### OPTIONAL ASSIGNMENT CHARACTERISTICS TABLE

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<th>Description</th>
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<td>BE17-2</td>
<td>Entries for available-for-sale securities (bonds).</td>
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<td>BE17-3</td>
<td>Entries for held-to-maturity securities (bonds).</td>
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<td>Fair value hedge interest rate swap.</td>
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<td>Cash flow hedge.</td>
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<td>*E17-25</td>
<td>Fair value hedge interest rate swap.</td>
</tr>
<tr>
<td>*E17-27</td>
<td>Cash flow hedge.</td>
</tr>
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<td>Debt securities.</td>
</tr>
<tr>
<td>P17-4</td>
<td>Available-for-sale debt securities.</td>
</tr>
<tr>
<td>P17-5</td>
<td>Equity securities entries and disclosures.</td>
</tr>
<tr>
<td>P17-11</td>
<td>Equity investments—available-for-sale.</td>
</tr>
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</table>
BRIEF EXERCISE 17-1

(a) Debt Investments (Held-to-Maturity) ........................................ 74,086
    Cash .......................................................... 74,086

(b) Cash ($80,000 \times 0.09) ............................................. 7,200
    Debt Investments (Held-to-Maturity) ................................ 949
    Interest Revenue ($74,086 \times 0.11) ............................ 8,149

BRIEF EXERCISE 17-2

(a) Debt Investments (Available-for-Sale) .............................. 74,086
    Cash .......................................................... 74,086

(b) Cash ($80,000 \times 0.09) ............................................. 7,200
    Debt Investments (Available-for-Sale) ............................ 949
    Interest Revenue ($74,086 \times 0.11) ............................ 8,149

(c) Fair Value Adjustment (AFS) ........................................ 465
    Unrealized Holding Gain—Equity [($74,086 + 949) – $75,500] .... 465

BRIEF EXERCISE 17-3

(a) Debt Investments (Held-to-Maturity) ........................................ 65,118
    Cash .......................................................... 65,118

(b) Cash ($60,000 \times 0.08 \times 6/12) .................................... 2,400
    Debt Investments (Held-to-Maturity) ................................ 446
    Interest Revenue ($65,118 \times 0.06 \times 6/12) .................... 1,954

BRIEF EXERCISE 17-4

(a) Debt Investments (Trading) ............................................ 50,000
    Cash .......................................................... 50,000

(b) Cash .............................................................. 2,000
    Interest Revenue .................................................. 2,000

(c) Unrealized Holding Loss—Income .................................... 2,600
    Fair Value Adjustment (Trading) ($50,000 – $47,400) ........... 2,600

BRIEF EXERCISE 17-5

(a) Equity Investments (Available-for-Sale) .......................... 13,200
    Cash .......................................................... 13,200

(b) Cash .............................................................. 1,300
    Dividend Revenue (400 \times 3.25) ................................ 1,300

(c) Fair Value Adjustment (AFS) ........................................ 600
    Unrealized Holding Gain—Equity [(400 \times 34.50) – $13,200] .. 600
BRIEF EXERCISE 17-6

(a) Equity Investments (Trading) ................................................................. 13,200
    Cash ........................................................................................................... 13,200

(b) Cash ........................................................................................................... 1,300
    Dividend Revenue (400 X $3.25) ................................................................. 1,300

(c) Fair Value Adjustment (Trading) .............................................................. 600
    Unrealized Holding Gain—Income [(400 X $34.50) – $13,200] .............. 600

BRIEF EXERCISE 17-7

Equity Investment in Murphy Inc. ................................................................. 300,000
    Cash ........................................................................................................... 300,000

Equity Investment in Murphy Inc. ................................................................. 54,000
    Revenue from Investment (30% X $180,000) ........................................... 54,000

Cash .............................................................................................................. 18,000
    Equity Investment in Murphy Inc. (30% X $60,000) .............................. 18,000

BRIEF EXERCISE 17-10

Loss on Impairment of Investments ............................................................. 10,000
    Debt Investments (Available-for-Sale) ....................................................... 10,000

Note: If Hillsborough has already recognized an unrealized holding loss—equity, an additional entry for the reclassification adjustment as well as eliminate the fair value adjustment (AFS) account.

EXERCISE 17-4

(a) January 1, 2011
    Debt Investments (Available-for-Sale) ....................................................... 537,907
    Cash ........................................................................................................... 537,907

(b) December 31, 2011
    Cash ($500,000 X .12) ............................................................................... 60,000
    Debt Investments (Available-for-Sale) ....................................................... 6,209
    Interest Revenue ($537,907 X .10) ............................................................... 53,791
    Fair Value Adjustment (Available-for-Sale) .............................................. 2,502
    Unrealized Holding Gain—Equity ($534,200 – $531,698) ................. 2,502

(c) December 31, 2012
    Unrealized Holding Loss—Equity .............................................................. 12,370
    Fair Value Adjustment (Available-for-Sale) ........................................... 12,370

<table>
<thead>
<tr>
<th>Securities Fair Value Adjustment (AFS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/11 bal.</td>
</tr>
<tr>
<td>2012 AJE</td>
</tr>
<tr>
<td>12/31/12 bal.</td>
</tr>
<tr>
<td>($524,868 – $515,000)</td>
</tr>
</tbody>
</table>
EXERCISE 17-5 (b & d only)

(b) Amortization Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>9% Cash Received</th>
<th>12% Interest Revenue</th>
<th>Bond Discount Amortization</th>
<th>Carrying Value of Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/12</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>$278,384</td>
</tr>
<tr>
<td>12/31/12</td>
<td>$27,000</td>
<td>$33,406</td>
<td>$ 6,406</td>
<td>284,790</td>
</tr>
<tr>
<td>12/31/13</td>
<td>27,000</td>
<td>34,175</td>
<td>7,175</td>
<td>291,965</td>
</tr>
<tr>
<td>12/31/14</td>
<td>27,000</td>
<td>35,035 *</td>
<td>8,035</td>
<td>300,000</td>
</tr>
</tbody>
</table>

*Rounded

(d) 12/31/13

- Cash .......................................................... 27,000
- Debt Investments (Held-to-Maturity) .................................. 7,175
- Interest Revenue .................................................. 34,175

EXERCISE 17-7

(a) December 31, 2012

- Unrealized Holding Loss—Income ....................................... 1,400
- Fair Value Adjustment (Trading) ..................................... 1,400

(b) During 2013

- Cash ......................................................................... 9,500
- Loss on Sale of Investments ........................................... 500
- Equity Investments (Trading) .......................................... 10,000

(c) December 31, 2013

- Fair Value Adjustment (Trading) ..................................... 1,200
- Unrealized Holding Gain—Income .................................... 1,200

<table>
<thead>
<tr>
<th>Securities</th>
<th>Cost</th>
<th>Fair Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stargate Corp. stock</td>
<td>$20,000</td>
<td>$19,300</td>
<td>$  (700)</td>
</tr>
<tr>
<td>Vectorman Co. stock</td>
<td>20,000</td>
<td>20,500</td>
<td>500</td>
</tr>
<tr>
<td>Total of portfolio</td>
<td>$40,000</td>
<td>$39,800</td>
<td>(200)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Fair Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 AJE</td>
<td>1,200</td>
<td>12/31/12 bal.</td>
<td>1,400</td>
</tr>
</tbody>
</table>

EXERCISE 17-9

(a) Fair Value Adjustment (Available-for-Sale) ..................................... 1,300

- Unrealized Holding Gain—Equity ........................................... 1,300

(b) Balance Sheet (December 31, 2012)

Current assets:

- Equity Investments (Available-for-sale) ........................................... $54,500

Stockholders’ equity:

- Accumulated other comprehensive income:  
  - Unrealized holding gain on available-for-sale investments .......... $1,500

(c) January 20, 2013

Cash .................................................................................. 15,300

- Loss on Sale of Investments .............................................. 2,200
- Equity Investments (Available-for-Sale) .................................. 17,500
EXERCISE 17-10 (a. only)

(a)  WENGER, INC.
Statement of Comprehensive Income
For the Year Ended December 31, 2012

Net income .......................................................... $120,000
Other comprehensive income:
   Unrealized holding gain on available-for-sale investments ........... 1,300
Comprehensive income ................................................ $121,300

EXERCISE 17-12

Situation 1: Journal entries by Hatcher Cosmetics (FAIR VALUE METHOD):

March 18, 2012
Equity Investments (Available-for-Sale) ........................................... 280,000
Cash (200,000 x 10% = 20,000 shares x $14) ............................................. 280,000

June 30, 2012
Cash .......................................................... 7,500
Dividend Revenue ($75,000 X 10%) .......................................................... 7,500

December 31, 2012
Fair Value Adjustment (Available-for-Sale) ........................................... 20,000
Unrealized Holding Gain—Equity [(20,000 x $15) = $300,000 – $280,000] .. 20,000

Situation 2: Journal entries by Holmes, Inc. (EQUITY METHOD):

January 1, 2012
Equity Investment in Nadal Corp. ......................................................... 67,500
Cash [(30,000 X 25%) = 7,500 shares X $9] .................................................. 67,500

June 15, 2012
Cash ($36,000 X 25%) .......................................................... 9,000
Equity Investment in Nadal Corp. ............................................................. 9,000

December 31, 2012
Equity Investment in Nadal Corp. (25% X $85,000) .............................. 21,250
Revenue from Investment ................................................................. 21,250

EXERCISE 17-14

1. Equity Investments (Trading) (300 shares X $40) ............................ 12,000
   Cash .................................................................................. 12,000

2. Cash (100 shares X $43) ......................................................... 4,300
   Gain on Sale of Investments ................................................................. 300
   Equity Investments (Trading) (100 X $40) ......................................... 4,000

3. Unrealized Holding Loss—Income ............................................... 1,000
   Fair Value Adjustment (Trading Securities) ........................................... 1,000
   (200 X $35) = $7,000 FV vs. (200 X $40) = $8,000 cost = $1,000
EXERCISE 17-17

Equity Investment in Pirates Co. .................................................. 200,000
Cash ......................................................................................... 200,000

Cash ($200,000 X 25%) ............................................................. 5,000
Equity Investment in Pirates Co. ............................................. 5,000

Equity Investment in Pirates Co. .................................................. 20,000
Revenue from Investment ($80,000 X 25%) ......................... 20,000

EXERCISE 17-20 (recall that the investment in Arroyo Co. is valued under the fair value option!)

(a) Net income before security gains or losses............................... $905,000
Gain on sale of Investment in Woods Inc. stock ($195,000 – $180,000) .... 15,000
Unrealized holding gain on Investment in Arroyo Co. ($140,000 – $80,000) .. 60,000
Net income .............................................................................. $980,000

(b) Equity Investment in Arroyo Co. ($140,000 – $80,000) ............. 60,000
Unrealized Holding Gain--Income ............................................. 60,000

*EXERCISE 17-23

<table>
<thead>
<tr>
<th></th>
<th>(a) 6/30/12</th>
<th>(b) 12/31/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed rate interest</td>
<td>$ 3,000</td>
<td>$ 3,000</td>
</tr>
<tr>
<td>($100,000 x 6% x 6/12)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net settlement of swap [dr (cr) interest exp.]:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6/30: (pay $2,850* – rec $3,000)</td>
<td></td>
<td>(150)</td>
</tr>
<tr>
<td>12/31: (pay $3,350** – rec $3,000)</td>
<td></td>
<td>350</td>
</tr>
<tr>
<td>Net interest expense</td>
<td>$ 2,850</td>
<td>$ 3,350</td>
</tr>
</tbody>
</table>

* ($100,000 x 5.7% x 6/12)
** ($100,000 x 6.7% x 6/12)

*EXERCISE 17-24

<table>
<thead>
<tr>
<th></th>
<th>(a) 12/31/12</th>
<th>(b) 12/31/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable rate interest expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012: ($10,000,000 x 5.8%)</td>
<td>$ 580,000</td>
<td></td>
</tr>
<tr>
<td>2013: ($10,000,000 x 6.6%)</td>
<td></td>
<td>$ 660,000</td>
</tr>
<tr>
<td>Net settlement of swap [dr (cr) interest expense]:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012: (pay $600,000* – rec $580,000)</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>2013: (pay $600,000* – rec $660,000)</td>
<td></td>
<td>(60,000)</td>
</tr>
<tr>
<td>Net interest expense</td>
<td>$ 600,000</td>
<td>$ 600,000</td>
</tr>
</tbody>
</table>

* $10,000,000 x 6% fixed rate = $600,000
**EXERCISE 17-25**

(a) to record payment of interest on Note Payable:
   - Interest Expense .......................................................... 75,000
   - Cash ($1,000,000 x 7.5%) ........................................ 75,000

(b) to record net settlement of swap contract:
   - Cash .......................................................... 13,000
   - Interest Expense .................................................. 13,000

(c) to record fair value adjustment for swap contract:
   - Interest Rate Swap Contract .................................. 48,000
   - Unrealized Holding Gain—Income .................................. 48,000

(d) to record fair value adjustment for note payable:
   - Unrealized Holding Loss—Income .................................. 48,000
   - Note Payable .......................................................... 48,000

**EXERCISE 17-27**

(a) May 1, 2012: Memorandum entry to indicate entering into the futures contract.

(b) 6/30/12 Futures Contract ........................................ 4,000
    - Unrealized Holding Gain—Equity [($520 − $500) X 200 ounces] 4,000

(c) 9/30/12 Futures Contract ........................................ 1,000
    - Unrealized Holding Gain—Equity [($525 − $520) X 200 ounces] 1,000

(d) 10/5/12 Titanium Inventory ...................................... 105,000
    - Cash ($525 X 200 ounces) ........................................ 105,000
    - Cash [($525 − $500) X 200 ounces] ................................ 5,000
    - Futures Contract .................................................. 5,000

(e) 12/15/12 Cash .......................................................... 250,000
    - Sales Revenue ..................................................... 250,000
    - Cost of Goods Sold ............................................ 140,000
    - Inventory (Drivers) ........................................... 140,000
    - Unrealized Holding Gain—Equity (reclass. = ($4,000 + $1,000)) 5,000
    - Cost of Goods Sold ........................................... 5,000

(f) Income Statement
   - Sales revenue .................................................... $250,000
   - Cost of goods sold ($140,000 − $5,000) ....................... $135,000
   - Gross profit ...................................................... $115,000
PROBLEM 17-1

(a) 12/31/10  Debt Investments (Held-to-Maturity) ...................... 108,660
    Cash .......................................................... 108,660

(b) 12/31/11  Cash ...................................................... 7,000
    Debt Investments (Held-to-Maturity) .................. 1,567
    Interest Revenue ........................................ 5,433

(c) 12/31/13  Cash ...................................................... 7,000
    Debt Investments (Held-to-Maturity) .................. 1,728
    Interest Revenue ........................................ 5,272

(d) 12/31/10  Debt Investments (Available-for-Sale)............... 108,660
    Cash .......................................................... 108,660

(e) 12/31/11  Cash ...................................................... 7,000
    Debt Investments (Available-for-Sale) ............ 1,567
    Interest Revenue ........................................ 5,433

Unrealized Holding Loss—Equity ($107,093 – $106,500) 593
Fair Value Adjustment (Available-for-Sale) ......... 593

(f) 12/31/13  Cash ...................................................... 7,000
    Debt Investments (Available-for-Sale) ............ 1,728
    Interest Revenue ........................................ 5,272

Unrealized Holding Loss—Equity .......................... 122
Fair Value Adjustment (Available-for-Sale) .......... 122

Securities Fair Value Adjustment (AFS)

\[
\begin{array}{lll}
& 12/31/12 \text{ bal.} & 2,053 \\
\text{($107,500 – $105,447)} & 2013 \text{ AJE} & 122 \\
\text{($105,650 – $103,719)} & 12/31/13 \text{ bal.} & 1,931 \\
\end{array}
\]

PROBLEM 17-4

(a) Since the amortized cost increases over time, the bonds must have been purchased at a discount.

(b) 12/31/12  Fair Value Adjustment (Available-for-Sale) .............. 4,850
    Unrealized Holding Gain—Equity ........................ 4,850

Fair Value Adjustment (AFS)

\[
\begin{array}{ll}
1/1/12 \text{ bal.} & 1,000 \\
2012 \text{ AJE} & 4,850 \\
\end{array}
\]

\[
\begin{array}{ll}
\text{($497,000 – $491,150)} & 12/31/12 \text{ bal.} \\
& 5,850 \\
\end{array}
\]

(c) 12/31/13  Unrealized Holding Loss—Equity ....................... 16,292
    Fair Value Adjustment (Available-for-Sale) ........ 16,292

Securities Fair Value Adjustment (AFS)

\[
\begin{array}{lll}
12/31/12 \text{ bal.} & 5,850 \\
2013 \text{ AJE} & 16,292 \\
12/31/13 \text{ bal.} & 10,442 \ ($519,442 – $509,000) \\
\end{array}
\]
PROBLEM 17-5

(a)  January 15, 2013  
Cash  [(3,000 x $22) − $2,150] .................................. 63,850  
Equity Investments (Available-for-Sale) .................................. 58,500  
Gain on Sale of Investments .................................. 5,350

(b)  April 17, 2013  
Equity Investments (Available-for-Sale) .................................. 35,480  
Cash [(1,000 X $33.50) + $1,980] .................................. 35,480

(c)  Equity Investments (Available-for-Sale) Portfolio—December 31, 2013  

<table>
<thead>
<tr>
<th>Securities</th>
<th>Cost</th>
<th>Fair Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Munter Ltd.</td>
<td>$580,000</td>
<td>$610,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>King Co.</td>
<td>255,000</td>
<td>240,000</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Castle Co.</td>
<td>35,480</td>
<td>29,000</td>
<td>(6,480)</td>
</tr>
<tr>
<td>Total of portfolio</td>
<td>$870,480</td>
<td>$879,000</td>
<td>8,520</td>
</tr>
</tbody>
</table>

December 31, 2013  
Fair Value Adjustment (Available-for-Sale) .................................. 18,620  
Unrealized Holding Gain—Equity .................................. 18,620

<table>
<thead>
<tr>
<th>Securities Fair Value Adjustment (AFS)</th>
<th>12/31/12</th>
<th>10,100</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 AJE</td>
<td>18,620</td>
<td></td>
</tr>
<tr>
<td>12/31/13 bal.</td>
<td>8,520</td>
<td></td>
</tr>
</tbody>
</table>

(d)  The unrealized holding gains or losses should be reported on the balance sheet under the title “accumulated other comprehensive income” as a separate component of stockholders’ equity.

PROBLEM 17-11

(a)  1. 3/1/12  
Cash .................................. 1,800  
Dividend Revenue (900 X $2) .................................. 1,800

2. 4/30/12  
Cash (300 x $11) .................................. 3,300  
Gain on Sale of Investments .................................. 600  
Equity Investments (Available-for-Sale) (300 x $9). 2,700

3. 5/15/12  
Equity Investments (Available-for-Sale) .................................. 1,600  
Cash (100 X $16) .................................. 1,600

4. 12/31/12  
Fair Value Adjustment (Available-for-Sale) .................................. 8,500  
Unrealized Holding Gain—Equity .................................. 8,500

<table>
<thead>
<tr>
<th>Security</th>
<th>Cost</th>
<th>Fair Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evers Comp. (cost = $15,000 + $1,600)</td>
<td>$16,600</td>
<td>$18,700(1)</td>
<td>$2,100</td>
</tr>
<tr>
<td>Rogers Comp.</td>
<td>18,000</td>
<td>17,100(2)</td>
<td>(900)</td>
</tr>
<tr>
<td>Chance Comp. (cost = $4,500 − $2,700)</td>
<td>1,800</td>
<td>1,600(3)</td>
<td>(200)</td>
</tr>
<tr>
<td>Total of Portfolio</td>
<td>$36,400</td>
<td>$37,400</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

(1)[(1,000 + 100) X $17]  (2)[900 X $19]  (3)[(500 − 300) X $8]

<table>
<thead>
<tr>
<th>Fair Value Adjustment (AFS)</th>
<th>1/1/12</th>
<th>7,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 AJE</td>
<td>8,500</td>
<td></td>
</tr>
<tr>
<td>12/31/12 bal.</td>
<td>1,000</td>
<td></td>
</tr>
</tbody>
</table>
(a) 5. 2/1/13  
Cash (200 x $8) ................................................................. 1,600  
Loss on Sale of Investments .............................................. 200  
Equity Investments (Available-for-Sale) .............................. 1,800  
6. 3/1/13  
Cash (900 x $2) ................................................................. 1,800  
Dividend Revenue ......................................................... 1,800  
7. 12/21/13  
Dividend Receivable (1,100 x $3) ..................................... 3,300  
Dividend Revenue ......................................................... 3,300  
8. 12/31/13  
Fair Value Adjustment (Available-for-Sale) ...................... 4,200  
Unrealized Holding Gain—Equity ..................................... 4,200  

<table>
<thead>
<tr>
<th>Security</th>
<th>Cost</th>
<th>Fair Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evers Comp.</td>
<td>$16,600</td>
<td>$20,900(1)</td>
<td>$4,300</td>
</tr>
<tr>
<td>Rogers Comp.</td>
<td>18,000</td>
<td>18,900(2)</td>
<td>900</td>
</tr>
<tr>
<td>Total of Portfolio</td>
<td>$34,600</td>
<td>$39,800</td>
<td>$5,200</td>
</tr>
</tbody>
</table>

(1) (1,100 X $19)  
(2) (900 X $21)

(b) Partial Balance Sheet as of December 31  
Current Assets  
Dividend Receivable $ 0 $ 3,300  
Investments  
Equity Investments (Available-for-sale), at fair value 37,400 39,800  
Stockholders’ equity  
Accumulated other comprehensive income:  
Unrealized holding gain on available-for-sale investments 1,000 5,200