

Winsloe Corporation obtained an investment in the debt of Southern Rail. Although Winsloe has no immediate plans to trade the investment for near-term profits, Winsloe is equally unlikely to hold the debt until it finally matures. Southern Rail faces an uncertain future and the market value of its debt tends to be volatile. Following is a description of the activity related to the investment in Southern Rail:

- Aug. 5 Purchased debt of Southern Rail for \$90,000.
- Aug. 31 The fair market value of the Southern Rail debt was \$100,000.
- Sept. 30 The fair market value of the Southern Rail debt was \$85,000.
- Oct. 15 Received an interest payment on the Southern Rail debt of \$2,500.
- Oct. 31 The fair market value of the Southern Rail debt was \$95,000.

- (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 Southern Rail debt.