

Solutions for Unsubmitted Assignment

Problem 11-1A (45 minutes)

	Locust	NBR Bank	Fargo Bank
1. Maturity dates			
Date of the note.....	May 19	July 8	Nov. 28
Term of the note (in days).....	90	120	60
Maturity date.....	Aug. 17	Nov. 5	Jan. 27
2. Interest due at maturity			
Principal of the note	\$35,000	\$80,000	\$42,000
Annual interest rate	10%	9%	8%
Fraction of year	<u>90/360</u>	<u>120/360</u>	<u>60/360</u>
Interest expense.....	<u>\$ 875</u>	<u>\$ 2,400</u>	<u>\$ 560</u>
3. Accrued interest on Fargo note at the end of 2016			
Total interest for note			\$ 560
Fraction of term in 2016			<u>33/60</u>
Accrued interest expense			<u>\$ 308</u>
4. Interest on Fargo note in 2017			
Total interest for note			\$ 560
Fraction of term in 2017			<u>27/60</u>
Interest expense in 2017			<u>\$ 252</u>

Problem 11-1A (Concluded)

5.

2016

Apr. 20	Merchandise Inventory	40,250	
	 Accounts Payable—Locust		40,250
	<i>Purchased merchandise on credit.</i>		
May 19	Accounts Payable—Locust	40,250	
	 Cash		5,250
	 Notes Payable—Locust.....		35,000
	<i>Paid \$5,250 cash and gave a 90-day, 10% note to extend due date on account.</i>		
July 8	Cash	80,000	
	 Notes Payable—NBR.....		80,000
	<i>Borrowed cash with a 120-day, 9% note.</i>		
Aug. 17	Interest Expense	875	
	Notes Payable—Locust.....	35,000	
	 Cash		35,875
	<i>Paid note with interest.</i>		
Nov. 5	Interest Expense	2,400	
	Notes Payable—NBR.....	80,000	
	 Cash		82,400
	<i>Paid note with interest.</i>		
28	Cash	42,000	
	 Notes Payable—Fargo Bank.....		42,000
	<i>Borrowed cash with 60-day, 8% note.</i>		
Dec. 31	Interest Expense	308	
	 Interest Payable		308
	<i>Accrued interest on note payable.</i>		

2017

Jan. 27	Interest Expense	252	
	Notes Payable—Fargo Bank.....	42,000	
	Interest Payable	308	
	 Cash		42,560
	<i>Paid note with interest.</i>		

Problem 12-2A (40 minutes)

Part 1

2017

Jan. 1	Cash	3,456,448	
	Discount on Bonds Payable	543,552	
	Bonds Payable		4,000,000
	<i>Sold bonds on stated issue date.</i>		

Part 2

[Note: The semiannual amounts for (a), (b), and (c) below are the same throughout the bonds' life because this company uses straight-line amortization.]

(a) Cash Payment = \$4,000,000 x 6% x 6/12 year = \$120,000

(b) Discount = \$4,000,000 - \$3,456,448 = \$543,552

Straight-line discount amortization = \$543,552 / 30 semiannual periods
= \$18,118 rounded

(c) **Bond interest expense = \$120,000 + \$18,118 = \$138,118**

Part 3

Thirty payments of \$120,000	\$3,600,000
Par value at maturity	<u>4,000,000</u>
Total repaid	7,600,000
Less amount borrowed	<u>(3,456,448)</u>
Total bond interest expense	<u>\$4,143,552</u>

or:

Thirty payments of \$120,000	\$ 3,600,000
Plus discount	<u>543,552</u>
Total bond interest expense	<u>\$ 4,143,552</u>

Part 4 (Semiannual amortization: \$543,552/30 = \$18,118.4)

Semiannual Period-End	Unamortized Discount	Carrying Value
1/01/2017	\$543,552	\$3,456,448
6/30/2017	525,434	3,474,566
12/31/2017	507,316	3,492,684
6/30/2018	489,198	3,510,802
12/31/2018	471,080	3,528,920

Problem 12-2A (Concluded)

Part 5

2017

June 30	Bond Interest Expense.....	138,118	
	Discount on Bonds Payable		18,118
	Cash		120,000
	<i>Record six months' interest and discount amortization.</i>		

2017

Dec. 31	Bond Interest Expense.....	138,118	
	Discount on Bonds Payable		18,118
	Cash		120,000
	<i>Record six months' interest and discount amortization.</i>		

Problem 14-2A (60 minutes)

Part 1

Jan. 1	Treasury Stock, Common	80,000	
	Cash		80,000
	<i>Purchased treasury stock (4,000 x \$20).</i>		
Jan. 5	Retained Earnings	72,000	
	Common Dividend Payable		72,000
	<i>Declared \$2 dividend on 36,000 outstanding shares.</i>		
Feb. 28	Common Dividend Payable	<u>72,000</u>	
	Cash		72,000
	<i>Paid cash dividend.</i>		
July 6	Cash*	36,000	
	Treasury Stock, Common**		30,000
	Paid-In Capital, Treasury Stock***		6,000
	<i>Reissued treasury stock.</i>		
	<i>*(1,500 x \$24) **(1,500 x \$20) *** (1,500 x \$4)</i>		
Aug. 22	Cash*	42,500	
	Paid-In Capital, Treasury Stock	6,000	
	Retained Earnings	1,500	
	Treasury Stock, Common**		50,000
	<i>Reissued treasury stock.</i>		
	<i>*(2,500 x \$17) **(2,500 x \$20)</i>		
Sept. 5	Retained Earnings	<u>80,000</u>	
	Common Dividend Payable		80,000
	<i>Declared \$2 dividend on 40,000 outstanding shares.</i>		
Oct. 28	Common Dividend Payable	80,000	
	Cash		80,000
	<i>Paid cash dividend.</i>		
Dec. 31	Income Summary	388,000	
	Retained Earnings		388,000
	<i>Closed Income Summary account.</i>		

Problem 14-2A (Concluded)

Part 2

KOHLER CORPORATION Statement of Retained Earnings For Year Ended December 31, 2017	
Retained earnings, December 31, 2016	\$270,000
Plus net income	<u>388,000</u>
	658,000
Less: Cash dividends declared	(152,000)
Treasury stock reissuances	<u>(1,500)</u>
Retained earnings, December 31, 2017	<u><u>\$504,500</u></u>

Part 3

KOHLER CORPORATION Stockholders' Equity Section of the Balance Sheet December 31, 2017	
Common stock—\$10 par value, 100,000 shares authorized, 40,000 shares issued and outstanding	\$400,000
Paid-in capital in excess of par value, common stock .	60,000
Retained earnings (from part 2)	<u>504,500</u>
Total stockholders' equity	<u><u>\$964,500</u></u>