ILLUSTRATION 17.2 Accounting for Debt Investments by Category

Category	Valuation	Unrealized Gains or Losses	Other Income
Held-for-collection	Amortized cost	Not recognized	Interest when earned; gains and losses from sale.
Held-for-collection and selling	Fair value	Recognized as other comprehensive income and as a separate component of equity	Interest when earned; gains and losses from sale.
Trading securities	Fair value	Recognized in net income	Interest when earned; gains and losses from sale.

التصنيف	مدخل التقييم والتقرير عنها فى قائمة المركز المالى	التأثير على الدخل
الاستثمارات فى أوراق الديون		
1- محتفظ بها لغرض التحصيل	التكلفة المستنفذة	يتم إثبات الفوائد كإيراد.
2- محتفظ بها لغرض التحصيل والبيع	القيمة العادلة	يتم إثبات الفوائد كإيراد. ويتم الاعتراف بالمكاسب أو الخسائر غير المحققة كجزء من الدخل الشامل الأخر.
3- بغرض المتاجرة	القيمة العادلة	يتم إثبات الفوائد كإيراد. ويتم الاعتراف بالمكاسب أو الخسائر غير المحققة فى صافى الدخل.

ILLUSTRATION 17.13 Accounting and Reporting for Equity Investments by Category

Category	Valuation	Unrealized Holding Gains or Losses	Other Income Effects
Holdings less than 20%			
1. Trading	Fair value	Recognized in net income	Dividends declared; gains and losses from sale.
2. Non-Trading Option	Fair value	Recognized in "Other comprehensive income" and as separate component of equity	Dividends declared; gains and losses from sale.
Holdings between 20% and 50%	Equity method	Not recognized	Proportionate share of investee's net income.
Holdings more than 50%	Consolidation	Not recognized	Not applicable.

المجموعة	التقييم	مكاسب أو خسائر الحيازة غير المحققة	الآثار الأخرى على الدخل
نسبة الحيازة أقل من 20٪			
1- بغرض المتاجرة	القيمة العادلة	يعترف بها فى صافى الدخل	- التوزيعات المعلنة - مكاسب أو خسائر البيع
2- للأغراض غير المتاجرة	القيمة العادلة	يعترف بها ضمن الدخل الشامل الأخر وكعنصر مستقل فى حقوق الملكية	- التوزيعات المعلنة - مكاسب أو خسائر البيع
نسبة الحيازة بين 20٪ و 50٪	طريقة حقوق الملكية	لا يعترف بها	الحصة النسبية من صافى دخل الشركة المستثمر فيها
نسبة الحيازة أكبر من 50٪	قوائم مالية مجمعة	لا يعترف بها	لا تنطبق فى هذه الحالة

ILLUSTRATION 17.21 Summary of Investment Accounting Approaches

Classification	Valuation Approach and Reporting on the Statement of Financial Position	Income Effects
Debt Investment		
1. Held-for-Collection	Amortized cost.	Interest is recognized as revenue.
2. Held-for-Collection and Selling	Fair value.	Interest is recognized as revenue. Unrealized holding gains and losses are included in other comprehensive income.
3. Not Held-for-Collection, Trading	Fair value.	Interest is recognized as revenue. Unrealized holding gains and losses are included in income.
4. Fair Value Option	Fair value.	Interest is recognized as revenue. Unrealized holding gains and losses are included in income.
Equity Investment		
1. Trading	Fair value.	Dividends are recognized as revenue. Unrealized holding gains and losses are included in income.
2. Non-Trading Option	Fair value.	Dividends are recognized as revenue. Unrealized holding gains and losses are not included in income but in other comprehensive income.
3. Equity Method	Investments originally recorded at cost with periodic adjustment for the investor's share of the investee's income or loss, and decreased by all dividends received from the investee.	Revenue is recognized to the extent of the investee's income or loss reported subsequent to the date of the investment.
4. Consolidation	Consolidated financial statements.	Revenue is recognized to the extent of the investee's income or loss reported subsequent to the date of the investment.

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التصنيف	مدخل التقييم والتقرير عنها فى قائمة المركز المالى	التأثير على الدخل
الاستثمارات فى أوراق الديون		
1- محتفظ بها لغرض التحصيل	التكلفة المستنفذة	يتم إثبات الفوائد كإيراد.
2- محتفظ بها لغرض التحصيل والبيع	القيمة العادلة	يتم إثبات الفوائد كإيراد. ويتم الاعتراف بالمكاسب أو الخسائر غير المحققة كجزء من الدخل الشامل الأخر.
3- بغرض المتاجرة	القيمة العادلة	يتم إثبات الفوائد كإيراد. ويتم الاعتراف بالمكاسب أو الخسائر غير المحققة فى صافى الدخل.
4- خيار القيمة العادلة	القيمة العادلة	يتم إثبات الفوائد كإيراد. ويتم الاعتراف بالمكاسب أو الخسائر غير المحققة فى صافى الدخل.
الاستثمارات فى حقوق الملكية		
1- بغرض المتاجرة	القيمة العادلة	يتم إثبات التوزيعات كإيراد. ويتم الاعتراف بالمكاسب أو الخسائر غير المحققة فى صافى الدخل.
2- لأغراض غير المتاجرة	القيمة العادلة	يتم إثبات التوزيعات كإيراد. و لا يتم الاعتراف بالمكاسب أو الخسائر غير المحققة فى صافى الدخل. وانما يعترف بها كجزء من الدخل الشامل الأخر
3- طريقة حقوق الملكية	تم تسجيل الاستثمارات مبدئيا بالتكلفة مع تعديل دوري لحصة الشركة المستثمرة من دخل أو خسارة الشركة المستثمر فيها، وتنخفض بكل التوزيعات المستلمة من الشركة المستثمر فيها.	يتم الاعتراف بالإيرادات إلى حد دخل أو خسارة الشركة المستثمر فيها التي يتم التقرير عنها بعد تاريخ الاستثمار
4- الاندماج	قوائم مالية مجمعة	يتم الاعتراف بالإيرادات إلى حد دخل أو خسارة الشركة المستثمر فيها التي يتم التقرير عنها بعد تاريخ الاستثمار

Cash Received	Interest Revenue	Bond Discount Amortization	Carrying Amount of Bonds

* النقدية المحصلة = القيمة الأسمية × المعدل الأسمى × المدة ($100000 \times \%10 \times \frac{6}{12}$)
** ايراد الفائدة = القيمة الدفترية للسندات × المعدل السوق × المدة ($108111 \times \%8 \times \frac{6}{12}$)
*** استنفاذ العلاوة = ايراد الفائدة- النقدية المحصلة (5000-4324)
**** القيمة الدفترية للسندات = الرصيد السابق - استنفاذ العلاوة (108111 - 676)

Investments

Type of investment securities:

First: Investments in debt securities (Bonds)

Second: Investments in equity securities (Sharers)

Investments in debt securities (Bonds): represent a creditor relationship with another entity. Debt securities include government securities, municipal securities, corporate bonds convertible debt, and commercial paper. Companies group investments in debt securities into three separate categories for accounting and reporting purposes:

- **Held-to-maturity**: Debt securities that the company has the positive intent and ability to hold to maturity.
- **Trading**: Debt securities bought and held primarily for sale in the near term to generate income on short-term price differences.
- **Available-for-sale**: Debt securities not classified as held-to-maturity or trading securities.

Accounting for Debt Investments by Category:

Category	Valuation	Unrealized Holding Gains or Losses	Other Income Effects
Held-to-maturity	Amortized cost	Not recognized	Interest when earned; gains and losses from sale.
Trading securities	Fair value	Recognized in net income	Interest when earned; gains and losses from sale.
Available-for-sale	Fair value	Recognized as other comprehensive income and as separate component of stockholders' equity	Interest when earned; gains and losses from sale

(2)

Amortized cost: is the acquisition cost adjusted for the amortization of discount or premium, if appropriate.

Fair value: is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounting for Debt Investments:

Debt investments are investments in government and corporation bonds. In accounting for debt investments, companies make entries to record (1) the acquisition, (2) the interest revenue, and (3) the sale

Recording Acquisition of Bonds:

At acquisition, the cost principle applies. Cost includes all expenditures necessary to acquire these investments, such as the price paid plus brokerage fees (commissions), if any.

To illustrate the accounting for a debt investment at amortized cost, Assume, for example, that A.B. Corporation acquires 50 Asia Inc. 8%, 10-year, $1,000 bonds on January 1, 2012, for $54,000, including brokerage fees of $1,000. The entry to record the investment is:

Jan. 1	Debt Investments	54000	
	Cash		54000
	(To record purchase of 50 Doan Inc. bonds)		

Recording Bond Interest:

The Doan, Inc. bonds pay interest of $2,000 semiannually on July 1 and January 1 ($50000× 8% × ½). The entry for the receipt of interest on July 1 is:

July 1	Cash	2000	
	Interest Revenue		2000
	(To record receipt of interest on Doan Inc. bonds		

If A.B. Corporation's fiscal year ends on December 31, it accrues the interest of $2,000 earned since July 1. The adjusting entry is:

Dec. 31/2012	Interest Receivable	2000	
	Interest Revenue		2000
	(To accrue interest on Doan Inc. bonds)		

A.B. reports Interest Receivable as a current asset in the balance sheet. It reports Interest Revenue under "Other revenues and gains" in the income statement.

A.B. reports receipt of the interest on January 1 as follows

Jan. 1/2013	Cash	2000	
	Interest Receivable		2000
	(To record receipt of accrued interest)		

Recording Sale of Bonds:

Assume, for example, that A.B. Corporation receives net proceeds of $58,000 on the sale of the Doan Inc. bonds on January 1, 2013, after receiving the interest due. Since the securities cost $54,000, the company realizes a gain of $4,000. It records the sale as:

Jan. 1	Cash	58000	
	Debt Investments		54000
	Gain on Sale of Debt Investments		4000
	(To record sale of Doan Inc. bonds)		

Example: Baghdad Corporation had the following transactions pertaining to debt investments.

Jan. 1 Purchased 30, $1,000 Hillary Co. 10% bonds for $30,000, plus brokerage fees of $900. Interest is payable semiannually on July 1 and January 1.

July 1 Received semiannual interest on Hillary Co. bonds.

July 1 Sold 15 Hillary Co. bonds for $15,000, less $400 brokerage fees.

(a) Journalize the transactions, and (b) prepare the adjusting entry for the accrual of interest on December 31.

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Solution:

(**a**) Jan. 1 Debt Investments 30900

Cash 30900

July 1 Cash 1500

Interest Revenue 1500...... ($30,000 × 0.10 × 6/12)

July 1 Cash 14600

Loss on Sale of Debt Investments 850

Debt Investments 15450...($30900 × 15/30)

(**b**) Dec. 31 Interest Receivable 750

Interest Revenue 750... ($15000 × 0.10 × 6/12)

Purchase bounds at higher than or less than their per value:

There are two ways of accounting for premium and discount bonds:

Stated -interest method and effective-interest method

Stated -interest method: When using the Stated -interest method, the discount or premium is amortized to interest expense in equal amounts each period during the life of the bonds.

Schedule of rate and amortize of bonds by using Stated -interest method

Date	Cash Received	Interest Revenue	Bond Discount Or premium Amortization	Carrying Amount of Bonds

Example: A.B.C. Company purchased bonds $110000, 10 percent, five-year bonds on January 1, 2016, with interest payable on July 1 and January 1. (par value= 100000). which results in a bond premium of $10000 Stated -interest method.

Instructions:

5)

(a) Journalize the transactions2016,2017 and 2018

(b) Prepare interest Schedule and amortize of bonds by using Stated -interest method.

Solution:

Jan. 1 Debt Investments 110000
Cash 110000

premium Amortization= Bond purchase price - par value

= 110000 – 100000 = 10000... 10000/5= 2000 annually

Schedule of rate and amortize of bonds by using Stated -interest method

Date	Cash Received	Interest Revenue	Bond premium Amortization	Carrying Amount of Bonds
1/1/2016				110000
1/7/2016	5000	4000	1000	109000
1/1/2017	5000	4000	1000	108000
1/7/2017	5000	4000	1000	107000
1/1/2018	5000	4000	1000	106000
1/7/2018	5000	4000	1000	105000
1/1/2019	5000	4000	1000	104000
1/7/2019	5000	4000	1000	103000
1/1/2020	5000	4000	1000	102000
1/7/2020	5000	4000	1000	101000
1/1/2021	5000	4000	1000	100000

1/7/2016: Cash 5000
Interest Revenue 4000
Debt Investments 1000

31/12/2016: Interest Receivable 5000…… or Accrued interest Re.
Interest Revenue 4000
Debt Investments 1000

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(6)

1/1/2017: Cash 5000

Interest Receivable 5000

Balance Sheet 31/12/2016

Current assets

Interest receivable (Accrued interest revenue) $ 5000

Long-term investments

Debt investments (held-to-maturity) $108000

Example: A.B.C. Company purchased bonds $ 90000, 10 percent, five-year bonds on January 1, 2016, with interest payable on July 1 and January 1. (par value= 100000). which results in a bond discount of $10000 Stated -interest method.

Instructions:

(a) Journalize the transactions2016,2017 and 2018

(b) Prepare interest Schedule and amortize of bonds by using Stated -interest method

Solution:

Jan. 1 Debt Investments 90000

Cash 90000

premium Amortization= Bond purchase price - par value

= 90000 – 100000 = (10000)/5= (2000) annually

Schedule of rate and amortize of bonds by using Stated -interest method

Date	Cash Received	Interest Revenue	Bond Discount Amortization	Carrying Amount of Bonds
1/1/2016				90000
1/7/2016	4000	5000	1000	91000
1/1/2017	4000	5000	1000	92000
1/7/2017	4000	5000	1000	93000
1/1/2018	4000	5000	1000	94000
1/7/2018	4000	5000	1000	95000

1/1/2019	4000	5000	1000	96000
1/7/2019	4000	5000	1000	97000
1/1/2020	4000	5000	1000	98000
1/7/2020	4000	5000	1000	99000
1/1/2021	4000	5000	1000	100000

1/7/2016: Cash 4000

Debt Investments 1000

Interest Revenue 5000

31/12/2016: Interest Receivable 4000...... or Accrued interest Re.

Debt Investments 1000

Interest Revenue 5000

1/1/2017: Cash 4000

Interest Receivable 4000

Balance Sheet 31/12/2016

Current assets	
Interest receivable (Accrued interest revenue)	$ 4000
Long-term investments	
Debt investments (held-to-maturity)	$92000

At the end of five years, when the bonds are sold in the premium, the discount shall be the entry:

Cash 100000

Debt Investments 100000

Example: Debt Investment at Amortized Cost. To illustrate the accounting for a debt investment at amortized cost, assume that Robinson SA purchased €100,000 of 8 percent bonds of Evermaster AG on January 1, 2019, at a discount, paying €92,278. The bonds mature January 1, 2024, and yield 10 percent; interest is payable each July 1 and January 1. Robinson records the investment as follows.

January 1, 2019		
Debt Investments	92,278	
Cash		92,278

8% Bonds Purchased to Yield 10%				
Date	Cash Received	Interest Revenue	Bond Discount Amortization	Carrying Amount of Bonds
1/1/19				€ 92,278
7/1/19	€ 4,000*	€ 4,614**	€ 614***	92,892****
1/1/20	4,000	4,645	645	93,537
7/1/20	4,000	4,677	677	94,214
1/1/21	4,000	4,711	711	94,925
7/1/21	4,000	4,746	746	95,671
1/1/22	4,000	4,783	783	96,454
7/1/22	4,000	4,823	823	97,277
1/1/23	4,000	4,864	864	98,141
7/1/23	4,000	4,907	907	99,048
1/1/24	4,000	4,952	952	100,000
	€40,000	€47,722	€7,722	

* €4,000=€100,000×.08×612

** €4,614=€92,278×.10×612

*** €614 = €4,614 − €4,000

**** €92,892 = € 92,278 + €614

Robinson records the receipt of the first semiannual interest payment on July 1, 2015 (using the data in Illustration 17.3), as follows.

July 1, 2019		
Cash	4,000	
Debt Investments	614	
Interest Revenue		4,614

July 1, 2019		
Cash	4,000	
Debt Investments	614	
Interest Revenue		4,614

Because Robinson is on a calendar-year basis, it accrues interest and amortizes the discount at December 31, 2019, as follows.

December 31, 2019		
Interest Receivable	4,000	
Debt Investments	645	
Interest Revenue		4,645

Example: Single Security.

To illustrate the accounting for HFCS securities, assume that Graff plc purchases £100,000, 10 percent, five-year bonds on January 1, 2019, with interest payable on July 1 and January 1. The bonds sell for £108,111, which results in a bond premium of £8,111 and an effective-interest rate of 8 percent

Debt Investments 108,111

Cash 108,111

10% Bonds Purchased to Yield 8%				
Date	Cash Received	Interest Revenue	Bond Premium Amortization	Carrying Amount of Bonds
1/1/19				£108,111
7/1/19	£ 5,000[a]	£ 4,324[b]	£ 676[c]	107,435[d]
1/1/20	5,000	4,297	703	106,732
7/1/20	5,000	4,269	731	106,001
1/1/21	5,000	4,240	760	105,241
7/1/21	5,000	4,210	790	104,451
1/1/22	5,000	4,178	822	103,629
7/1/22	5,000	4,145	855	102,774
1/1/23	5,000	4,111	889	101,885
7/1/23	5,000	4,075	925	100,960
1/1/24	5,000	4,040	960	100,000
	£50,000	£41,889	£8,111	

[a] £5,000=£100,000×.10×612

[b] £4,324=£108,111×.08×612

[c] £676 = £5,000 − £4,324

[d] £107,435 = £108,111 − £676

The entry to record interest revenue on July 1, 2019, is as follows.

July 1, 2019		
Cash	5,000	
Debt Investments		676
Interest Revenue		4,324

December 31, 2019

Interest Receivable 5,000

Debt Investments 703

Interest Revenue 4,297

(1)

INVESTMENTS IN EQUITY SECURITIES

Equity securities: represent ownership interests such as common, preferred, or other capital stock. They also include rights to acquire or dispose of ownership interests at an agreed-upon or determinable price, such as in warrants, rights, and call or put options. The degree to which one corporation (investor) المستثمرة acquires an interest in the common stock of another corporation (investee) المستثمر لديها generally determines the accounting treatment for the investment subsequent to acquisition. The classification of such investments depends on the percentage of the investee voting stock that is held by the investor:

1. Holdings of less than 20 percent **(fair value method)**—investor has passive interest.
2. Holdings between 20 percent and 50 percent **(equity method)**—investor has significant influence.
3. Holdings of more than 50 percent **(consolidated statements)**—investor has controlling interest.

Holdings of Less Than 20%: Upon acquisition, companies record equity securities at cost

Illustration:

Assume that on November 3, 2017, Republic Corporation purchased common stock of three companies, each investment representing less than a 20 percent interest.

	Cost
Ali's Industries, Inc.	$259700
Campbell Soup Co.	317500
Baghdad Co.	141350
Total cost	$718550

Republic records these investments as follows.

November 3, 2017

Equity Investments	718550	
Cash		718550

(2)

On December 6, 2017, Republic receives a cash dividend of $4200 on its investment in the common stock of Campbell Soup Co. It records the cash dividend as follows.

December 6, 2017

Cash	4200	
Dividend Revenue		4200

At December 31, 2017, Republic's equity security portfolio has the cost and fair Value.

Investments	Cost	Fair Value	Unrealized Gain (Loss)
Ali's Industries, Inc.	$259700	$275000	$ 15300
Campbell Soup Co.	317500	304000	(13500)
Baghdad Co.	141350	104000	(37350)
Total of portfolio	$718550	$683000	(35550)
Previous fair value			
Fair value adjustment—Cr. $(35550)			

December 31, 2017

Unrealized Holding Gain or Loss—Income	35550	
Fair Value Adjustment		35550

On January 23, 2018, Republic sold all of its Ali's Industries, Inc. common stock receiving net proceeds of $287220.

Net proceeds from sale	$287220
Cost of Ali's shares	259700
Gain on sale of stock	$ 27520

January 23, 2018

Cash	287220	
Equity Investments		259700
Gain on Sale of Investments		27520

3

Holdings Between 20% and 50% (Equity Method):

Under the equity method, the investor and the investee acknowledge a substantive economic relationship. The company originally records the investment at the cost of the shares acquired but subsequently adjusts the amount each period for changes in the investee's net assets. The equity method recognizes that investee's earnings increase investee's net assets, and that investee's losses and dividends decrease these net assets.

To illustrate the equity method and compare it with the fair value method, assume that Maxi Company purchases a 20 percent interest in Mini Company. To apply the fair value method in this example, assume that Maxi does not have the ability to exercise significant influence. Where this example applies the equity method, assume that the 20 percent interest permits Maxi to exercise significant influence. Illustration 17-17 shows the entries.

Fair Value Method			**Equity Method**		
On January 2, 2017, Maxi Company acquired 48,000 shares (20% of Mini Company common stock) at a cost of $10 a share.					
Equity Investments	480000		Equity Investments	480000	
Cash		480000	Cash		480000
For the year 2017, Mini Company reported net income of $200,000; Maxi Company's share is 20%, or $40,000.					
No entry			Equity Investments	40000	
			Investment Income		40000
At December 31, 2017, the 48,000 shares of Mini Company have a fair value (market price) of $12 a share, or $576,000.					
Fair Value Adjustment	96000		No entry		
Unrealized Holding Gain or Loss—Income		96000			

(4)

On January 28, 2018, Mini Company announced and paid a cash dividend of $100000; Maxi Company received 20%, or $20,000.

Cash 20000		Cash 20000	
Dividend Revenue 20000		Equity Investments 20000	

For the year 2018, Mini reported a net loss of $50000; Maxi Company's share is 20%, or $10000.

No entry	Investment Loss 10000
	Equity Investments 10000

At December 31, 2018, the Mini Company 48,000 shares have a fair value (market price) of $11 a share, or $528000.

Unrealized Holding Gain or Loss—Income 48000	
Fair Value Adjustment 48000	No entry

5)

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.

(6)

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.