

CONCEPT: INVESTMENTS IN TRADING SECURITIES

- A **Trading Security** is an investment expected to be sold within the near term through active trading
 - Trading securities earn income from _____ received and changes in _____

Classification	
Initial Measurement	
Subsequent Measurement	
Unrealized Gains/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 market price of \$60 per share. ABC Company expects to sell the securities in the near future.

Journal Entry:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
---------------	---	--------------------	---	---------------

- The company earns **dividend revenue** 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:

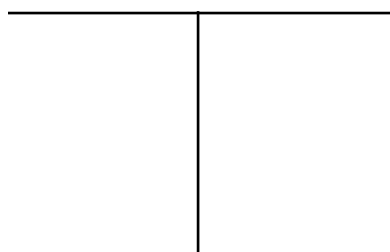
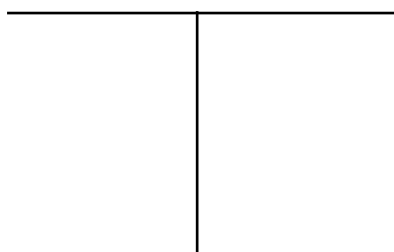
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
---------------	---	--------------------	---	---------------

- The company takes any ***unrealized gains and losses*** on reporting dates
 - ☐ Note that the unrealized gains and losses are shown on _____ for trading securities
 - ☐ If the market price of the investment has _____ since last revaluation → _____
 - ☐ If the market price of the investment has _____ 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 \$50 per share.

Journal Entry:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
---------------	---	--------------------	---	---------------

- The company takes a **realized gain or loss** on the date of sale
 - Note that the realized gains and losses are shown on _____ for all securities
 - If the selling price of the investment is _____ since last revaluation → _____
 - 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 trading 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 expects to hold the stock for under three months and then sell it. 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