

Bitnec Corporation acquired three separate investments at the beginning of the year. Information about each acquisition, the dividends declared and paid during the year, income, and year-end stock price, follows:

INITIAL INVESTMENT

Purchased 50,000 shares of Lynch Corporation at \$11 per share. This investment was made with the intent of near-term trading profits. Lynch Corporation has 5,000,000 shares outstanding.

Purchased 10,000 shares of Graham Corporation at \$20 per share. This investment was generally considered to be long-term with no particular plans for near-term trading. Graham Corporation has 2,000,000 shares outstanding.

Purchased 40% of the shares of Buffet Corporation at \$30 per share. This investment was generally considered to be long-term with plans to exert significant influence. Buffet Corporation has 1,500,000 shares outstanding.

DIVIDENDS

Lynch Corporation declared and paid dividends of \$0.50 per share.

Graham Corporation declared and paid \$2,000,000 in dividends.

Buffet Corporation declared and paid dividends of \$0.25 per share.

NET INCOME

Lynch Corporation reported net income of \$4,000,000 for the year.

Graham Corporation reported net income of \$7,000,000 for the year.

Buffet Corporation reported net income of \$1,200,000 for the year.

YEAR END STOCK PRICE

Lynch Corporation's closing stock price at the end of the year was \$13 per share.

Graham Corporation's closing stock price at the end of the year was \$15 per share.

Buffet Corporation's closing stock price at the end of the year was \$33 per share.

- (a) Prepare journal entries, as necessary, to account for the initial investment, dividend, and year-end stock price for the investment in Lynch Corporation.
- (b) Prepare journal entries, as necessary, to account for the initial investment, dividend and year-end stock price for the investment in Graham Corporation.
- (c) Prepare journal entries, as necessary, to account for the initial investment, dividend and year-end stock price for the investment in Buffet Corporation.

(a)

GENERAL JOURNAL				
Date	Accounts		Debit	Credit
Invest				
Dividend				
Income				
Price				

(b)

GENERAL JOURNAL				
Date	Accounts		Debit	Credit
Invest				
Dividend				
Income				
Price				

(c)

GENERAL JOURNAL				
Date	Accounts		Debit	Credit
Invest				
Dividend				
Income				
Price				

Horton Micro Chip Company issued \$100,000 of face amount of 6-year bonds on January 1, 20X1. The bonds were issued at 103, and bear interest at a stated rate of 8% per annum, payable semiannually. The premium is amortized by the straight-line method.

- (a) Prepare the journal entry to record the initial issue on January, 20X1.
- (b) Prepare the journal entry that Horton would record on each interest date.
- (c) Prepare the journal entry that Horton would record at maturity of the bonds.
- (d) How much cash flowed "in" and "out" on this bond issue, and how does the difference compare to total interest expense that was recognized?

(a), (b), (c)

GENERAL JOURNAL				
Date	Accounts		Debit	Credit
Issue				
Interest				
Maturity				

(d)

Horton Micro Chip Company issued \$100,000 of face amount of 6-year bonds on January 1, 20X1. The bonds were issued at 103, and bear interest at a stated rate of 8% per annum, payable semiannually. The premium is amortized by the straight-line method.

- (a) Prepare the journal entry to record the initial issue on January, 20X1.
- (b) Prepare the journal entry that Horton would record on each interest date.
- (c) Prepare the journal entry that Horton would record at maturity of the bonds.
- (d) How much cash flowed "in" and "out" on this bond issue, and how does the difference compare to total interest expense that was recognized?

(a), (b), (c)

GENERAL JOURNAL				
Date	Accounts		Debit	Credit
Issue				
Interest				
Maturity				

(d)

Erik Food Supply Company issued \$100,000 of face amount of 4-year bonds on January 1, 20X1. The bonds were issued at 98, and bear interest at a stated rate of 8% per annum, payable semiannually. The discount is amortized by the straight-line method.

- (a) Prepare the journal entry to record the initial issuance on January, 20X1.
- (b) Prepare the journal entry that Erik would record on each interest date.
- (c) Prepare the journal entry that Erik would record at maturity of the bonds.
- (d) How much cash flowed "in" and "out" on this bond issue, and how does the difference compare to total interest expense that was recognized?

(a), (b), (c)

GENERAL JOURNAL				
Date	Accounts		Debit	Credit
Issue				
Interest				
Maturity				

(d)