Chapter 12 Investments: Debt and Equity Securities

Review Problem

**Investments in Debt and Equity Securities**

On January 1, 2018, Schultz, Inc., purchased the following securities. According to Schultz’s business model and the intention to influence the decisions of the investees, Schultz classifies the securities as follows:

**Security Type Classification Cost**

1 Debt FVTPL financial assets $2,500

2 Debt FVTPL financial assets 1,500

3 Equity FVTPL financial assets 1,750

4 Debt FVTOCI financial assets—debt 4,300

5 Equity FVTOCI financial assets—equity 2,750

On March 31, one-half of Security 2 was sold for $900. During the year, interest and dividends were received as follows:

**Security Interest Dividends**

1 $200

2 85

3 none

4 435

5 $200

The following fair market values are available on December 31, 2018. Schultz had no balance in its valuation adjustment accounts on January 1, 2018.

**Security Market Value**

1 $2,400

2 950

3 1,600

4 4,250

5 2,900

Required:

Record all necessary journal entries to account for these investments during 2018.

Solution:

To account for these investments, four events must be accounted for:

1. The initial purchase on January 1.
2. The sale of one-half of Security 2 on March 31.
3. The receipt of interest and dividends during the year.
4. The changes in value as of December 31.