

At the beginning of January 2011, Belford Buckle Company held 500 shares of Wirl common stock in its investment portfolio of available-for-sale securities. These shares had cost \$9,000 and had a market value of \$9,500 on January 1, 2011. During 2011, Belford had several other transactions relating to its investments in available-for-sale securities, as follows. On January 7, Belford purchased 400 shares of Nirt common stock for \$6,000, and on July 1, Belford purchased 10%, \$10,000 bonds of Fess Company for \$10,000. The bonds pay interest on June 30 and December 31. On August 5, Belford sold the 500 shares of Wirl common stock for \$9,900. On December 15, Belford received cash dividends of \$1 per share on the Nirt common stock, and on December 31, it received the interest on the Fess bonds. At the end of December, the Nirt shares had a market value of \$5,700, and the Fess Bonds had a market value of \$10,200.

Required:

- Record the 2011 investment transactions and events for Belford. (Keep track of the balance in the Investments account).
- Show how Belford would report the results of the investment transactions and events on its 2011 income statement and on its December 31, 2011 balance sheet (assuming it expects to sell the investments in 2012).

1.

	Assets		=	Liabilities	+	Stockholders' Equity				
	Cash	Investments in Available-for-Sale Securities				Unrealized Change In Market Value Of Investments	Gain On Sale	Loss On Sale	Div Rev	Int Rev
1/1		\$9,500				Bal \$500				
1/07	(\$6,000)	6,000								
7/01	(10,000)	10,000								
8/05	9,900	(9,500)				(500)	\$900*			
12/15	400								\$400	
12/31	500									\$500
12/31		(100)				(100) [†]				
Ending Bal	<u>(\$5,200)</u>	<u>\$15,900</u>				<u>(\$100)</u>	<u>\$900</u>		<u>\$400</u>	<u>\$500</u>

a. Gain = Cash received - Cost

a. $\$900 = \$9,900 - \$9,000$

b.

Security	Cost	Market Value	Change
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Nirt Stock	\$6,000	\$5,700	\$(300)
Fess bonds	<u>10,000</u>	<u>10,200</u>	<u>200</u>
Total	<u>\$16,000</u>	<u>\$15,900</u>	<u>\$(100)</u>

2.

2011 Income Statement

Other Items:

Gain on sale of investments.....	\$900
Dividend revenue.....	400
Interest revenue.....	500

2011 Balance Sheet

Assets

Current Assets:

Investments in available-for-sale securities.....	\$15,900
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Stockholders' Equity

Unrealized change in market value of investments.....	\$(100)
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On January 1, 2011, Foley Aircraft Company purchased on the stock market 25% of Pet Helicopter Inc.'s 80,000 shares of common stock, paying \$5.25 per share. On that date, the book value of Pet's stockholders' equity was \$420,000. On December 31, 2011, Foley reported a balance in its investment account for Pet of \$120,000. Pet did not pay dividend in 2011.

Required:

1. How much did Foley pay for its investment in Pet?
2. How much did Foley report as its 2011 income in regard to its investment in Pet?
3. What was the total net income of Pet during 2011?

1. Total shares of Pet = 80,000
80,000 x 25% = 20,000 shares purchased by Foley
% purchased by Foley = 25% 20,000 shares x \$5.25 = \$105,000 is the amount that Foley paid for the investment.
price per share = \$5.25

2. Original investment:	\$105,000	X = \$15,000 income on investment, Foley Aircraft Company
Add: 25% of net income	<u> X</u>	
Book value of investment, 12/31/11	<u>\$120,000</u>	

4. Net income, Pet Helicopter Inc.: \$15,000 ÷ 25% = \$60,000