CONCEPT: INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

□ AFS securities earn income from received and changes in							
	Classificat	tion					
	Initial Measur	ement					
	Subsequent Mea	asurement					
	Unrealized Gair	s/Losses					
 A journal entry is recorded when the trading security is purchased. 							
On November 1, Year 1, ABC Company purchased 500 shares of XYZ Company common stock at a total price of \$40,000. ABC Company intends to sell the investment and has classified them as available-for-sale.							
Journal Entry:							
<u>Assets</u>	=	<u>Liabilities</u>	+	Equity			
The company earns <i>dividend revenue</i> for any dividends received from the investee:							
On December 10, Year 1, XYZ Company declared and paid a dividend of \$1 per share.							
Journal Entry:							
Acceta	T=1	Lighilities	1.1	Equity			
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>			
<u>Assets</u>	=	Liabilities	+	Equity			

• An available-for-sale (AFS) security is an investment held with the intent of being sold (but not actively trading)

• The company takes any <i>unrealize</i>	d gains and losses on reportin	ng dates					
□ Note that the unrealized g	for AFS securities						
□ If the market price of the ir	since last revaluation →						
□ If the market price of the ir	since last revaluation →						
On December 31, Year 1, XYZ Company stock had a market value of \$65 per share.							
Journal Entry:							
,							
<u>Assets</u>	= <u>Liabilities</u>	+ <u>Equity</u>					
On December 31, Year 2, XYZ Company stock had a market value of \$90 per share.							
Journal Entry:							
<u>Assets</u>	= <u>Liabilities</u>	+ <u>Equity</u>					

• The company takes a <i>realized gain</i>	n or loss on the date of sale					
□ Note that the realized gains	for <u>all</u> securities					
□ If the selling price of the inv	>					
□ If the selling price of the investment is since last revaluation →						
On February 12, Year 3, ABC Company sold its investment in XYZ Company stock at a market value of \$70 per share.						
Journal Entry:						
<u>Assets</u>	= <u>Liabilities</u>	+	<u>Equity</u>			

PRACTICE: Reset Company held investments in available-for-sale securities with a fair value of \$180,000 as of December 31, 2017. Reset had originally purchased the investments at a price of \$152,000 on January 1, 2017. What is the appropriate amount for Reset to report for these investments on its December 31, 2017 balance sheet?

- a) \$180,000
- b) \$152,000
- c) \$28,000 gain
- d) Cannot be determined

PRACTICE: Chitty Company often has excess cash on hand to invest. Suppose that Chitty purchases 640 shares of Bang Company common stock at a price of \$35 per share. Chitty classifies the investment as available-for-sale securities. This purchase occurred on December 9, 2018. As of December 31, the market price of Chitty stock had increased to \$41 per share. Chitty's journal entry on December 31, 2018 related to the investment in Bang Company stock would include:

- a) A debit to Unrealized Gain on the Income Statement for \$3,840
- b) A debit to Investments on the Balance Sheet for \$3,480
- c) A credit to Unrealized Gain in Other Comprehensive Income for \$3,840
- d) A debit to Cash for \$3,840