Accounting Notes

Short and Long Term Investments

Short Term Investments:

*Purchase of investment*

<table>
<thead>
<tr>
<th>Short Term Investment</th>
<th>Shares * Purchase Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Shares * Purchase Price</td>
</tr>
</tbody>
</table>

*Receipt of dividends*

<table>
<thead>
<tr>
<th>Cash</th>
<th>Cash received</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Revenue</td>
<td>Cash received</td>
</tr>
</tbody>
</table>

*Adjusting trading investments to market value*

Unrealized Gain (Loss) on trading Investments

<table>
<thead>
<tr>
<th>Difference in MV and cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Investment</td>
</tr>
</tbody>
</table>

**Note:** The short term investments can never be recorded at an amount greater than the original purchase price. Therefore, if the market value of the investments was to increase then the investments could be increased only up to the original cost.

*Sale of investments*

<table>
<thead>
<tr>
<th>Cash</th>
<th>Selling Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain on Sale of Investments</td>
<td>Difference</td>
</tr>
<tr>
<td>Short Term Investments</td>
<td>Original Cost</td>
</tr>
</tbody>
</table>

**Note:** If there was a loss on the sale then the loss would be debited to *Loss on Sale of Investments*.

Long Term Available for Sale Investments:

- recorded using the market value method

*Purchase of investments*

<table>
<thead>
<tr>
<th>LT Available for Sale Investments</th>
<th>Shares * Purchase Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Shares * Purchase Price</td>
</tr>
</tbody>
</table>

Page 1
Accounting Notes
Short and Long Term Investments

Long Term Available for Sale Investments:

Receipt of dividends

Cash received
Dividend Revenue

Adjusting investments to market value

Allowance to Adjust Investment to Market
Unrealized Gain on Available for Sale Investments
Market Value - Book Value

Note: Book Value = Original cost ± Allowance to Adjust Investments to Market
The Allowance to Adjust Investments to Market is a contra-asset account to the Long Term Available for Sale Investments

Sale of investments

Cash
Loss on Sale of Investments
LT Available for Sale Investments
Sales Price
Difference
Cost

Equity Method Investments:
- investor owns 20% - 50% of the investee’s stock
- investor can significantly influence the investee’s decisions

Purchase of investment

LT Equity Method Investment
Cash
Purchase Cost
Purchase Cost

Recording the company’s (investor’s) share of the investee’s net income

LT Equity Method Investment
Equity Method Investment Revenue
Net Income * %
Net Income * %
Accounting Notes

Short and Long Term Investments

Equity Method Investments:

*Recording the receipt of dividends*

<table>
<thead>
<tr>
<th>Cash</th>
<th>Dividends * %</th>
</tr>
</thead>
<tbody>
<tr>
<td>LT Equity Method Investment</td>
<td>Dividends * %</td>
</tr>
</tbody>
</table>

*Sale of investments*

<table>
<thead>
<tr>
<th>Cash</th>
<th>Sales price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss on sale of Investment</td>
<td>Difference</td>
</tr>
<tr>
<td>LT Equity Method Investment</td>
<td>Book Value</td>
</tr>
</tbody>
</table>

Long Term Investment in Bonds:

*Purchase of bonds*

The issue price of a bond is stated as a percentage of the Face Value of the bond. (Example: If the bond is sold at 104, this means the bond was sold for 104% of the bond's face value.)

<table>
<thead>
<tr>
<th>LT Investment in Bonds</th>
<th>Face Value * Issue price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Face Value * Issue price</td>
</tr>
</tbody>
</table>

*Recording the receipt of interest*

<table>
<thead>
<tr>
<th>Cash</th>
<th>Face Value * Int. % * (# months/12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Revenue</td>
<td>Face Value * Int. % * (# months/12)</td>
</tr>
</tbody>
</table>

*Accruing of interest*

<table>
<thead>
<tr>
<th>Interest Receivable</th>
<th>Face Value * Int. % * (# months/12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Revenue</td>
<td>Face Value * Int. % * (# months/12)</td>
</tr>
</tbody>
</table>
Accounting Notes
Short and Long Term Investments

Long Term Investment in Bonds:

Amortizing a bond discount/premium

LT Investment in Bonds \[\frac{(FV - CV)}{\text{Life of bond}} \times \frac{\# \text{ months}}{12}\]
Interest Revenue \[\frac{(FV - CV)}{\text{Life of bond}} \times \frac{\# \text{ months}}{12}\]

Foreign Currency Transactions:

Sale of goods on account

Accounts Receivable Foreign Currency Amount \times \text{Exchange Rate}
Sales Foreign Currency Amount \times \text{Exchange Rate}

Collection on account

Cash Foreign Currency Amount \times \text{Exchange Rate}
Foreign Currency Transaction Loss Difference
Accounts Receivable Original amount owed

Purchase of goods on account

Inventory Foreign Currency Amount \times \text{Exchange Rate}
Accounts Payable Foreign Currency Amount \times \text{Exchange Rate}

Payment on account

Accounts Payable Original Amount due
Foreign Currency Trans Gain Difference
Cash Foreign Currency Amount \times \text{Exchange Rate}