

**EXHIBIT 2**  
Sample Journal Entries Under the Investment and Fair-Value Methods

InvestCo purchases life settlement contracts as an investment. On January 1, InvestCo purchased a \$1 million policy from a 30-year-old man for \$100,000. The cash-surrender value was \$85,000. Broker fees and other direct costs totaled \$25,000. Annual premiums were \$15,000. At the end of year 1, the contract had a fair-value of \$130,000. Assume that the insured dies at the age of 80, and InvestCo receives the \$1 million proceeds from the insurance policy.

<b>Initial Investment</b>	<i>Investment Method:</i>		
	Dr. Investment in life settlement contracts	\$125,000	
	Cr. Cash		\$125,000
	Contract cost of \$100,000 plus broker fees and other direct costs of \$25,000		
	<i>Fair Value Method:</i>		
	Dr. Investment in life settlement contracts	\$100,000	
	Dr. Investment expenses	\$25,000	
	Cr. Cash		\$125,000
	Investment equals contract cost of \$100,000; broker fees and other direct costs of \$25,000 are expensed.		
<b>Continuing Costs</b>	<i>Investment Method:</i>		
	Dr. Investment in life settlement contracts	\$15,000	
	Cr. Cash		\$15,000
	Premium on life settlement contract \$15,000.		
	<i>Fair-Value Method:</i>		
	Dr. Fair value adjustment on life settlement contracts	\$15,000	
	Cr. Cash		\$15,000
	Premium on life settlement contract \$15,000. Fair-value adjustment account is an income statement account that tracks premiums paid and changes in fair value for the year.		
<b>Remeasurement</b>	<i>Investment Method:</i>		
	No entry required unless impairment occurs. If impairment occurs, then record.		
	Dr. Loss on impairment of life settlement contracts	\$ 10,000	
	Cr. Investment in life settlement contracts		\$10,000
	Loss of \$10,000 equal to \$130,000 (fair value) minus \$140,000 (carrying amount)		
	<i>Fair-Value Method:</i>		
	Dr. Investment in life settlement contracts	\$30,000	
	Cr. Fair-value adjustment on life settlement contracts		\$30,000
	Gain of \$30,000 equal to \$130,000 (fair value) minus \$100,000 (carrying amount)		
<b>Proceeds from Underlying Policy When Insured Dies</b>	<i>Investment Method:</i>		
	Dr. Cash	\$1,000,000	
	Cr. Investment in life settlement contracts	\$875,000	
	Cr. Gain on proceeds from life settlement contracts		\$125,000
	Gain is difference between proceeds received (cash) and the carrying amount of the investment in life settlement contracts. Carrying amount equals original purchase amount plus premiums of \$15,000 for 50 years. (This illustration ignores any impairment losses.)		
	<i>Fair-Value Method:</i>		
	Dr. Cash	\$1,000,000	
	Cr. Investment in life settlement contracts	\$950,000	
	Cr. Fair-value adjustment on life settlement contracts		\$ 50,000
	Gain is difference between proceeds received (cash) and the carrying amount of the investment in life settlement contracts. Carrying amount is the fair value of the investment as of the prior fiscal year-end measurement date.		