

3. Award: 6.68 points

The following transactions pertain to Harrison Imports for Year 1:

1. Started business by acquiring \$29,000 cash from the issue of common stock.
2. Provided \$70,200 of services for cash.
3. Invested \$34,000 in marketable investment securities.
4. Paid \$26,550 of operating expense.
5. Received \$350 of investment income from the securities.
6. Invested an additional \$13,000 in marketable investment securities.
7. Paid a \$2,300 cash dividend to the stockholders.
8. Sold investment securities that cost \$8,663 for \$11,550.
9. Received another \$900 in investment income.
10. Determined the market value of the investment securities at the end of the year was \$35,937.

**Required:**

Use a vertical statements model to prepare a Year 1 income statement, balance sheet, and statement of cash flows, assuming that the marketable investment securities were classified as (a) held to maturity, (b) trading, and (c) available for sale. (Hint: Record the events in T-accounts prior to preparing the financial statements.) (Record the transactions in the given order. Amounts to be deducted, cash outflows and losses should be indicated with a minus sign.)

(a) Held-to-Maturity

Cash			Investment Securities		
Beg. Bal.	29,000		Beg. Bal.		
			End. Bal.		
End. Bal.	29,000				
Common Stock			Dividends		
Beg. Bal.	29,000		Beg. Bal.		
End. Bal.	29,000		End. Bal.		
Service Revenue			Investment Income		
Beg. Bal.			Beg. Bal.		
End. Bal.			End. Bal.		
Gain on Sale of Invest.			Operating Expenses		
Beg. Bal.			Beg. Bal.		
End. Bal.			End. Bal.		

(b) Trading

Cash				Investment Securities			
Beg. Bal.				Beg. Bal.			
				End. Bal.			
End. Bal.							
Common Stock				Dividends			
Beg. Bal.				Beg. Bal.			
End. Bal.				End. Bal.			
Service Revenue				Investment Income			
Beg. Bal.				Beg. Bal.			
End. Bal.				End. Bal.			
Gain on Sale of Invest.				Operating Expenses			
Beg. Bal.				Beg. Bal.			
End. Bal.				End. Bal.			
(Income Statement Account) Unrealized Gain/Loss							
Beg. Bal.							
End. Bal.							

(c) Available-for-Sale

Cash				Investment Securities			
Beg. Bal.				Beg. Bal.			
				End. Bal.			
End. Bal.							
Common Stock				Dividends			
Beg. Bal.				Beg. Bal.			
End. Bal.				End. Bal.			
Accum. Other Comp. Income Unrealized Gain/Loss				Service Revenue			
Beg. Bal.				Beg. Bal.			
End. Bal.				End. Bal.			
Investment Income				Gain on Sale of Invest.			
Beg. Bal.				Beg. Bal.			
End. Bal.				End. Bal.			
Operating Expenses							
Beg. Bal.							
End. Bal.							

HARRISON IMPORTS			
Income Statements			
For the Year Ended Year 1			
Investment Securities Classified as	Held-to-Maturity	Trading	Available-for-Sale
	0	0	0
	\$ 0	\$ 0	\$ 0

HARRISON IMPORTS			
Balance Sheets			
As of December 31, Year 1			
Investment Securities Classified as	Held-to-Maturity	Trading	Available-for-Sale
<b>Assets</b>			
Total Assets	\$ 0	\$ 0	\$ 0
<b>Stockholders' Equity</b>			
Total Stockholders' Equity	\$ 0	\$ 0	\$ 0

HARRISON IMPORTS			
Statements of Cash Flows			
For the Year Ended December 31, Year 1			
Investment Securities Classified as	Held-to-Maturity	Trading	Available-for-Sale
Cash flows from operating activities:			
Net cash flow from operating activities:	0	0	0
Cash flow from investing activities:			
Net cash flow from investing activities	0	0	0
Cash flow from financing activities			
Net cash flow from financing activities	0	0	0
Net change in cash			
Ending cash balance	\$ 0	\$ 0	\$ 0

#### References

Financial Statements Difficulty: 2 Medium