B-09.06

Devol Computing invested in $100,000 of face amount of 6-year bonds issued by Horton Micro Chip Company on January 1, 20X1. The bonds were purchased at 103, and bear interest at a stated rate of 8% per annum, payable semiannually.

(a) Prepare the journal entry to record the initial investment on January, 20X1.

(b) Prepare the journal entry that Devol would record on each interest date.

(c) Prepare the journal entry that Devol would record at maturity of the bonds.

(d) How much cash flowed "in" and "out" on this investment, and how does the difference compare to total interest income that was recognized?

B-09.07

Petersen Stores invested in $100,000 of face amount of 4-year bonds issued by Erik Food Supply Company on January 1, 20X1. The bonds were purchased at 98, and bear interest at a stated rate of 8% per annum, payable semiannually.

(a) Prepare the journal entry to record the initial investment on January, 20X1.

(b) Prepare the journal entry that Petersen would record on each interest date.

(c) Prepare the journal entry that Petersen would record at maturity of the bonds.

(d) How much cash flowed "in" and "out" on this investment, and how does the difference compare to total interest income that was recognized?

B-09.08

Davis Steel Company acquired 30% of the stock of Reginald Metals Company. Davis acquired this investment for purposes of being able to exert significant influence over the strategic plans and operations of Reginald. Following are events pertaining to this investment:

June 1	Purchased 30,000 shares of Reginald for $28 per share.
June 30	The fair value of Reginald's stock was $31 per share, and the company reported June income of $80,000.
July 15	The fair value of Reginald's stock was $30 per share, and the company declared and paid a dividend of $0.50 per share.
July 31	The fair value of Reginald's stock was $29 per share, and the company reported July income of $60,000.

(a) What method should be used to account for this investment?

(b) Prepare journal entries to account for the activity pertaining to the investment in Reginald Metals.

(c) If the investment in Reginald Metals was insufficient to allow Davis to exert significant influence, how would the accounting approach differ?

I-09.03

Season Corporation had excess cash on hand on January 1, 20X1, and invested in three separate bond issues on that date. Each bond investment had a maturity date of December 31, 20X6, and a maturity value of $100,000. The bond issues each pay interest on June 30 and December 31 of each year, and it is intended that these investments be held to maturity. Additional information about each investment follows:

Spring Company bonds were purchased at par and pay 7% annual interest.

Summer Company bonds were purchased for $95,168.33 and pay 6% annual interest.

Fall Company bonds were purchased for $104,831.67 and pay 8% annual interest.

(a) Prepare journal entries for the Spring Company bonds to record the initial investment, a periodic interest payment, and the maturity.

(b) Prepare journal entries for the Summer Company bonds to record the initial investment, a periodic interest payment, and the maturity.

(c) Prepare journal entries for the Fall Company bonds to record the initial investment, a periodic interest payment, and the maturity.