

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:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
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$$\text{Amortization Amount} = \frac{\text{Total Bond Premium or Discount}}{\text{Total Number of Interest Periods}}$$

- Interest is 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:

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

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
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$$\text{Amortization Amount} = \frac{\text{Total Bond Premium or Discount}}{\text{Total Number of Interest Periods}}$$

- Interest is 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:

<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?

- 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