Practices

1. Baghdad Corporation purchased trading investment bonds for $50000 at par. At December 31, Baghdad received annual interest of $2000, and the fair value of the bonds was $47400. Prepare Baghdads' journal entries for (a) the purchase of the investment, (b) the interest received, and (c) the fair value adjustment. (Assume a zero balance in the Fair Value Adjustment account.)

2. ABC Corporation purchased 400 shares of Sherman Inc. common stock for $13200 (1- ABC does not have significant influence 2- ABC does have significant influence). During the year, Sherman paid a cash dividend of $3.25 per share. At year-end, Sherman stock was selling for $34.50 per share. Prepare ABCs' journal entries to record (a) the purchase of the investment, (b) the dividends received, and (c) the fair value adjustment. (Assume a zero balance in the Fair Value Adjustment account.)

3. On January 1, 2017, Dagwood Company purchased at par 6% bonds having a maturity value of $300000. They are dated January 1, 2017, and mature January 1, 2022, with interest received on January 1 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 revenue on December 31, 2017.

(c) Prepare the journal entry to record the interest received on January 1, 2018.

4. Oregon Co. had purchased 200 shares of Washington Co. for $40 each this year (Oregon Co. does not have significant influence). Oregon Co. sold 100 shares of Washington Co. stock for $45 each. At year-end, the price per share of the Washington Co. stock had dropped to $35.

Instructions

Prepare the journal entries for these transactions and any year-end adjustments.

5. On January 1, a company issued 3%, 20-year bonds with a face amount of $80 million for $69033,776 to yield 4%. Interest is paid semiannually. What was the straight-line interest expense on the December 31 three years' income statement?

6. AL-Faris Corporation had the following transactions pertaining to debt nvestments.

Jan. 1 Purchased 50, 8%, $1,000 Petal Co. bonds for $50000 cash plus brokerage fees of $900. Interest is payable semiannually on July 1 and January 1.

July 1 Received semiannual interest on Petal Co. bonds.

July 1 Sold 30 Petal Co. bonds for $34,000 less $500 brokerage fees.

Instructions;

(a) Journalize the transactions.

(b) Prepare the adjusting entry for the accrual of interest at December 31.

7. Brook Company purchased 70 Meissner Company 12%, 10-year, $1,000 bonds on January 1, 2012, for $73,000. Brook Company also had to pay $500 of broker’s fees. The bonds pay interest semiannually on July 1 and January 1. On January 1, 2013, after receipt of interest, Brook Company sold 40 of the bonds for $40,100.

Instructions;

Prepare the journal entries to record the transactions described above.