

Homework 8

Due by 12PM CT (noon) on Tuesday, October 22nd

Answers to this homework assignment must be submitted online through eLearning

1. On November 1, 2019, Vampire Suckers, a specialty lollipop company, borrowed \$20,000 from a bank to fund construction of a new store. The \$20,000 note matures in 1 year, has a 10% interest rate, and interest is payable on April 30, 2020 and on October 31, 2020. The \$20,000 principal is due on October 31, 2020.

(a) Record the journal entry on November 1, 2019, when Vampire Suckers borrows the note payable.

(b) Record the adjusting entry on December 31, 2019 to recognize interest expense on the note.

(c) On April 30, 2020, Vampire Suckers pays the interest incurred since the start of the note. Record the journal entries for April 30, 2020.

(d) On October 31, 2020, Vampire Suckers re-pays the bank the \$20,000 principal and pays the remaining 6 months of interest. Record the journal entries for October 31, 2020.

2. Jack O'Lanterns is a lighting company that deposits \$15,000 in a savings account on January 1, 2014. The savings account has a 6% annual interest rate. What will be the fund balance as of December 13, 2018 (i.e., at the end of 5 years)?

3. Trick Or Treat is a company that sells magic tricks and associated props. Trick Or Treat wants to accumulate \$80,000 in a fund by making four equal annual deposits (i.e., after depositing the same amount each year, Trick Or Treat wants to have \$80,000 after four years). Assuming an annual interest rate of 8%, how much must the company deposit at the end of each year?

4. Haunted Haus Fashions is considering investing in a fund that would pay \$300,000 six years from now. The annual interest rate is 10% and interest is compounded quarterly. What is the present value of the project?

5. Ghosts & Ghouls Inc. is considering the purchase of a new machine for \$85,000. It is estimated that the machine will generate positive net cash flows of \$16,000 per year for 8 years. Assuming a return of 11% annually, calculate the present value of the future cash flows. Would you recommend Ghosts & Ghouls Inc. to purchase the new machine?