

Problem-Solving Assignment 6 (P17-1, P17-2)

- (c) September 30, 2017—Hart prepares financial statements.
- (d) October 5, 2017—Hart purchases 200 ounces of titanium at \$525 per ounce and settles the futures contract.
- (e) December 15, 2017—Hart sells clubs containing titanium purchased in October 2017 for \$250,000. The cost of the finished goods inventory is \$140,000.
- (f) Indicate the amount(s) reported in the income statement related to the futures contract and the inventory transactions on December 31, 2017.

PROBLEMS

P17-1 (LO1) (Debt Securities) Presented below is an amortization schedule related to Spangler Company's 5-year, \$100,000 bond with a 7% interest rate and a 5% yield, purchased on December 31, 2015, for \$108,660.

Date	Cash Received	Interest Revenue	Bond Premium Amortization	Carrying Amount of Bonds
12/31/15				\$108,660
12/31/16	\$7,000	\$5,433	\$1,567	107,093
12/31/17	7,000	5,354	1,646	105,447
12/31/18	7,000	5,272	1,728	103,719
12/31/19	7,000	5,186	1,814	101,905
12/31/20	7,000	5,095	1,905	100,000

The following schedule presents a comparison of the amortized cost and fair value of the bonds at year-end.

	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20
Amortized cost	\$107,093	\$105,447	\$103,719	\$101,905	\$100,000
Fair value	106,500	107,500	105,650	103,000	100,000

Instructions

- (a) Prepare the journal entry to record the purchase of these bonds on December 31, 2015, assuming the bonds are classified as held-to-maturity securities.
- (b) Prepare the journal entry(ies) related to the held-to-maturity bonds for 2016.
- (c) Prepare the journal entry(ies) related to the held-to-maturity bonds for 2018.
- (d) Prepare the journal entry(ies) to record the purchase of these bonds, assuming they are classified as available-for-sale.
- (e) Prepare the journal entry(ies) related to the available-for-sale bonds for 2016.
- (f) Prepare the journal entry(ies) related to the available-for-sale bonds for 2018.

P17-2 (LO1) (Available-for-Sale Debt Securities) On January 1, 2017, Novotna Company purchased \$400,000, 8% bonds of Aguirre Co. for \$369,114. The bonds were purchased to yield 10% interest. Interest is payable semiannually on July 1 and January 1. The bonds mature on January 1, 2022. Novotna Company uses the effective-interest method to amortize discount or premium. On January 1, 2019, Novotna Company sold the bonds for \$370,726 after receiving interest to meet its liquidity needs.

Instructions

- (a) Prepare the journal entry to record the purchase of bonds on January 1. Assume that the bonds are classified as available-for-sale.
- (b) Prepare the amortization schedule for the bonds.
- (c) Prepare the journal entries to record the semiannual interest on July 1, 2017, and December 31, 2017.
- (d) If the fair value of Aguirre bonds is \$372,726 on December 31, 2018, prepare the necessary adjusting entry. (Assume the fair value adjustment balance on December 31, 2017, is a debit of \$3,375.)
- (e) Prepare the journal entry to record the sale of the bonds on January 1, 2019.

P17-3 (LO1,2) (Debt and Equity Investments) Cardinal Paz Corp. carries an account in its general ledger called Investments which contained debits for investment purchases, and no credits, with the following descriptions.

Feb. 1, 2017	Sharapova Company common stock, \$100 par, 200 shares	\$ 37,400
April 1	U.S. government bonds, 11%, due April 1, 2027, interest payable April 1 and October 1, 110 bonds of \$1,000 par each	110,000
July 1	McGrath Company 12% bonds, par \$50,000, dated March 1, 2017, purchased at 104 plus accrued interest, interest payable annually on March 1, due March 1, 2037	54,000