CONCEPT: HELD-TO-MATURITY INVESTMENT

Stated Rate = Market Rate	The price of the bond will be _____________ the face value
Stated Rate < Market Rate	The price of the bond will be _____________ the face value
Stated Rate > Market Rate	The price of the bond will be _____________ the face value

- Premium Bonds are initially ***purchased*** and the respective journal entry is made:

On January 1, 2018, ABC Company purchases $50,000 of 9% bonds payable maturing in five years. Interest is payable semi-annually on January 1 and July 1. The market interest rate was equal to 8%. The bonds were issued at 108.

January 1, 2018 Journal Entry:

Assets	=	Liabilities	+	Equity

$$\textit{Amortization Amount} = \frac{\textit{Total Bond Premium or Discount}}{\textit{Total Number of Interest Periods}}$$

- Interest in paid in cash. A journal entry is made for ***interest revenue and premium amortization***:

On January 1, 2018, ABC Company purchases $50,000 of 9% bonds payable maturing in five years. Interest is payable semi-annually on January 1 and July 1. The market interest rate was equal to 8%. The bonds were issued at 108.

July 1, 2018 Journal Entry:

Assets	=	Liabilities	+	Equity

- Discount Bonds are initially ***purchased*** and the respective journal entry is made:

On January 1, 2018, ABC Company purchases $50,000 of 9% bonds payable maturing in five years. Interest is payable semi-annually on January 1 and July 1. The market interest rate was equal to 10%. The bonds were issued at 94.

January 1, 2018 Journal Entry:

Assets	=	Liabilities	+	Equity

$$\text{Amortization Amount} = \frac{\text{Total Bond Premium or Discount}}{\text{Total Number of Interest Periods}}$$

- Interest in paid in cash. A journal entry is made for ***interest revenue and discount amortization***:

On January 1, 2018, ABC Company purchases $50,000 of 9% bonds payable maturing in five years. Interest is payable semi-annually on January 1 and July 1. The market interest rate was equal to 10%. The bonds were issued at 94.

July 1, 2018 Journal Entry:

Assets	=	Liabilities	+	Equity

- The company takes a ***realized gain or loss*** on the date of sale
    - □ Note that the realized gains and losses are shown on ____________________ for <u>all</u> securities
    - □ If the selling price of the investment is ______________ since last revaluation → ____________________
    - □ If the selling price of the investment is ______________ since last revaluation → ____________________

<table>
<tr><td colspan="5">On February 12, Year 3, ABC Company sold its investment in XYZ Company stock at a market value of $70 per share.

Journal Entry:

</td></tr>
<tr><td><u>Assets</u></td><td>=</td><td><u>Liabilities</u></td><td>+</td><td><u>Equity</u></td></tr>
</table>

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 $41per 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