

Investments Handout - Solution

Williams Inc.

Solution

1. *Cost – Fair Value = Unrealized Gain or Loss*
 $(195,000 + 430,000 + 830,000) - (223,000 + 382,000 + 778,000) = (1,455,000 - 1,383,000) =$
 $\$72,000$ *unrealized loss. This loss would reduce net income by \$72,000.*
2. *Cost – Fair Value = Unrealized Gain or Loss*
 $(195,000 + 430,000 + 830,000) - (223,000 + 382,000 + 900,000) = (1,455,000 - 1,505,000) =$
 $\$50,000$ *unrealized gain. This gain would increase net income by \$50,000.*

Brockport Corporation

Solutions

1. *The investments are shown at fair value because they are listed as trading. Therefore:*

2012:
Unrealized loss of \$800 (\$20,000 – \$19,200)

2013:
Unrealized loss of \$900 (\$19,200 – \$18,300)

2014:
Unrealized gain of \$1,600 (\$19,900 – \$18,300).

If the securities are held as available-for-sale, there is no unrealized gains or losses. Instead the change in value appears in stockholders' equity.
2. *Unrealized loss of \$100 (Fair Value – Original Cost) or (19,900 – 20,000)*

Rocky Corp.

Solutions

1. 2012: Investment in Tocks Construction ($700 \times \$66$) = \$46,200
2013: Investment in Tocks Construction ($700 \times \$69$) = \$48,300
The classification of the securities has no impact on the value listed on the asset side of the balance sheet

2. 1) Trading

2012

Fair value – Original Cost = Unrealized gain or loss

Fair Value (2012)	\$46,200
Original cost ($700 \times \$74$)	<u>(51,800)</u>
Unrealized loss on trading securities	<u><u>\$(5,600)</u></u>

2013

Fair value 12-31-2013	\$48,300
Fair value 12-31-2012	<u>(46,200)</u>
Unrealized gain on trading securities	<u><u>\$ 2,100</u></u>

Dividend income (2012): \$2,450 ($700 \text{ shares} \times \3.50)

Dividend income (2013): \$2,520 ($700 \text{ shares} \times \3.60)

- 2) Available for Sale

If the securities were held as available for sale then the changes in the price would flow through to AOCI and would not appear on the income statement.

Dividend income (2012): \$2,450 ($700 \text{ shares} \times \3.50)

Dividend income (2013): \$2,520 ($700 \text{ shares} \times \3.60)

3. 1) Trading

AOCI is not affected by trading securities.

- 2) Available for Sale

2012: Unrealized Loss (equity reduction)	\$5,600
2013: Unrealized Loss (equity reduction)	\$3,500

See solution to part 2 for calculations. Also, please note that the gains/losses presented in owner's equity are cumulative.