

CONCEPT: INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

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

□ AFS 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 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>	+	<u>Equity</u>
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- 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:

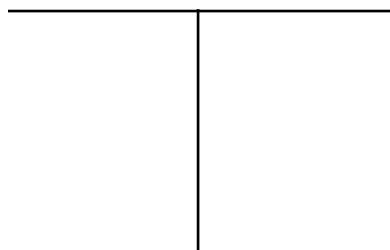
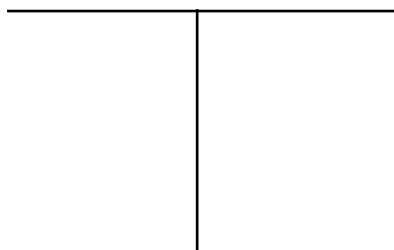
<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
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- The company takes any ***unrealized gains and losses*** on reporting dates
 - Note that the unrealized gains and losses are shown on _____ for AFS securities
 - If the market price of the investment 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>
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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>
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- 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>
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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?

- \$180,000
- \$152,000
- \$28,000 gain
- 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 debit to Unrealized Gain on the Income Statement for \$3,840
- A debit to Investments on the Balance Sheet for \$3,480
- A credit to Unrealized Gain in Other Comprehensive Income for \$3,840
- A debit to Cash for \$3,840