TB

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、カテゴリーは持株比率により 3 つあります。
   - 持株比率 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%以上の持株比率：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。
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—?

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 money that is free & clear and available to be spent in current operation
2. Be careful of cash you can't spend in current operation

   Examples:
   a. security deposit
   b. compensating bank balance
   c. bond sinking fund

B. Cash Equivalents

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

Examples:
a. CD
b. T-Bills
c. CP

C. Bank Reconciliation — Primary area for exam questions

Work space and additional notes:

CD (Certificate of Deposit)

T-Bills (Treasury Bills)

CP (Commercial Paper)

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	$	18,050
Deposit in Transit		+3,250
Returned Check		NO
Outstanding Checks		-2,750
Service Charges		NO
Correct Cash Balance	$	18,550

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	$ 12,000
Held check	+ 1,800
Cash and cash equivalents	$ 13,800

Adjusting Journal Entry:

Cash	1,800	
Accounts payable		1,800

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:

※"C" will be the answer if this is only one bank.

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	10,300
	56,800
Less: Outstanding checks	(12,600)
Balance per books, 3/31	$ 44,200

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 correct cash balance at April 30?

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

(0875)

Bank Balance, 3/31	$ 46,500
Deposits	58,400
Disbursements	-49,700
Bank Balance, 4/30	$ 55,200
Outstanding Checks	-7,000
Book Balance, 4/30	$ 48,200

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	49,700
Outstanding Checks, 3/31	-12,600
Outstanding Checks, 4/30	+7,000
Disbursements per Book	44,100

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	10,012
Check error	-36
Interest income	+35
Service Charge	-50
Adjusted Cash Balance	9,961

Answer is b.

Work space and notes:

DIRECT WRITE-OFF METHOD

A. Accounting for Credit Loss — Two Methods

1. Direct write-off method
2. Allowance method

B. Direct Write-off Method

1. No entry for credit loss until customer default
2. At default, the customer's account is written off

Example Journal Entry

Year 1:	Accounts receivable	1000	
	Sales		1000
Year 4:	Credit loss expense	1000	
	Accounts receivable		1000

3. Theoretically, the direct write-off method is weak because of the matching concept.
4. Acceptable under GAAP as long as credit loss expenses are not material
5. *Material* credit loss expense requires the allowance method

Work space and additional notes:

ALLOWANCE METHOD

Allowance Method: A company will estimate accounts receivable expected to become credit loss and set up a provision for credit loss on the balance sheet.

Remember, there are four approaches to the Allowance Method.

1. **Discounted cash flow method**-losses are estimated by the present value of the future cash flows
2. **Aging method**-the instruments are stratified on the basis of when they will mature, and different percentages apply to each category
3. **Loss rate method**-losses are estimated as a percentage of total exposure
4. **Probability of default method**-losses are estimated by multiplying default percentage

Work space and additional notes:

provision = allowance

I/S = Income Statement

B/S = Balance Sheet

Independently answer multiple-choice questions 7-8.

MULTIPLE-CHOICE QUESTION 7

7. The following information pertains to Oro Corp:

Account receivable for the year ended December 31	\$450,000
Credit balance in allowance for credit loss at January 1	10,800
Credit loss written off during the year	18,000

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

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

Work space:

Allowance Account

−	+
18,000	10,800
	13,500
	6,300

450,000 × 3%

= 13,500

Additional notes:

MULTIPLE-CHOICE QUESTION 8

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 credit loss at 1/1 — credit balance	32,000
Accounts written off as uncollectible at 9/30	24,000

Terry's credit loss expense for the year ended December 31 is:

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

Work space:

Allowance Account

24,000	32,000
	22,000
	30,000

A/R per books, 12/31	$	220,000
A/R per aging, 12/31		(190,000)
Allowance, 12/31	$	30,000

Adjusting Journal Entry:

Credit Loss Expense	22,000	
Allowance for credit loss		22,000

Additional notes:

RESTORED ACCOUNT (RECOVERY)

Example: Written-off Account Later Collected

Allowance for credit loss	300	
Accounts receivable		300
To originally write-off entry		

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

Accounts receivable	300	
Allowance for credit loss		300
To reverse the original write-off entry		
Cash	300	
Accounts receivable		300
To record the payment received		

Additional notes:

Independently answer multiple-choice questions 9-11.

MULTIPLE-CHOICE QUESTIONS 9 - 11

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 credit loss 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 credit loss expense?

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

(9005)

Allowance Acct.

	30,000
18,000	
	2,000
	14,000
	$\boxed{}$ **plug**
	25,000 (given)

350,000
325,000
25,000

Adjusting Journal Entry:

Credit Loss Expense	11,000	
Allowance for credit loss		11,000

Additional notes:

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

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

$\boxed{9,000,000 \times 2\%}$

(5545)

Allowance Acct.

325,000	260,000
	180,000
	115,000

11. Hall Co.'s allowance for credit loss 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 credit loss was required at December 31. What amount of credit loss expense should Hall report for the year?

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

(4088)

Allowance Acct.

96,000	24,000	
72,000	$\boxed{}$	**plug**
	100,000	(given)

$\boxed{172,000}$

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	XXX	
Accounts receivable		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. $40,170
b. $40,200
c. $40,300
d. $40,400

(0896)

Face amount of note	$40,000
Add: Interest to maturity ($40,000 x 12% x $\boxed{90}$/360)	1,200
Maturity value of note	**$41,200**
Less: Bank discount ($\boxed{41,200}$ x 15% x $\boxed{60}$/360)	(1,030)
Proceeds from discounted note	$40,170

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

January 1, 2005:		
Cash	125,000	
Note Receivable [$400,000 x .75]	300,000	
Building		350,000
Gain		75,000
To record the sale		
December 31, 2005:		
Note Receivable [$300,000 x .10]	30,000	
Interest Revenue / Income		30,000
To record 12-31 interest		
December 31, 2006		
Note Receivable [$330,000 x .10]	33,000	
Interest Revenue / Income		33,000

Total interest imputed in this note receivable is 10%

Additional notes:

MULTIPLE-CHOICE QUESTION 13 (continued)

Buyer's Perspective

January 1, 2005:		
Building	425,000	
Cash		125,000
Notes payable [$400,000 x .75]		300,000
To record the purchase		
December 31, 2005:		
Interest expense [$300,000 x .10]	30,000	
Notes payable		30,000
To record 12-31 interest accrual		
December 31, 2006:		
Interest expense [$330,000 x .10]	33,000	
Notes payable		33,000
To record 12-31 interest accrual		

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)

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

December 31, 20X2:		
Note Receivable	45,000	
Interest Income		45,000
($600,000)*(.75)*(.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)

January 1, 20X3:		
Note Receivable [$200,000 x .75]	150,000	
Sales		150,000
December 31, 20X3:		
Note Receivable [$150,000 x 10%]	15,000	
Interest Income		15,000
December 31, 20X4:		
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:

Period	Present value of $1 at 8%	Present value of ordinary annuity of $1 at 8%
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	10,000	
Note Receivable [$10,000 x 6.25]	62,500	
Sales		72,500

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:

Period	PVA of ordinary annuity of 1 at 11%	PV of annuity in advance of 1 at 11%
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

①20,000×5,712＝114,240-20,000
＝94,240

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

② 20,000×4,712=94,240

どちらの方法でもＯＫ！

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	10,000	
Sales		10,000

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	7,820	
Sales		7,820

INVESTMENTS: HELD TO MATURITY

A. Held-to-Maturity (HTM) Securities

1. Debt securities only (like bonds)
2. Management has both the intent and ability to hold the securities to maturity
3. Classified (current or noncurrent) on balance sheet based on the maturity date
4. Carry on balance sheet at amortize 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 x 0.09)	45,000	
Investment in Bonds [$30,500 ÷ 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 equity or debt securities held for the *purpose* of selling in the near term
2. Classified on balance sheet as current assets
3. Carried on balance sheet at fair market value(FMV)
4. Unrealized gains & losses from a trading portfolio belong on the I/S

Trading Securities Example:

Security	Cost	Market, 12-31
A	$ 8,000	$12,000
B	10,000	5,000
C	20,000	27,000

Valuation Allowance	4,000	
Unrealized gain (I/S)		4,000
Unrealized loss (I/S)	5,000	
Valuation Allowance		5,000
Valuation Allowance	7,000	
Unrealized gain (I/S)		7,000
Cash	25,000	
Realized loss(I/S)	2,000	
Investment C		20,000
Valuation Allowance		7,000

To record sale of Investment C for $25,000

5. Realized gains & losses always go to the I/S

INVESTMENTS: AVAILABLE FOR SALE

C. Available-for-Sale (AFS) Securities

1. Debt securities **not** classified as either HTM or trading
2. Debt is classified on current or noncurrent by maturity date
3. Equity securities are classified by trading security only
4. AFS is carried on balance sheet at FMV
5. Unrealized gains & losses from AFS go directly to Stock holder's Equity as an item of OCI

Available for Sales Securities Example: Year 5

Security	Cost	Market, 12-31
Q	$ 3,000	$10,000
R	5,000	15,000
S	7,000	1,000

Valuation Allowance	7,000	
Unrealize Gain (OCI)		7,000
Valuation Allowance	10,000	
Unrealize Gain (OCI)		10,000
Unrealize Loss (OCI)	6,000	
Valuation Allowance		6,000

Additional notes:

OCI = Other Complihensive Income

FMV = Fair Market Value

Available for Sales Securities Example: Year 6, sell Investment R.

CASH	8,000	
Unrealize Gain (OCI)	10,000	
Investment R (original cost)		5,000
Valuation Allowance		10,000
Realized gain		3,000

Remember Equity securities are accounted only in trading Category.
Debt securities are accounted under three different categories.

Additional notes:

IMPAIRMENT

D. Permanent Impairment

1. Applies to HTM and AFS securities only, not trading
2. Extreme situation cases, such as bankruptcy
3. Must be permanent decline

Sample Impairment Journal Entry:

Realized loss	XXX	
Investment in bonds		XXX

HTM = Held To Maturity
AFS = Available For Sale

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 debt securities and classified them as available-for-sale. Pertinent data follow:

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

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)

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 trading:

☒ At year end, Smoke has a security with a $70,000 cost and a $50,000 fair value.

☒ 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 valuation Allowance account for trading 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)

V.A

10,000	20,000
	10,000

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 trading 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. $2,900
b. $3,500
c. $2,900
d. $1,500

(0978)

Realized Loss Journal Entry:

Cash [$28,000 - $1,400]	26,600	
Realized Loss	2,900	
Valuation Allowance	2,000	
Investment in Hemp		31,500

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)

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Year 1 Adjustment Entry:		
Valuation Allowance	6,000	
Unrealized Gain		6,000
Year 2 Sale:		
Cash	104,500	
Realized Gain		12,500
Investment at cost		86,000
Valuation Allowance		6,000
Year 2 Adjustment:		
Unrealized Loss	2,000	
Valuation Allowance		2,000

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

To record value increase before transfer of Investment A when FMV is $8,000 (cost $3,000)

Transfer to Trading:

Investment A	5,000	
Unrealized gain		5,000

To record value increase before transfer of Investment A when FMV is $8,000 (cost $3,000)

Transfer from HTM to AFS:

Investment A	5,000	
OCI		5,000

To record value increase before transfer of Investment A when FMV is $8,000 (cost $3,000)

Transfer from AFS to HTM:

Investment A	5,000	
OCI		5,000

To record value increase before transfer of Investment A when FMV is $8,000 (cost $3,000)

COST METHOD

Cost Method Sample Journal Entry:

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

Additional notes: