EXERCISE 18-1 (10-15 minutes)

(a) (1) Held-to-Maturity Securities ..................... 185,216
    Cash .................................................. 185,216
(2) Cash ($200,000 X .045) ......................... 9,000
    Held-to-Maturity Securities ..................... 1,187
    Interest Revenue .................................. 10,187
    ($185,216 X .055)
(3) No entry required

(b) (1) Available-for-Sale Securities .................. 185,216
    Cash .................................................. 185,216
(2) Cash .................................................. 9,000
    Available-for-Sale Securities .................... 1,187
    Interest Revenue .................................. 10,187
(3) Securities Fair Value Adjustment—
    Available-for-Sale .............................. 2,097
    Unrealized Holding Gain or Loss—
    Equity ........................................... 2,097
    [$188,500 – ($185,216 + $1,187)]
EXERCISE 18-11 (15-20 minutes)

Situation 1: Journal entries by Conchita Cosmetics:

To record purchase of 20,000 shares of Martinez Fashion at a cost of $13 per share:

**March 18, 2001**

Available-for-Sale Securities ........................................  260,000  
Cash........................................................................   260,000

To record the dividend revenue from Martinez Fashion:

**June 30, 2001**

Cash ...............................................................................    7,500  
Dividend Revenue ($75,000 X 10%) ............................... 7,500

To record the investment at fair value:

**December 31, 2001**

Securities Fair Value Adjustment  
(Available-for-Sale).......................................................  40,000  
Unrealized Holding Gain or Loss—Equity...................   40,000*

*(15 – 13) X 20,000 shares = $40,000

Situation 2: Journal entries by Monica, Inc.:

To record the purchase of 30% of Seles Corporation’s common stock:

**January 1, 2001**

Investment in Seles Corp. Stock ................................. 81,000  
Cash............................................................................. 81,000

Since Monica, Inc. obtained significant influence over Seles Corp., Monica, Inc. now employs the equity method of accounting.
EXERCISE 18-11 (Continued)

To record the receipt of cash dividends from Seles Corporation:

**June 15, 2001**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash ($36,000 X 30%)</td>
<td>10,800</td>
</tr>
<tr>
<td>Investment in Seles Corp. Stock</td>
<td>10,800</td>
</tr>
</tbody>
</table>

To record Monica’s share (30%) of Seles Corporation’s net income of $85,000:

**December 31, 2001**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Seles Corp. Stock</td>
<td>25,500</td>
</tr>
<tr>
<td>(30% X $85,000)</td>
<td></td>
</tr>
<tr>
<td>Revenue from Investments</td>
<td>25,500</td>
</tr>
</tbody>
</table>
EXERCISE 18-14 (15-20 minutes)

(a) December 31, 2000
Available-for-Sale Securities ....................... 1,200,000
Cash .......................................................... 1,200,000

June 30, 2001
Cash .................................................................. 42,500
Dividend Revenue .................................... 42,500

December 31, 2001
Cash .................................................................. 42,500
Dividend Revenue .................................... 42,500

Securities Fair Value Adjustment
(Available-for-Sale) ...................................... 150,000
Unrealized Holding Gain or Loss—
Equity .................................................... 150,000
$27 X 50,000 = $1,350,000
$1,350,000 – $1,200,000 = $150,000

(b) December 31, 2000
Investment in Kulikowski Stock...................... 1,200,000
Cash .......................................................... 1,200,000

June 30, 2001
Cash .................................................................. 42,500
Investment in Kulikowski Stock .............. 42,500

December 31, 2001
Cash .................................................................. 42,500
Investment in Kulikowski Stock .............. 42,500

Investment in Kulikowski Stock .................... 146,000
Revenue from Investment ......................... 146,000
(20% X $730,000)
EXERCISE 18-14 (Continued)

<table>
<thead>
<tr>
<th></th>
<th>Fair Value Method</th>
<th>Equity Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment amount</td>
<td>$1,350,000</td>
<td>$1,261,000*</td>
</tr>
<tr>
<td>(balance sheet)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend revenue</td>
<td>85,000</td>
<td>0</td>
</tr>
<tr>
<td>(income statement)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue from investment</td>
<td>146,000</td>
<td></td>
</tr>
<tr>
<td>(income statement)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*$1,200,000 + $146,000 – $42,500 – $42,500*
(a) December 31, 1999
Held-to-Maturity Securities ........................................ 108,660  
Cash ................................................................................. 108,660

(b) December 31, 2000
Cash ................................................................................. 7,000  
Held-to-Maturity Securities ........................................... 1,567  
Interest Revenue ......................................................... 5,433

(c) December 31, 2002
Cash ................................................................................. 7,000  
Held-to-Maturity Securities ........................................... 1,728  
Interest Revenue ......................................................... 5,272

(d) December 31, 1999
Available-for-Sale Securities ........................................ 108,660  
Cash ................................................................................. 108,660

(e) December 31, 2000
Cash ................................................................................. 7,000  
Available-for-Sale Securities ........................................... 1,567  
Interest Revenue ......................................................... 5,433

Unrealized Holding Gain or Loss—  
Equity ($107,093 – $106,500) ........................................ 593  
Securities Fair Value Adjustment  
(Available-for-Sale) .................................................. 593

(f) December 31, 2002
Cash ................................................................................. 7,000  
Available-for-Sale Securities ........................................... 1,728  
Interest Revenue ......................................................... 5,272
PROBLEM 18-1 (Continued)

Available-for-Sale Securities

<table>
<thead>
<tr>
<th></th>
<th>Amortized Cost</th>
<th>Fair Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baker Company, 7% bonds</td>
<td>$103,719</td>
<td>$105,650</td>
<td>$1,931</td>
</tr>
<tr>
<td>Previous securities fair value adjustment—Dr.</td>
<td></td>
<td></td>
<td>2,053</td>
</tr>
<tr>
<td>Securities fair value adjustment—Cr.</td>
<td></td>
<td></td>
<td>$(122)</td>
</tr>
</tbody>
</table>

Unrealized Holding Gain or Loss—Equity.......................... 122

Securities Fair Value Adjustment (Available-for-Sale).................. 122