

Complex Investment Transactions 1

Marketable securities often comprise the majority of assets tracked with Financial Navigator. Effectively using all the capabilities in this area can be critical for your meaningful use of Financial Navigator.

This document consists of 6 parts:

- Working with Investment Accounts
- Complex Investment Transactions 1 (this document)
- Complex Investment Transactions 2
- Gifts of Securities
- Bonds
- Foreign Investments
- Retirement Plans

Recording Reverse Stock Splits

To record a reverse stock split, reflect that the dollar basis of the asset remains the same, but show there is a decrease in the underlying number of units over which the basis is spread. This is done in the Asset and Liability Info screen. You can enter a transaction, which has no net effect on the account but leaves an audit of the change.

Either of two methods can be used to record this situation. They both use the same general approach of entering a dummy transaction where you can add a memo that records the stock split.

Record a transaction based on the following information:

Stock:	IBM stock
Reverse stock split:	One for two
Date:	December 20, 2000

General Journal

This method uses a transaction entered in a general journal as the location for the memo.

To record a reverse stock split using a journal entry:

1. Select **Transactions | Transaction Activity**.
2. Select the following from the Function group box:
 - Action — **Enter Transactions**
 - Month — **December**
 - Category — **General Journal**
 - Account — **GENERAL JOURNAL**
3. Press **Tab** to move to the Date field.
4. Select **12/20/00** and press **Tab** to move to the next field.
5. Type **Reverse Split**. Select **OK** to continue. The Multiple Distribution screen appears.
6. Enter the following information:

JE #	Date	Payee / Payor	Account	Memo	Status	Debit	Credit
78	12/20/00	Reverse Split	**** Multiple Distribution	1 for 2 reverse split	Out		

	Account	Memo	Debit	Credit
1		1 for 2 reverse split		
2		500 shares surrendered		
3	IBM 11-28-00/SWB		1.00	
4	IBM 11-28-00/SWB			1.00
5				

Account Info

ASSET: IBM 11-28-00/SWB (227) Sym: IBM
 Activity: Dec 100,000.00 Bal: 100,000.00 Qty: 500 Acquired: Nov 28 00
 Tax Basis: 100,000.00 Sold:

OK Cancel Help Insert Bal Net Bal Dist Balanced .00

Note: The memo lines appear in the Transaction by Account report for IBM as an audit trail for the reduction in the number of shares using a debit and credit to the account for the same amount.

7. Select **OK** to save the distribution. Select **File | Close** to return to the FN desktop.
8. Review the Asset and Liability Info screen for the **IBM 11-28-00/MLL** account.
9. Change the following information:

Price Per Unit \$200
Valuation Date Dec 20 99
Number of Units 500

The completed Asset and Liability Info screen appears follows:

10. Select **OK** to save the changes. Select **Cancel** to return to the FN desktop.

The above method keeps tax basis intact, leaves an audit trail on the Transactions by Account report, and displays the information correctly on the appropriate investment reports.

Investment Account

In this method, two transactions of the same amount can be posted to the investment account. One transaction is a deposit, the other a charge. Insert the memo on the transactions to leave an audit trail of the stock split.

Removal of Land

This same approach can be used to record any transaction which uses the same concept. Another use of this technique is the removal of a section of undeveloped land from commercial use. Use the approach indicated here to enter the transaction. Change the accounts to apply to land instead of a stock.

Buying Stock Options

The purchase of a put or call option is recorded the same way as any other security. When an option is purchased, the purchaser chooses if he or she wants to exercise the option.

The **purchaser** of an option can:

- Sell the option. This can be thought of as a form of early exercise.
- Or -
- Exercise the option.
- Or -
- Allow the option to expire.

The **writer** of an option can:

- Offset or buy back the option.
- Or -
- Be contractually required to execute the option if it has value at the expiration date. This results in the writer giving actual shares of the stock to the holder of the option.
- Or -
- Do nothing because the option expires with no value.

In any case, the writer retains the option premium he or she received when he or she wrote the option.

Record transactions for the following information:

Company:	AOL
Financial instrument:	October purchase of Put contracts
Expiration date:	December 1, 2000
Strike price:	\$71 per share
Number of Contracts:	Ten

To record the purchase of a put contract:

1. Select **Accounts | Chart of Accounts**. Switch to the Master Chart of Accounts.
2. In the Traded Stock Options-Puts category, insert **AOL 12-1-00/MLL**. Close the Chart of Accounts and return to the desktop.
3. Record the October purchase of the option through the MERRILL LYNCH/MLL account. The option is for \$71 per share (10 contracts x 100 shares per contract equals 1,000 shares). The distribution appears as follows:

Record transactions for the following information:

Company: Landscape
Financial instrument: Call contracts
Expiration date: December 1, 2000
Strike price: \$71 per share
Number of Contracts: Ten

To record the purchase of a call contract:

1. Select **Accounts | Chart of Accounts**. Switch to the Master Chart of Accounts.
2. In the Traded Stock Options-Calls category, insert **LANDSCAPE 12-1-00/MLL**. Close the Chart of Accounts and return to the desktop.
3. Record the October purchase of the option through the MERRILL LYNCH/MLL account. The option is for \$2 per share (10 contracts x 100 shares per contract equals 1,000 shares). The transaction appears as follows:

The screenshot shows the 'Multiple Distribution' window with the following data:

ID	Date	Payee / Payor	Account	Memo	Status	Debit
Cr	10/04/00	Merrill Lynch	*** Multiple Distribution		Clr	

Date Acquired: Oct 4 00 Quantity Acquired: 1000 Symbol, Desc: LNS

	Account	Memo	Debit	Credit
1	LANDSCAPE 12-1-00/MLL		2,000.00	
2				
3				
4				
5				

Account Info: ASSET: LANDSCAPE 12-1-00/MLL (229) Sym: LNS
 Activity: Oct 2,000.00 Bal: 2,000.00 Qty: 1,000 Acquired: Oct 4 00
 Tax Basis: 2,000.00 Sold: Dec 1 00

Buttons: OK, Cancel, Help, Insert, Bal Net, Bal Dist, Balanced .00

4. On December 1 the price of the stock has fallen to \$51. The investor allows his option to lapse with the following entry:

The screenshot shows the 'Multiple Distribution' window with the following data:

ID	Date	Payee / Payor	Account	Memo	Status	Debit
Dr	12/01/00	Merrill Lynch	*** Multiple Distribution		Clr	0.00

Date Sold: Dec 1 00 Quantity Sold: 1000 Tax Basis: Tax Basis 2,000.00

	Account	Memo	Debit	Credit
1	LANDSCAPE 12-1-00/MLL			2,000.00
2	CAPITAL GAINS-SHORT TERM		2,000.00	
3				
4				
5				

Account Info: ASSET: LANDSCAPE 12-1-00/MLL (229) Sym: LNS
 Activity: Dec -2,000.00 Bal: .00 Qty: 1,000 Acquired: Oct 4 00
 Tax Basis: 2,000.00 Sold: Dec 1 00

Buttons: OK, Cancel, Help, Insert, Bal Net, Bal Dist, Balanced .00

5. Select **OK** to save the distribution. Select **File | Close** to return to the FN desktop.
6. Review the **Schedule D** report. The transactions are now recorded properly and appear as follows:

Print Preview

Page 1 of 1 Zoom 100% Layout... Print... Close Help

September 20, 2000

Dewey & Vera Goode
Schedule D
As of: December 31, 2000

Quantity	Asset	Date	Date	Proceeds	Tax Basis	Gain/Loss
Short-Term Capital Gains and Losses						
1,000	AOL 12-1-99/MLL	Oct 4	Dec 1	20,000.00	1,000.00	19,000.00
1	B BOND 8% 12-31-03/SWB	Apr 3	Oct 3	1,010.00	954.00	56.00
100	COSMOS ENTERPRISES	Mar 8	Aug 28	4,387.50	5,975.00	-1,587.50
10,000	GOODE BUOY CO	Jun 25	Jun 26	93,125.00	50,000.00	43,125.00
2,355	JAPAN PORTFOLIO/JPN SLD#1	Aug	Aug 29	499,565.32	493,667.02	5,898.30
1,000	LANDSCAPE 12-1-99/MLL	Oct 4	Dec 1	0.00	2,000.00	-2,000.00
100	ZORK SOLD SHORT	Mar	Mar 31	9,700.00	7,200.00	2,500.00
Total Short-term				627,787.82	560,796.02	66,991.80
Long-Term Capital Gains and Losses						
300	FLY-BY-NIGHT AIRLINES	Oct 7	Feb 28	32,600.00	16,700.00	15,900.00
100	MOUSETRAP 1-1-90/MLL	Jan 1	Oct 2	12,000.00	1,000.00	11,000.00
200	SEISMO OIL INC.	Jan 14	Nov 30	2,900.00	1,914.75	985.25
1	STATUE	Apr 10	Sep 26	9,999.45	5,000.00	4,999.45
300	THREE MILE ENERGY	Aug 5	Jun 30	13,300.00	22,400.00	-9,100.00
100	WASHBOARD 12-20-93/MLL	Dec	Oct 19	800.00	800.00	0.00
1,500	ZORK CALLS WRITTEN	Mar	Mar 27	1,500.00	1,500.00	0.00
Total Long-term				73,099.45	49,314.75	23,784.70
TOTAL CAPITAL GAINS				700,887.27	610,110.77	90,776.50

Selling Short Against the Box

An investor can sell a security but defer recognition of the gain until the next year. This is known as "selling short against the box."

The investor has plenty of liquidity in his account and does not need to sell any shares at this time. However, he would like to defer the gain to the next year for tax planning purposes.

In the following example, the investor sells short a given number of shares and covers the short sale in the following year with the shares originally held.

The nature of the gain is determined at the time of the short sale and based on the holding period of the underlying securities.

Record a transaction for the following information:

Action #1:	Sell short 100 shares of Mousetrap Inc
Purchased on	January 1, 1990
Cost:	\$10 per share
Date of sale:	October 2, 2000
Proceeds:	\$120 per share

Action #2: Close out the sale
Date: December 14, 2000

Note: This transaction is being entered in the same year to avoid opening a new entity. In practice, the sale would be closed in January 1996.

To record the transactions:

1. Insert the following accounts and balances in the Stocks-Technology category:

MOUSETRAP 1-1-90/MLL	\$5,000
MOUSETRAP SOLD SHORT/MLL	no balance

2. Go to the Asset and Liability Info screen for the **MOUSETRAP 1-1-00/MLL** accounts. Enter the following information:

Date Acquired:	Jan 1 90
Cost Basis:	1,000
Tax Basis:	1,000
Number of Shares:	100

The screen appears as follows:

Asset and Liability Info

Asset: MOUSETRAP 1-1-90/MLL (220)

Starting Balance Jan 1 00 5,000.00

Jan Balance: 5,000.00

1 Price Per Share.. 0

2 Valuation Date..

3 Check Number..... 0

4 Dividend/Sh\$.00

5 Date Acquired... Jan 1 90

6 Cost Basis.\$ 1,000.00 Per Unit... 10

7 Tax Basis.\$ 1,000.00 Per Unit... 10

8 Number of Shares.. 100

9 Date Sold.....

0 Proceeds...\$.00

Sym.#:

Format: Common/Preferred Stock

Prev Balances... Print

List Next Budgets... OK Cancel Help

- Go to Transaction Activity and enter the October short sale in the MERRILL LYNCH/MLL account as follows:

Multiple Distribution

ID	Date	Payee / Payor	Account	Memo	Status	Debit	Credit	Balance
Dr	10/05/00	Merrill Lynch	*** Multiple Distribution		Clr	12,000.00		57,800.00

Date Acquired: Oct 2 00 Quantity Acquired: 100 Symbol, Desc: MOUS

Account	Memo	Debit	Credit
1 MOUSETRAP SOLD SHORT/MLL			12,000.00
2			
3			
4			

Account Info:
 ASSET: MOUSETRAP SOLD SHORT/MLL (231) Sym: MOUS
 Activity: Oct -12,000.00 Bal: -12,000.00 Qty: 100 Acquired: Dec 14 00
 Tax Basis: 12,000.00 Sold: Oct 2 00

OK Cancel Help Insert Bal Net Bal Dist Balanced .00

Short-term Capital Gains Account

- To close out the short sale against the box, it is necessary to close out the short sale for the amount received with the following December entry:

Multiple Distribution

ID	Date	Payee / Payor	Account	Memo	Status	Debit	Credit	Balance
Cr	12/16/00	Merrill Lynch	*** Multiple Distribution		Clr		12,000.00	66,600.00

Date Sold: Dec 14 00 Quantity Sold: 100 Tax Basis: Tax Basis 12,000.00

Account	Memo	Debit	Credit
1 MOUSETRAP SOLD SHORT/MLL		12,000.00	
2 CAPITAL GAINS-SHORT TERM			
3			
4			

Account Info:
 INCOME: CAPITAL GAINS-SHORT TERM (25)
 Actual: Dec 17,000.00 Ytd: 65,129.30
 Last Year: 10.00 Ytd: 120.00

OK Cancel Help Insert Bal Net Bal Dist Balanced .00

Short-term Capital Gains Account

- Enter the \$12,000 proceeds as a regular sale of the Mousetrap stock as follows:

Multiple Distribution

ID	Date	Payee / Payor	Account	Memo	Status	Debit	Credit	Balance
Dr	12/16/00	Merrill Lynch	*** Multiple Distribution		Clr	12,000.00		-21,400.00

Date Sold: Oct 2 00 Quantity Sold: 100 Tax Basis: Tax Basis 1,000.00

Account	Memo	Debit	Credit
1 MOUSETRAP 1-1-90/MLL			5,000.00
2 CAPITAL GAINS-LONG TERM			11,000.00
3 UNREALIZED GAINS OR LOSSES		4,000.00	
4			

Account Info:
 ASSET: MOUSETRAP 1-1-90/MLL (230) Sym:
 Activity: Dec -5,000.00 Bal: .00 Qty: 100 Acquired: Jan 1 90
 Tax Basis: 1,000.00 Sold: Oct 2 00

OK Cancel Help Insert Bal Net Bal Dist Balanced .00

Note: When closing the short sale, it is necessary to use the date the short sale was made to correctly calculate the holding period for capital gain. Enter the trade date as October 2, 2000.

6. Select **Accounts | Tax Code Changes**. Select the MOUSETRAP SOLD SHORT/MLL account.
7. Change the Tax Code to **No Tax Effect** to remove the short sale account from the Schedule D report.
8. Review the **Schedule D** report. The following report appears:

Quantity	Asset	Date	Date	Proceeds	Tax Basis	Gain/Loss
Dewey & Vera Goode Schedule D As of: December 31, 2000						
September 20, 2000						
Short-Term Capital Gains and Losses						
1,000	AOL 12-1-99/MLL	Oct 4	Dec 1	20,000.00	1,000.00	19,000.00
1	B BOND 8% 12-31-03/SWB	Apr 3	Oct 3	1,010.00	954.00	56.00
100	COSMOS ENTERPRISES	Mar 8	Aug 28	4,387.50	5,975.00	-1,587.50
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100	MOUSETRAP 1-1-90/MLL	Jan 1	Oct 2	12,000.00	1,000.00	11,000.00
200	SEISMO OIL INC.	Jan 14	Nov 30	2,900.00	1,914.75	985.25
1	STATUE	Apr 10	Sep 26	9,999.45	5,000.00	4,999.45
300	THREE MILE ENERGY	Aug 5	Jun 30	13,300.00	22,400.00	-9,100.00
100	WASHBOARD 12-20-93/MLL	Dec 20	Oct 19	800.00	800.00	0.00
1,500	ZORK CALLS WRITTEN	Mar 31	Mar 27	1,500.00	1,500.00	0.00
Total Long-term				73,099.45	49,314.75	23,784.70
TOTAL CAPITAL GAINS				700,887.27	610,110.77	90,776.50

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