

# Problem 1

Copenhagen Corporation obtained an investment in the stock of Amsterdam Corporation. The intent of the investment was not to obtain control or to exert significant influence. Winsloe has no plans to trade the investment for near-term profits. Following is a description of the activity related to the investment in Amsterdam Corporation:

- March 5      Purchased 15,000 shares of Amsterdam Corporation at \$7 per share.
- March 31      The fair value of Amsterdam Corporation's stock was \$10 per share.
- April 30      The fair value of Amsterdam Corporation's stock was \$6.50 per share.
- May 15        Received a dividend from Amsterdam Corporation of \$0.50 per share.
- May 31        The fair value of Amsterdam Corporation's stock was \$8 per share.

- a) What method should be used to account for this investment? Does management intent influence this decision? If the investment were obtained with the objective of near-term trading for profit, what would be done differently?
  
- b) Prepare journal entries for the activity pertaining to the investment in Amsterdam Corporation.

Worksheet

a)

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
5-Mar			
31-Mar			
30-Apr			
15-May			
31-May			

Solution

a) The investment should be accounted for as an “available-for-sale” investment. Management intent is crucial to this outcome. If the intent were to trade for a near-term profit, the investment would be accounted for as a trading security, and gains/losses would be part of “operating income” rather than “other comprehensive income.”

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
5-Mar	Available for Sale Securities	105,000	
	Cash		105,000
	<i>To record the purchase of 15,000 shares of Amsterdam Corporation at \$7</i>		
31-Mar	Available for Sale Securities	45,000	
	Unrealized Gain/Loss - OCI		45,000
	<i>To record a \$3 per share increase in the value Amsterdam Corporation shares</i>		
30-Apr	Unrealized Gain/Loss - OCI	52,500	
	Available for Sale Securities		52,500
	<i>To record a \$3.50 per share decrease in the value Amsterdam Corporation shares</i>		
15-May	Cash	3,750	
	Dividend Income		3,750
	<i>To record a \$0.50 per share cash dividend on the investment in Amsterdam Corporation stock</i>		
31-May	Available for Sale Securities	22,500	
	Unrealized Gain/Loss - OCI		22,500
	<i>To record a \$1.5 per share increase in the value Amsterdam Corporation shares</i>		