**E17-1 (Investment Classifications)** For the following investments, identify whether they are:

* **1.**Trading
* **2.**Available-for-Sale
* **3.**Held-to-Maturity

Each case is independent of the other.

* **(a)**A bond that will mature in 4 years was bought 1 month ago when the price dropped. As soon as the value increases, which is expected next month, it will be sold.
* **(b)**10% of the outstanding stock of Farm-Co was purchased. The company is planning on eventually getting a total of 30% of its outstanding stock.
* **(c)**10-year bonds were purchased this year. The bonds mature at the first of next year.
* **(d)**Bonds that will mature in 5 years are purchased. The company would like to hold them until they mature, but money has been tight recently and they may need to be sold.
* **(e)**A bond that matures in 10 years was purchased. The company is investing money set aside for an expansion project planned 10 years from now.
* **(f)**Preferred stock was purchased for its constant dividend. The company is planning to hold the preferred stock for a long time.

**E17-2 (Entries for Held-to-Maturity Securities)** On January 1, 2012, Jennings Company purchased at par 10% bonds having a maturity value of $300,000. They are dated January 1, 2012, and mature January 1, 2017, with interest receivable December 31 of each year. The bonds are classified in the held-to-maturity category.

**Instructions**

* **(a)**Prepare the journal entry at the date of the bond purchase.
* **(b)**Prepare the journal entry to record the interest received for 2012.
* **(c)**Prepare the journal entry to record the interest received for 2013.

**E17-9 (Available-for-Sale Securities Entries and Financial Statement Presentation)** At December 31, 2012, the available-for-sale equity portfolio for Wenger, Inc. is as follows.

| **Security** | **Cost** | **Fair Value** | **Unrealized Gain (Loss)** |
| --- | --- | --- | --- |
| A | $17,500 | $15,000 | ($2,500) |
| B | 12,500 | 14,000 | 1,500 |
| C | 23,000 | 25,500 | 2,500 |
| Total | $53,000 | $54,500 | 1,500 |
| Previous fair value adjustment balance—Dr. | 200 |
| Fair value adjustment—Dr. | $1,300 |

On January 20, 2013, Wenger, Inc. sold security A for $15,300. The sale proceeds are net of brokerage fees.

**Instructions**

* **(a)**Prepare the adjusting entry at December 31, 2012, to report the portfolio at fair value.
* **(b)**Show the balance sheet presentation of the investment related accounts at December 31, 2012. (Ignore notes presentation.)
* **(c)**Prepare the journal entry for the 2013 sale of security A.

**E17-12 (Journal Entries for Fair Value and Equity Methods)**

**Situation 1**

Hatcher Cosmetics acquired 10% of the 200,000 shares of common stock of Ramirez Fashion at a total cost of $14 per share on March 18, 2012. On June 30, Ramirez declared and paid a $75,000 cash dividend. On December 31, Ramirez reported net income of $122,000 for the year. At December 31, the market price of Ramirez Fashion was $15 per share. The securities are classified as available-for-sale.

**Situation 2**

Holmes, Inc. obtained significant influence over Nadal Corporation by buying 25% of Nadal’s 30,000 outstanding shares of common stock at a total cost of $9 per share on January 1, 2012. On June 15, Nadal declared and paid a cash dividend of $36,000. On December 31, Nadal reported a net income of $85,000 for the year.

**Instructions**

Prepare all necessary journal entries in 2012 for both situations.

**E17-16 (Fair Value and Equity Method Compared)** Gregory Inc. acquired 20% of the outstanding common stock of Handerson Inc. on December 31, 2012. The purchase price was $1,250,000 for 50,000 shares. Handerson Inc. declared and paid an $0.80 per share cash dividend on June 30 and on December 31, 2013. Handerson reported net income of $730,000 for 2013. The fair value of Handerson’s stock was $27 per share at December 31, 2013.

**Instructions**

* **(a)**Prepare the journal entries for Gregory Inc. for 2012, and 2013, assuming that Gregory cannot exercise significant influence over Handerson. The securities should be classified as available-for-sale.
* **(b)**Prepare the journal entries for Gregory Inc. for 2012 and 2013, assuming that Gregory can exercise significant influence over Handerson.
* **(c)**At what amount is the investment in securities reported on the balance sheet under each of these methods at December 31, 2013? What is the total net income reported in 2013 under each of these methods?