Waldo Corporation had the following transactions pertaining to debt investments.

Jan. 1, 2017  Purchased 30, $1,000 Hillary Co. 10% bonds for $30,000. Interest is payable annually on January 1.


Jan. 1, 2018  Received interest on Hillary Co. bonds.

Jan. 1, 2018  Sold 15 Hillary Co. bonds for $14,600.

Dec. 31, 2018  Accrued interest on Hillary Co. bonds in 2018.

Journalize the transactions.

**Solution**

<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1 2017</td>
<td>Debt Investments</td>
<td>30,000</td>
<td>Cash 30,000</td>
<td>To record purchase of 30 Hillary Co. bonds</td>
</tr>
<tr>
<td>Dec. 31 2017</td>
<td>Interest Receivable</td>
<td>3,000</td>
<td>Interest Revenue ($30,000 x 10%) 3,000</td>
<td>To accrue interest on Hillary Co. bonds</td>
</tr>
<tr>
<td>Jan. 1 2018</td>
<td>Cash</td>
<td>3,000</td>
<td>Interest Receivable 3,000</td>
<td>To record receipt of interest on Hillary Co. bonds</td>
</tr>
<tr>
<td>Jan. 1 2018</td>
<td>Cash</td>
<td>14,600</td>
<td>Loss on Sale of Debt Investments 400</td>
<td>(To record sale of 15 Hillary Co. bonds)</td>
</tr>
<tr>
<td>Dec. 31 2018</td>
<td>Interest Receivable</td>
<td>1,500</td>
<td>Interest Revenue ($15,000 x 10%) 1,500</td>
<td>(To accrue interest on Hillary Co. bonds)</td>
</tr>
</tbody>
</table>

**Action Plan**

✔ Record bond investments at cost.
✔ Record interest when accrued.
✔ When bonds are sold, credit the investment account for the cost of the bonds.
✔ Record any difference between the cost and the net proceeds as a gain or loss.

Related exercise material: BE16-1, E16-2, E16-3, and DO IT! 16-1.
Stock Investments

Presented below are two independent situations.

1. Rho Jean Inc. acquired 5% of the 400,000 shares of common stock of Stillwater Corp. at a total cost of $6 per share on May 18, 2017. On August 30, Stillwater declared and paid a $75,000 dividend. On December 31, Stillwater reported net income of $244,000 for the year.

2. Debbie, Inc. obtained significant influence over North Sails by buying 40% of North Sails’ 60,000 outstanding shares of common stock at a cost of $12 per share on January 1, 2017. On April 15, North Sails declared and paid a cash dividend of $45,000. On December 31, North Sails reported net income of $120,000 for the year.

Prepare all necessary journal entries for 2017 for (1) Rho Jean Inc. and (2) Debbie, Inc.

Solution

1. May 18
   - Stock Investments (400,000 × 5% × $6) 120,000
   - Cash 120,000
   (To record purchase of 20,000 shares of Stillwater Co. stock)

   Aug. 30
   - Cash 3,750
   - Dividend Revenue ($75,000 × 5%) 3,750
   (To record receipt of cash dividend)

2. Jan. 1
   - Stock Investments (60,000 × 40% × $12) 288,000
   - Cash 288,000
   (To record purchase of 24,000 shares of North Sails’ stock)

   Apr. 15
   - Cash 18,000
   - Stock Investments ($45,000 × 40%) 18,000
   (To record receipt of cash dividend)

   Dec. 31
   - Stock Investments ($120,000 × 40%) 48,000
   - Revenue from Stock Investments 48,000
   (To record 40% equity in North Sails’ net income)

Related exercise material: BE16-2, BE16-3, E16-4, E16-5, E16-6, E16-7, E16-8, and Do It! 16-2.
Some of Powderhorn Corporation’s investment securities are classified as trading securities and some are classified as available-for-sale. The cost and fair value of each category at December 31, 2017, are shown below.

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Fair Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading securities</td>
<td>$93,600</td>
<td>$94,900</td>
<td>$1,300</td>
</tr>
<tr>
<td>Available-for-sale securities</td>
<td>$48,800</td>
<td>$51,400</td>
<td>$2,600</td>
</tr>
</tbody>
</table>

At December 31, 2016, the Fair Value Adjustment—Trading account had a debit balance of $9,200, and the Fair Value Adjustment—Available-for-Sale account had a credit balance of $5,750. Prepare the required journal entries for each group of securities for December 31, 2017.

**Solution**

**Trading securities:**

- Unrealized Loss—Income
  - Fair Value Adjustment—Trading: $7,900*
  - (To record unrealized loss on trading securities)
  - *$9,200 – $1,300

**Available-for-sale securities:**

- Fair Value Adjustment—Available-for-Sale: $8,350**
  - Unrealized Gain or Loss—Equity: $8,350
  - (To record unrealized gain on available-for-sale securities)
  - **$5,750 + $2,600

Related exercise material: BE16-4, BE16-6, E16-10, E16-11, E16-12, and DO IT! 16-3a.
Identify where each of the following items would be reported in the financial statements.
1. Interest earned on investments in bonds.
2. Fair value adjustment—available-for-sale.
3. Unrealized loss on available-for-sale securities.
5. Unrealized gain on trading securities.

Use the following possible categories:

<table>
<thead>
<tr>
<th>Balance sheet:</th>
<th>Income statement:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>Other revenues and gains</td>
</tr>
<tr>
<td>Investments</td>
<td></td>
</tr>
<tr>
<td>Property, plant, and equipment</td>
<td>Other expenses and losses</td>
</tr>
<tr>
<td>Intangible assets</td>
<td></td>
</tr>
</tbody>
</table>

Solution

<table>
<thead>
<tr>
<th>Item</th>
<th>Financial Statement</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Interest earned on investments in bonds</td>
<td>Income statement</td>
<td>Other revenues and gains</td>
</tr>
<tr>
<td>2. Fair value adjustment—available-for-sale</td>
<td>Balance sheet</td>
<td>Investments</td>
</tr>
<tr>
<td>3. Unrealized loss on available-for-sale securities</td>
<td>Balance sheet</td>
<td>Stockholders’ equity</td>
</tr>
<tr>
<td>4. Gain on sale of investments in stock</td>
<td>Income statement</td>
<td>Other revenues and gains</td>
</tr>
<tr>
<td>5. Unrealized gain on trading securities</td>
<td>Income statement</td>
<td>Other revenues and gains</td>
</tr>
</tbody>
</table>

Related exercise material: BE16-5, BE16-7, BE16-8, E16-10, E16-11, E16-12, and DO IT! 16-3b.
Kurtyka Corporation had the following transactions relating to debt investments:

Jan. 1, 2017  Purchased 50, $1,000, 10% Spiller Company bonds for $50,000. Interest is payable annually on January 1.
Dec. 31, 2017  Accrued interest on Spiller Company bonds.
Jan. 1, 2018  Received interest from Spiller Company bonds.
Jan. 1, 2018  Sold 30 Spiller Company bonds for $29,000.

(a) Journalize the transactions, and (b) prepare the adjusting entry for the accrual of interest on December 31, 2017.

Presented below are two independent situations:

1. Edelman Inc. acquired 10% of the 500,000 shares of common stock of Schuberger Corporation at a total cost of $11 per share on June 17, 2017. On September 3, Schuberger declared and paid a $160,000 dividend. On December 31, Schuberger reported net income of $550,000 for the year.

2. Wen Corporation obtained significant influence over Hunsaker Company by buying 30% of Hunsaker’s 100,000 outstanding shares of common stock at a cost of $18 per share on January 1, 2017. On May 15, Hunsaker declared and paid a cash dividend of $150,000. On December 31, Hunsaker reported net income of $270,000 for the year.

Prepare all necessary journal entries for 2017 for (a) Edelman and (b) Wen.

Some of Tollakson Corporation’s investment securities are classified as trading securities and some are classified as available-for-sale. The cost and fair value of each category at December 31, 2017, were as follows.

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost</th>
<th>Fair Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading securities</td>
<td>$96,300</td>
<td>$84,900</td>
<td>$(11,400)</td>
</tr>
<tr>
<td>Available-for-sale securities</td>
<td>$59,000</td>
<td>$63,200</td>
<td>$ 4,200</td>
</tr>
</tbody>
</table>

At December 31, 2016, the Fair Value Adjustment—Trading account had a debit balance of $3,200, and the Fair Value Adjustment—Available-for-Sale account had a credit balance of $5,750. Prepare the required journal entries for each group of securities for December 31, 2017.

Identify where each of the following items would be reported in the financial statements.

1. Loss on sale of investments in stock.
2. Unrealized gain on available-for-sale securities.
3. Fair value adjustment—trading.
4. Interest earned on investments in bonds.
5. Unrealized loss on trading securities.

Use the following possible categories:

Balance sheet:
- Current assets
- Investments
- Property, plant, and equipment
- Intangible assets
- Long-term liabilities
- Stockholders’ equity

Income statement:
- Other revenues and gains
- Other expenses and losses
CONTINUING PROBLEM

COOKIE CREATIONS: AN ENTREPRENEURIAL JOURNEY

(Note: This is a continuation of the Cookie Creations problem from Chapters 1 through 15.)

**CC16** Natalie has been approached by Ken Thornton, a shareholder of The Beanery Coffee Inc. Ken wants to retire and would like to sell his 1,000 shares in The Beanery Coffee, which represents 30% of all shares issued. The Beanery is currently operated by Ken’s twin daughters, who each own 35% of the common shares. The Beanery not only operates a coffee shop but also roasts and sells beans to retailers, under the name “Rocky Mountain Beanery.”

Ken has met with Curtis and Natalie to discuss the business operation. All have concluded that there would be many advantages for Cookie & Coffee Creations Inc. to acquire an interest in The Beanery Coffee. Despite the apparent advantages, however, Natalie and Curtis are still not convinced that they should participate in this business venture.

*Go to the book’s companion website, [www.wiley.com/college/weygandt](http://www.wiley.com/college/weygandt), to see the completion of this problem.*