Aslan County purchased $3,000,000 of bonds as a General Fund investment on March 1, 20X7, for $3,060,000 plus four months accrued interest of $80,000. The bonds mature in four years and two months.

1. The county received the semiannual interest payment on the bonds ($120,000) on April 30, 20X7.

2. The county received the October 31 semiannual interest payment ($120,000).

3. On December 31, the end of Aslan’s fiscal year, the fair value of its bond investment was $3,065,000 (excluding accrued interest).

Required

(a) Record these transactions in the General Ledger accounts of the Aslan County General Fund.

(b) Compute the investment income that should be reported for this investment.

DR CR

Accounts Investments 3,060,000

Accrued Interest Receivable 80,000

Cash 3,140,000

(Records original purchase of investment)

Cash 120,000

Accrued Interest Receivable 120,000

(Record receipt of interest on 30 April 20X7)

Cash 120,000

Accrued Interest Receivable 120,000

(Record accrued interest on 31 October)

Investments Revenues 5,000

Increase in Fair Value of Investments 5,000

(Record change in investments' fair value on 31 December)

The accrued interest would be recognized as revenue, the cash not be collected for more than 60 days after 31 December. The interest income of 40,000+40,000+120,000=200,000; then add the net increase in the fair value of the investment of 5,000 total equals 205,000.