

Working with Investment Accounts

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 (this document)
- Complex Investment Transactions
- Gifts of Securities
- Bonds
- Foreign Investments
- Retirement Plans

Tracking Your Portfolio with FN

Investment Accounting vs. Management

While Financial Navigator has investment management capabilities, it is primarily a flexible accounting package with extensive reporting capabilities. FN supports some, but not all, investment management capabilities.

For example, individuals make investments with the anticipation of a total return, the sum of dividend yield and capital gain. The Securities Portfolio Report shows historic annual appreciation and future dividend yield and can provide a rough estimate of the total return.

However, because accounting conventions separate dividend/interest income and unrealized capital gain, Financial Navigator has no single report that makes it possible to ascertain the total return from an investment or portfolio. Additionally, when an investor has more than one lot of an investment, the annual appreciation for the position shown by the Portfolio Report is incorrect.

Any analysis of return also requires an analysis of the risk so that an investor constructs an efficient portfolio that offers the highest expected return for a given amount of risk. Risk analysis is beyond the scope of Financial Navigator.

Currently, no single product appears to combine general accounting and investment management needs. If an investor requires both kinds of information, it is necessary to use a combination of software. As with any application of software, developing the most efficient combination will rely on a detailed analysis of the investor's needs.

Settlement and Trade Dates

For tax purposes – the computation of gains and losses – the trade date (date acquired) of a transaction should be used. For transaction entry the settlement date can be used. This method allows a logical reconciliation to be prepared when trade and settlement dates span a cut-off period.

Account Qualifier/ Partial Sales

When Financial Navigator records a partial sale it creates an account with the same name as the original but adds the suffix **SLD#1**. The number following SLD increases with each sale. If account qualifiers are being used to track ownership and / or custodianship and the account description takes up most of the account field, a partial sale writes over the account qualifier.

To avoid this trap, it is either necessary to shorten account names to leave enough room or review all partial sales and re-enter the account qualifier, while making the account name unique.

Unrealized Gains and Losses

Assets are often set up without properly calculating unrealized gains and losses at the beginning of the current year. In practice, once an entity has been established, unrealized gains and losses need to be recalculated if an asset is discovered and entered into the data files in a later year through the Asset and Liability Info and Balance for Accounts screens.

Working with Investment Accounts

Investment Income

Tracking investment income involves determining which approach works best for your situation. You must make decisions for setting up accounts, payees, and payors.

When setting up investment income accounts in Financial Navigator, you must decide whether you should use:

- A separate income account for each investment.
- Or -
- One account for a group of similar investments.

When you make this decision, consider the following factors:

- **Same investor** — if the same investor holds the investments, it is possible to have a single account for each type of investment income (e.g. taxable interest, tax-free interest, double tax-free interest, etc.). The summary report by payor allows a user to ascertain the income received for each investment income account.
- **Street name** — If investments are in “street name,” individual income accounts for each investment are needed to properly report investment income. Investment income is reconciled by payor (e.g. the investment’s custodian) instead of by investment.
- **Income / Yield** — Yield information for individual investments is calculated from the Income/Unit field of the Asset and Liability Info screen. Therefore, it is not necessary to have a separate account for income/yield.

Tip: *If multiple lots of investments are held and yield information has to be changed, select the first lot’s Asset and Liability Info screen. Enter the new yield information. FN updates all accounts with identical security symbols entered in the Sym, # field.*

- **Information** — The information needed by the investor for decision-making. If the investor requires income and cash flow statements that show income from investments, then separate accounts should be set up. Placing similar income accounts under one category allows summary reports to show investment income totals by type of income (dividends, interest, etc.).

Use automatic entries to determine the account to which the income should be credited, and a unique set number for special reports of types of investment income at a payor level, regardless of what method is chosen.

Setting Up Brokerage Accounts

When accounting for investments, reporting is more accurate when brokerage accounts are set up to account for trading and settlement. This allows a client to monitor activity with a broker and track cash positions as part of Investment reports, such as the Portfolio Activity Report. This applies to brokerage accounts, money market accounts and margin accounts.

- **Combine accounts** — When dealing with the brokerage accounts, it is simpler to combine money market/sweep or margin accounts with the main brokerage account. This allows sweep and margin transfers to be ignored.
- **Reconciliation** — Both accounts (the trading and cash or margin account) must be reconciled together as one account.
- **Margin accounts appear as negative** — When using this method, note that the margin account will appear as a negative asset on the Balance Sheet rather than a liability. This can be corrected by an automatic journal entry for reporting purposes.

To set up brokerage accounts:

1. Open the **Sample** data files.
2. Select **Accounts | Chart of Accounts**.

3. In the Brokerage Accounts category, set up brokerage accounts with balances as follows:

MERRILL LYNCH/MLL	\$50,000.00
SWISS BANK/SWB	\$410,000.00

The Chart of Accounts appears as follows:

The screenshot shows the 'Chart of Accounts' window. On the left is a tree view with the following structure:

- Chart of Accounts
 - ASSETS
 - CURRENT ASSETS
 - Checking Accounts:
 - CHECKING ACCOUNT/JOINT
 - Money Market Accounts:
 - MONEY MARKET/JOINT
 - Brokerage Accounts:
 - MERRILL LYNCH/MLL
 - SWISS BANK/SWB
 - BROKER CASH ACCT/HILO
 - DIVIDEND REINVEST. JOURNAL

On the right is the 'Account Properties' window, titled 'Contents of: Brokerage Accounts:'. It contains the following table:

Account Name	No	Starting Balance	Current Balance	Tax Code	Schedule
MERRILL LYNCH/MLL	205	50,000.00	50,000.00	No Tax Effect	
SWISS BANK/SWB	216	410,000.00	410,000.00	No Tax Effect	
BROKER CASH ACCT/HILO	206	50,000.00	145,523.50	No Tax Effect	
DIVIDEND REINVEST. JOURNAL	147	0.00	0.00	No Tax Effect	

4. In the Stocks-Energy category, set up the following account:

IBM 11-28-00/MLL

5. Select **File | Close** to exit the Chart of Accounts.

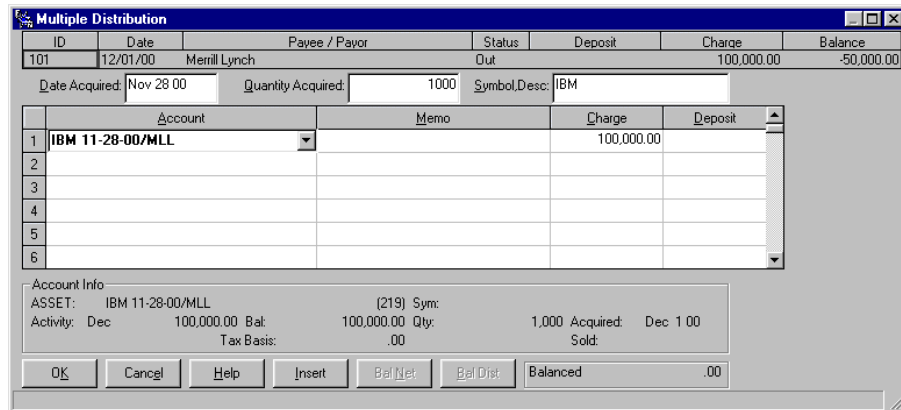
Enter a transaction to buy shares of IBM as follows: (bought on margin)

Brokerage account:	Merrill Lynch Brokerage Account
Price:	\$100 per share
Quantity shares:	1,000
Asset Account:	IBM 11-28-00/MLL
Trade Date:	11/28/00
Settlement Date:	12/1/00

To buy shares on margin:

4. Select **Transactions | Transaction Activity**.
5. Select the following from the Function group box:
 - Action — **Enter Transactions**

- Month — **December**
 - Category — **Savings/Money Market**
 - Account — **MERRILL LYNCH/MLL**
6. Select **Chg** and press **Tab** to move to the next field.
 7. Enter the settlement date **12/01/00** and press **Tab** to move to the next field.
 8. Type **Merrill Lynch**. Select **OK** to add the new payee to move to the next field.
 9. Select **Out** and press **Tab** to move to the next field.
 10. Enter **\$100,000** in the Charge field. Press **Tab** to move to the Account field.
 11. Select the **IBM 11-28-00/MLL** account. Press **Tab** to continue.
 12. Select **Yes** to acquire the investment and display the Multiple Distribution screen.
 13. Enter the trade date **Nov 28 99** in the Date Acquired field. Press **Tab**.
 14. Enter **1000** in the Quantity Acquired field. Press **Tab**.
 15. Enter **IBM** in the Symbol field. The screen appears as follows:



Tip: Nullifying the automatic entry for the Merrill Lynch payee allows it to be used for either stock purchases or sales. Note that the balance on the account is a negative \$50,000, reflecting the net brokerage/ margin balance at November 30, 2000.

16. Select **OK** to save the distribution. Select **File | Close** to return to the FN desktop.
17. Select **Accounts | Asset and Liability Info**.
18. Select the **IBM 11-28-00/MLL** account. Select **OK** to review the Asset and Liability Info for the account.

Asset and Liability Info

Asset: IBM 11-28-00/MLL (219)

Starting Balance Jan 1 00 .00
Jan Balance: .00

1 Price Per Share.. 100

2 Valuation Date..

3 Check Number..... 0

4 Dividend/Sh\$.00

5 Date Acquired... Nov 28 00

6 Cost Basis.\$ 100,000.00 Per Share.. 100

7 Tax Basis.\$ 100,000.00 Per Share.. 100

8 Number of Shares.. 1000

9 Date Sold.....

0 Proceeds...\$.00

Sym.#: IBM

Format: Common/Preferred Stock

Prev Balances... Print

Calculator Next Budgets... OK Cancel Help

19. Press **Esc** twice to return to the FN desktop.

Brokerage Accounts

Use the **Broker Cash Account (44)** Format Type to properly show all brokerage accounts in the appropriate reports.

To include brokerage accounts on Investment reports:

1. If you are creating a new account, insert the account in the Brokerage Accounts category in the Chart of Accounts. The account is automatically assigned the Broker Cash Account Format Type.
2. If you are using an account created in FN 6.0 or earlier, move the account to the Brokerage Accounts category in the Chart of Accounts.
3. Go to the Asset and Liability Info screen for the account.
4. Change the Format Type to **Broker Cash Account (44)**.

How to Reach Us

Information and Sales: 800 468-FNFN (3636)
Fax: 650 962-0730
Web site: www.finnav.com
E-mail: customerservice@finnav.com
Technical Support: 650 962-8510
Hours: Monday - Friday 7:30 a.m. - 4:30 p.m. PT
Business Address: 254 Polaris Ave
..... Mountain View, CA 94043
Telephone: 650 962-0300

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