

Equity Investments

Practice Exercise TWO

A hardware merchandise firm has the following investmtn transactions:

Transactions

January 1st

Firm A

Bought 7,000 shares
 Cost \$ 210,000
 Brokerage Fee \$ 1,000
 Stake in firm 45%

January 2nd

Firm B

Bought 5,000 shares
 Cost \$ 100,000
 Brokerage Fee \$ 2,000
 Stake in firm 35%

January 3rd

Firm C

Bought 26,000
 Cost \$ 1,040,000
 Brokerage Fee \$ 1,000
 Stake in firm 40%

November 1st

Firm A

Sold 4,500 shares
 Market Price \$ 24 per share
 Brokerage Fee \$ 500

Info as at December 31st of this year.

	Total Dividend	Net Income	Share Price
Firm A	\$ 255,000	\$ 230,000	\$ 24
Firm B	\$ 195,000	\$ 85,000	\$ 17
Firm C	\$ 170,000	\$ 45,000	\$ 41

Your firm's operating income for the year was: \$ 1,200,000

Your firm uses the **aggregate** portfolio method to determine Lower of cost and market valuations.

Dividends were received on December 31st.

Instructions

- 1 Record all journal entries for the year, including those for December 31st. This includes:
 - a) Acquisition b) Dividend Recognition c) Revenue recognition (if applicable) d) LCM valuation

- 2 Indicate how relevant information would be shown on the income statement and the balance sheet.

- 3 Now assume that during the year the following companies issued additional shares to raise capital.

Firm B 1,429 new shares issued
 Firm C 13,000 new shares issued

However, your firm did not receive any of the above newly-issued shares. That means that your ownership percentage changed.

Redo questions 1 and 2 where necessary, based on this assumption.

Practice Exercise TWO

	Date		Particulars	P.R.	Debit	Credit	
1	Jan	1					1
2							2
3			To record purchase of shares of Firm A				3
4							4
5		2					5
6							6
7			To record purchase of shares of Firm B				7
8							8
9		3					9
10							10
11			To record purchase of shares of Firm C				11
12							12
13	Nov	1					13
14							14
15							15
16			To record sale of shares of Firm A				16
17							17
18	Dec	31					18
19							19
20			To record dividends on shares of Firm A				20
21							21
22		31					22
23							23
24			Our share of Firm A's profit (if any)				24
25							25
26		31					26
27							27
28			To record dividends on shares of Firm B				28
29							29
30		31					30
31							31
32			Our share of Firm B's profit (if any)				32
33							33
34		31					34
35							35
36			To record dividends on shares of Firm C				36
37							37
38		31					38
39							39
40			Our share of Firm C's profit (if any)				40
41							41
42		31					42
43							43
44			LCM write down (if any)				44

Practice Exercise TWO

	Date		Particulars	P.R.	Debit	Credit	
45							45
46			ADJUSTMENTS FOR QUESTION #3				46
47							47
48	Dec	31					48
49							49
50							50
51							51
52		31					52
53							53
54							54
55							55
56		31					56
57							57
58							58
59							59
60		31					60
61							61
62							62
63							63
64		31					64
65							65
66							66
67							67
68		31					68
69							69
70							70
71							71
72		31					72
73							73
74							74

Practice Exercise TWO
Answers to Questions 1 and 2

	Date		Particulars	P.R.	Debit	Credit	
1	Jan	1	Investments - at cost		211,000		1
2			Cash			211,000	2
3			To record purchase of shares of Firm A				3
4							4
5		2	Investments - at equity		102,000		5
6			Cash			102,000	6
7			To record purchase of shares of Firm B				7
8							8
9		3	Investments - at equity		1,041,000		9
10			Cash			1,041,000	10
11			To record purchase of shares of Firm C				11
12							12
13	Nov	1	Cash		107,500		13
14			Loss		28,143		14
15			Investments - at cost			135,643	15
16			To record sale of shares of Firm A				16
17							17
18	Dec	31	Cash		40,982		18
19			Dividend Revenue			40,982	19
20			To record dividends on shares of Firm A				20
21							21
22		31	No entry required to record our share of Firm A's profit.				22
23							23
24							24
25							25
26		31	Cash		68,250		26
27			Investments - at Equity			68,250	27
28			To record dividends on shares of Firm B				28
29							29
30		31	Investments - at equity		29,750		30
31			Revenue from Significant Investments			29,750	31
32			To record revenue(loss) on our (significant) Investment in Firm B				32
33							33
34		31	Cash		68,000		34
35			Investments - at Equity			68,000	35
36			To record dividends on shares of Firm C				36
37							37
38		31	Investments - at equity		18,000		38
39			Revenue from Significant Investments			18,000	39
40			To record revenue(loss) on our (significant) Investment in Firm C				40
41							41
42		31					42
43							43
44							44
45							45
46							46
47							47
48							48
49							49
50							50

51						51
52			ADJUSTMENTS FOR QUESTION #3			52
53						53
54	Dec	31	Cash		40,982	54
55			Dividend Revenue			55
56			To record dividends on shares of Firm A			56
57						57
58		31	No entry required to record our share of Firm A's profit.			58
59						59
60						60
61						61
62		31	Cash		62,044	62
63			Investments - at Equity			63
64			To record dividends on shares of Firm B			64
65						65
66		31	Investments - at equity		27,045	66
67			Revenue from Significant Investments			67
68			To record dividends on our (significant) Investment in Firm B			68
69						69
70		31	Cash		56,667	70
71			Investments - at Equity			71
72			To record dividends on shares of Firm C			72
73						73
74		31	Investments - at equity		15,000	74
75			Revenue from Significant Investments			75
76			To record dividends on our (significant) Investment in Firm C			76
77						77
78		31				78
79						79
80						80

Calculations

Question 1 and 2 - OWNERSHIP LEVELS

	Ownership	Our N.I.	Our Div.
Firm A	16%	\$ 36,964	\$ 40,982
Firm B	35%	\$ 29,750	\$ 68,250
Firm C	40%	\$ 18,000	\$ 68,000

Questions 1 and 2 - LCM ASSESSMENT

	Orig. Cost	Add: Profit	Less: Div.	Adj. Cost	Shares	Share Price	Market
Firm A	\$ 75,357	\$ 0	\$ 0	\$ 75,357	2,500	\$ 24	\$ 60,000
Firm B	\$ 102,000	\$ 29,750	\$ (68,250)	\$ 63,500	5,000	\$ 17	\$ 85,000
Firm C	\$ 1,041,000	\$ 18,000	\$ (68,000)	\$ 991,000	26,000	\$ 41	\$ 1,066,000
Totals	\$ 1,218,357	\$ 47,750	\$ (136,250)	\$ 1,129,857			\$ 1,211,000

Question 3 - NEW OWNERSHIP PERCENTAGES

	New Issues	Ownership	Our N.I.	Our Div.
Firm A		16%	\$ 36,964	\$ 40,982
Firm B	1,429	32%	\$ 27,045	\$ 62,044
Firm C	13,000	33%	\$ 15,000	\$ 56,667

Question 3 - LCM ASSESSMENT

	Orig. Cost	Add: Profit	Less: Div.	Adj. Cost	Shares	Share Price	Market
Firm A	\$ 75,357			\$ 75,357	2,500	\$ 24	\$ 60,000
Firm B	\$ 102,000	\$ 27,045	\$ (62,044)	\$ 67,001	5,000	\$ 17	\$ 85,000
Firm C	\$ 1,041,000	\$ 15,000	\$ (56,667)	\$ 999,333	26,000	\$ 41	\$ 1,066,000
Totals	\$ 1,218,357	\$ 42,045	\$ (118,710)	\$ 1,141,691			\$ 1,211,000

Question 1 and 2			
Balance Sheet			
<u>Long-Term Investments</u>			
Investments, at cost		75,357	
Investments, at equity		1,054,500	
<i>Total long-term investments</i>			1,129,857

**Assumes write-down for LCM is combined

Question 1 and 2			
Income Statement			
Operating Income			1,200,000
<u>Non - Operating Activities</u>			
<i>Other Gains and Revenues</i>			
Revenue from significant investments		47,750	
Dividend Revenue		40,982	
<i>Total Non-Operating Revenues</i>			88,732
<i>Other Losses and Expenses</i>			
Loss on sale of investments		(28,143)	
<i>Total Non-Operating Expenses</i>			(28,143)
Total Non-Operating Income			60,589
Net Income			1,260,589

REVISED - for question #3			
Balance Sheet			
<u>Long-Term Investments</u>			
Investments, at cost		75,357	
Investments, at equity**		1,066,334	
<i>Total long-term investments</i>			1,141,691

**Assumes write-down for LCM is combined

REVISED - for question #3			
Income Statement			
Operating Income			1,200,000
<u>Non - Operating Activities</u>			
<i><u>Other Gains and Revenues</u></i>			
Revenue from significant investments		42,045	
Dividend Revenue		40,982	
<i>Total Non-Operating Revenues</i>			83,027
<i><u>Other Losses and Expenses</u></i>			
Loss on sale of investments		(28,143)	
<i>Total Non-Operating Expenses</i>			(28,143)
Total Non-Operating Income			54,884
Net Income			1,254,884

Question 1 and 2			
Balance Sheet			

**Assumes write-down for LCM is combined

Question 1 and 2			
Income Statement			

REVISED - for question #3

Balance Sheet

**Assumes write-down for LCM is combined

REVISED - for question #3

Income Statement
