

Problem 4

Wyoming Mining Corporation holds significant stone deposits. One of its key customers, North Sea Oil, produces crude oil from shale deposits. This production process requires limestone, and Wyoming is seeing a large increase in order flow from North Sea and other shale companies. Wyoming's management believes North Sea's stock is undervalued, and has decided to invest excess cash in the stock of North Sea Oil. The intent of this investment is for "trading" purposes only. Following are detailed facts about the North Sea investment. You should prepare journal entries to record the investment, and necessary end-of-month adjusting entries to reflect changes for each month.

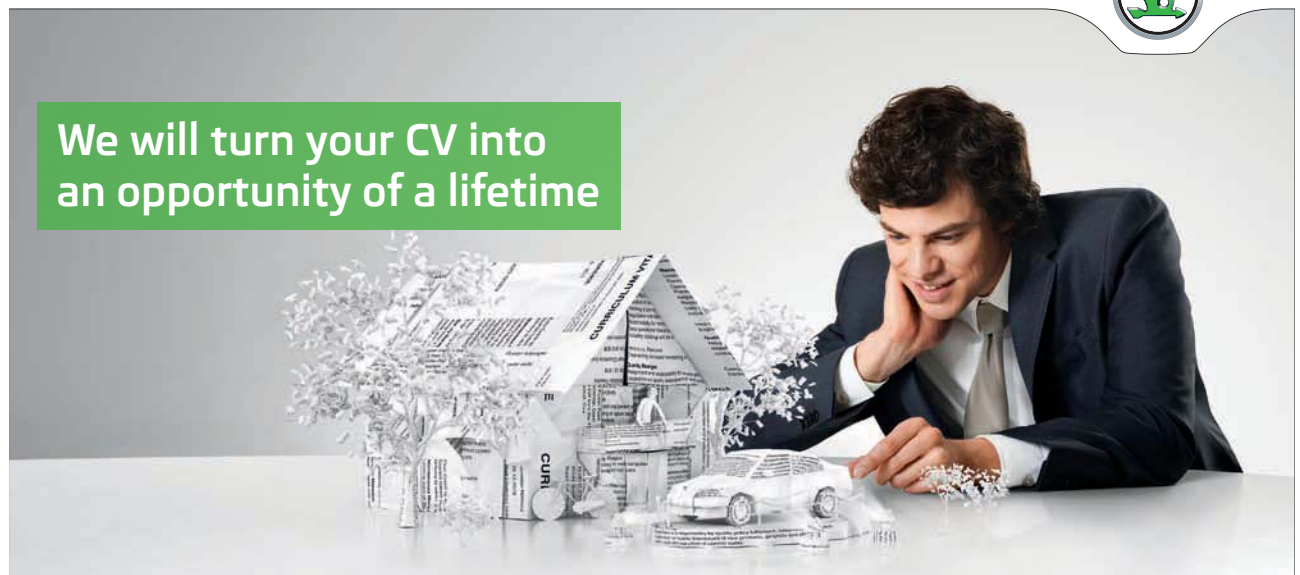
April 7	Purchased 1,500,000 shares of North Sea Oil at \$21 per share.
April 30	The fair value of North Sea's stock was \$27 per share.
May 31	The fair value of North Sea's stock was \$15 per share.
June 15	Received a dividend from North Sea of \$0.30 per share.
June 30	The fair value of North Sea's stock was \$24 per share.

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Worksheet 4

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
7-Apr			
	<i>To record the purchase of 1,500,000 shares of North Sea stock at \$21 per share</i>		
30-Apr			
	<i>To record a \$6 per share increase in the value of 1,500,000 shares of North Sea stock</i>		
31-May			
	<i>To record a \$12 per share decrease in the value of 1,500,000 shares of North Sea stock</i>		
15-Jun			
	<i>To record a \$0.30 per share cash dividend on the investment in North Sea stock</i>		
30-Jun			
	<i>To record a \$9 per share increase in the value of 1,500,000 shares of North Sea stock</i>		

Solution 4

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
7-Apr	Trading Securities	31,500,000	
	Cash		31,500,000
	<i>To record the purchase of 1,500,000 shares of North Sea stock at \$21 per share</i>		
30-Apr	Trading Securities	9,000,000	
	Unrealized Gain on Investments		9,000,000
	<i>To record a \$6 per share increase in the value of 1,500,000 shares of North Sea stock</i>		
31-May	Unrealized Loss on Investments	2,000,000	
	Trading Securities		2,000,000
	<i>To record a \$12 per share decrease in the value of 1,500,000 shares of North Sea stock</i>		
15-Jun	Cash	450,000	
	Dividend Income		450,000
	<i>To record a \$0.30 per share cash dividend on the investment in North Sea stock</i>		
30-Jun	Trading Securities	13,500,000	
	Unrealized Gain on Investments		13,500,000
	<i>To record a \$9 per share increase in the value of 1,500,000 shares of North Sea stock</i>		