. The risk of nonperformance by the counterparty to the agreement

- a. I only
- b. II only
- c. Both I and II
- d. Neither I nor II

(6454)