EXERCISE 18-5 (10-15 minutes)

(a) Securities Fair Value Adjustment—
    Trading.......................................................... 5,000
    Unrealized Holding Gain or Loss—
        Income.......................................................... 5,000

(b) Securities Fair Value Adjustment—
    Available-for-Sale........................................... 5,000
    Unrealized Holding Gain or Loss—
        Equity.......................................................... 5,000

(c) The Unrealized Holding Gain or Loss—Income account is reported in
    the income statement under Other Revenues and Gains. The
    Unrealized Holding Gain or Loss—Equity account is reported as a
    part of other comprehensive income and as a component of
    stockholders’ equity until realized. The Securities Fair Value
    Adjustment account is added to
    the cost of the Available-for-Sale or Trading Securities account to
    arrive at fair value.
EXERCISE 18-8 (10-15 minutes)

(a) The portfolio should be reported at the fair value of $54,500. Since the cost of the portfolio is $53,000, the unrealized holding gain is $1,500, of which $400 is already recognized. Therefore, the December 31, 2000 adjusting entry should be:

Securities Fair Value Adjustment
(Available-for-Sale) ..................................................... 1,100
Unrealized Holding Gain or Loss—Equity .................. 1,100

(b) The unrealized holding gain of $1,500 (including the previous balance of $400) should be reported as an addition to the stockholders’ equity and the Securities Fair Value Adjustment (Available-for-Sale) account balance of $1,500 should be added to the cost of the securities account.

STEFFI GRAF, INC.
Balance Sheet
As of December 31, 2000

Current assets:
Investment in stock, at fair value $54,500

Stockholders’ equity:
Common stock xxx,xxx
Additional paid-in capital xxx,xxx
Retained earnings xxx,xxx

Add: Accumulated other comprehensive income 1,500*
Total stockholders’ equity $xxx,xxx

*Note: The unrealized holding gain could also be disclosed.
EXERCISE 18-8 (Continued)

(c) Computation of realized gain or loss on sale of stock:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net proceeds from sale of security A</td>
<td>$15,100</td>
</tr>
<tr>
<td>Cost of security A</td>
<td>$17,500</td>
</tr>
<tr>
<td>Loss on sale of stock</td>
<td>($2,400)</td>
</tr>
</tbody>
</table>

January 20, 2001

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>15,100</td>
</tr>
<tr>
<td>Loss on Sale of Securities</td>
<td>2,400</td>
</tr>
<tr>
<td>Available-for-Sale Securities</td>
<td>17,500</td>
</tr>
</tbody>
</table>
EXERCISE 18-13 (15-20 minutes)

(a) Unrealized Holding Gain or Loss—Income ............. 7,900
    Securities Fair Value Adjustment (Trading)..... 7,900

(b) Cash ........................................................................... 66,300
    Loss on Sale of Securities........................................ 7,200
    Trading Securities ............................................. 73,500

(c) Trading Securities..................................................... 53,800
    Cash.................................................................... 53,800

(d)

<table>
<thead>
<tr>
<th>Securities</th>
<th>Cost</th>
<th>Fair Value</th>
<th>Unrealized Holding Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richie Hearn Corp. Common</td>
<td>$180,000</td>
<td>$175,000</td>
<td>$ (5,000)</td>
</tr>
<tr>
<td>Roberto Guerrero Corp. common</td>
<td>53,800</td>
<td>50,400</td>
<td>(3,400)</td>
</tr>
<tr>
<td>Alessandro Zampedri, Inc. Preferred</td>
<td>60,000</td>
<td>58,000</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Total portfolio</td>
<td>$293,800</td>
<td>$283,400</td>
<td>(10,400)</td>
</tr>
<tr>
<td>Previous securities fair value adjustment—Cr.</td>
<td></td>
<td></td>
<td>(7,900)</td>
</tr>
<tr>
<td>Securities fair value adjustment—Cr.</td>
<td></td>
<td></td>
<td>$ (2,500)</td>
</tr>
</tbody>
</table>

Unrealized Holding Gain or Loss—Income ............. 2,500
    Securities Fair Value Adjustment (Trading)..... 2,500
EXERCISE 18-15 (20-25 minutes)

(a) Investment in Chow Company Stock ............ 400,000
    Cash .......................................................... 400,000

(b) Cost
    Book values:
    Assets $800,000
    Liabilities 100,000
    700,000
    X 40% 280,000
    Excess $120,000

    Allocated
    Assets subject to depreciation $32,000 [($680,000 – $600,000) X 40%]
    Goodwill 88,000
    $120,000

    Cash .......................................................... 50,000
    Investment in Chow Company Stock .......... 50,000
    ($125,000 X .40)

    Investment in Chow Company Stock ............ 64,000
    Revenue from Investment .......................... 64,000
    ($160,000 X .40)

    Revenue from Investment ......................... 12,800
    Investment in Chow Company Stock .......... 12,800
    Undervalued depreciable assets ($32,000 ÷ 8) $4,000
    Unrecorded goodwill ($88,000 ÷ 10) 8,800
    $12,800
EXERCISE 18-15 (Continued)

(c) Loss from Investment (extraordinary)*....................  12,000
   Investment in Chow Company Stock........................  64,000
   Revenue from Investment........................................  76,000
   ($190,000 X .40)

   *$30,000 X .40 = $12,000

   Revenue from Investment........................................  12,800
   Investment in Chow Company Stock.........................  12,800