

Question: Company owners contribute \$100,000, which is invested in a 20-year bond with a 5% coupon paid semi-annually. After six months, the company receives the first coupon payment of \$2,500. At this stage, the market price has increased to \$102,000. Show the balance sheet and income statement treatment under each of the three categorizations.

Answer: The accounting treatment under the three categories is summarized below:

	Measured at Fair Value through Profit and Loss	Measured at Fair Value through Other Comprehensive Income	Measured at Cost or Amortized Cost
<b>Balance Sheet</b>			
Cash	\$2,500	\$2,500	\$2,500
Cost of securities	\$100,000	\$100,000	\$100,000
Unrealized gains/losses	\$2,000	\$2,000	
PIC	\$100,000	\$100,000	\$100,000
RE	Up by \$4,500	Up by \$2,500	Up by \$2,500
OCI		Up by \$2,000	
<b>Income Statement</b>			
Interest income	\$2,500	\$2,500	\$2,500
Unrealized gain	\$2,000		

#### Measured at Fair Value through Profit and Loss

- **Balance Sheet**
  - Cash: \$2,500
  - Cost of securities: \$100,000
  - Unrealized gains/losses: \$2,000
  - PIC: \$100,000
  - RE: Up by \$4,500
- **Income Statement**
  - Interest income: \$2,500
  - Unrealized gain: \$2,000

#### Measured at Fair Value through Other Comprehensive Income

- **Balance Sheet**
  - Cash: \$2,500
  - Cost of securities: \$100,000
  - Unrealized gains/losses: \$2,000
  - PIC: \$100,000
  - RE: Up by \$2,500
  - OCI: Up by \$2,000
- **Income Statement**
  - Interest income: \$2,500
  - Unrealized gain: (not listed)

#### Measured at Cost or Amortized Cost

- **Balance Sheet**
  - Cash: \$2,500
  - Cost of securities: \$100,000

- Unrealized gains/losses: (not listed)
- PIC: \$100,000
- RE: Up by \$2,500
- **Income Statement**
  - Interest income: \$2,500
  - Unrealized gain: (not listed)

For Measured at Fair Value through Profit and Loss, unrealized gains and cash from coupon payments are shown on the asset side of the balance sheet. On the equity side, paid-in capital remains the same at \$100,000. Retained earnings increase by \$4,500 (sum of coupon payment of \$2,500 and unrealized gain of 2,000). On the income statement unrealized gain of \$2,000 and interest income of \$2,500 is recognized.

For Measured at Fair Value through Other Comprehensive Income, the accounting treatment is the same as HFT except for unrealized gains. For AFS, the unrealized gain is shown as part of other comprehensive income (OCI). It is not shown on the income statement. For Measured at Cost or Amortized Cost, the asset is valued at amortized cost. Therefore, the unrealized gain of \$2,000 is not shown on the balance sheet or income statement. Only the coupon payment of \$2,500 is shown on the balance sheet as cash and on the income statement as interest income.