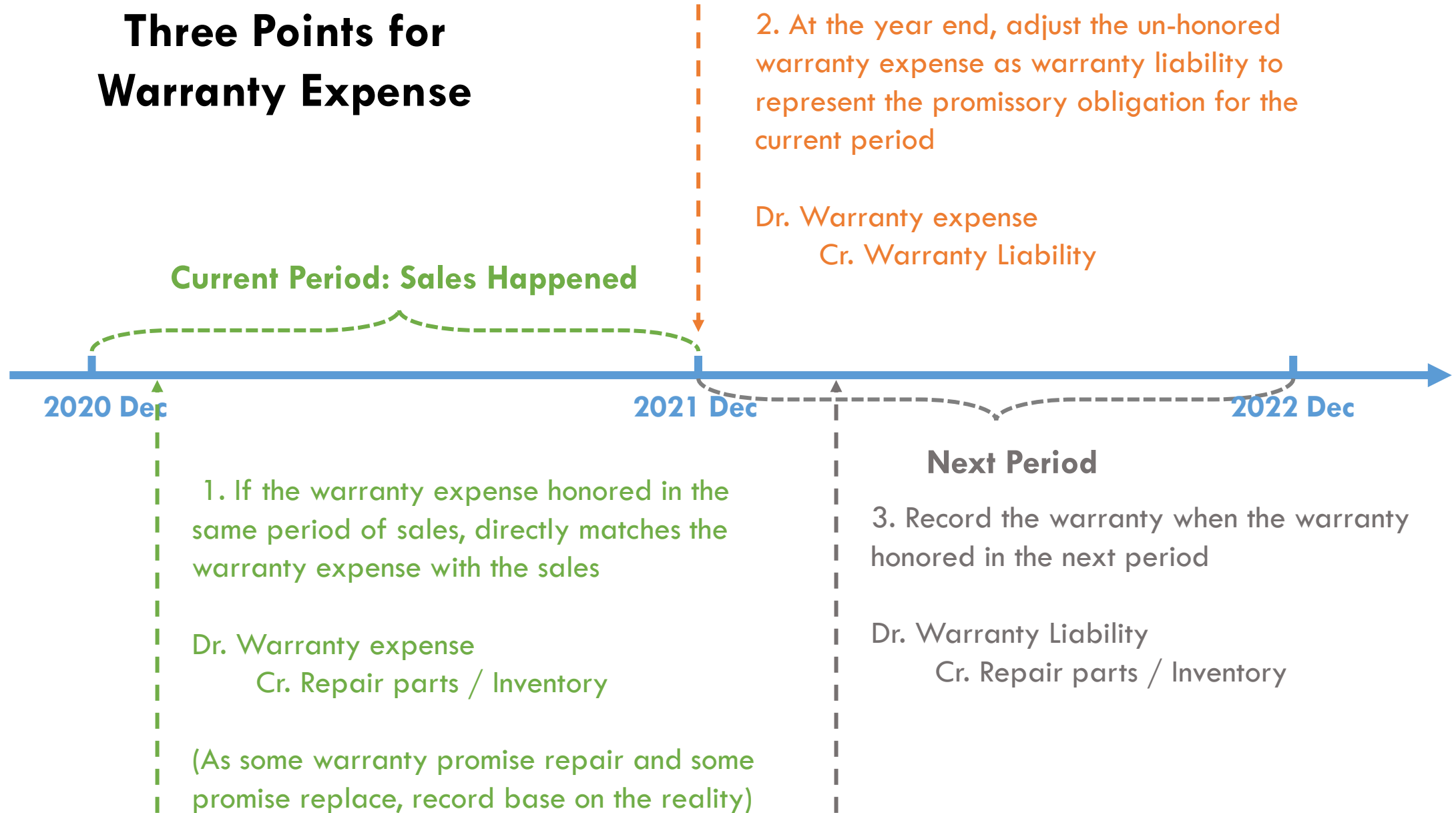


ACT2111 Tutorial for Ch10 - 11

ACT2111 Teaching Team

Current Liability - Provision

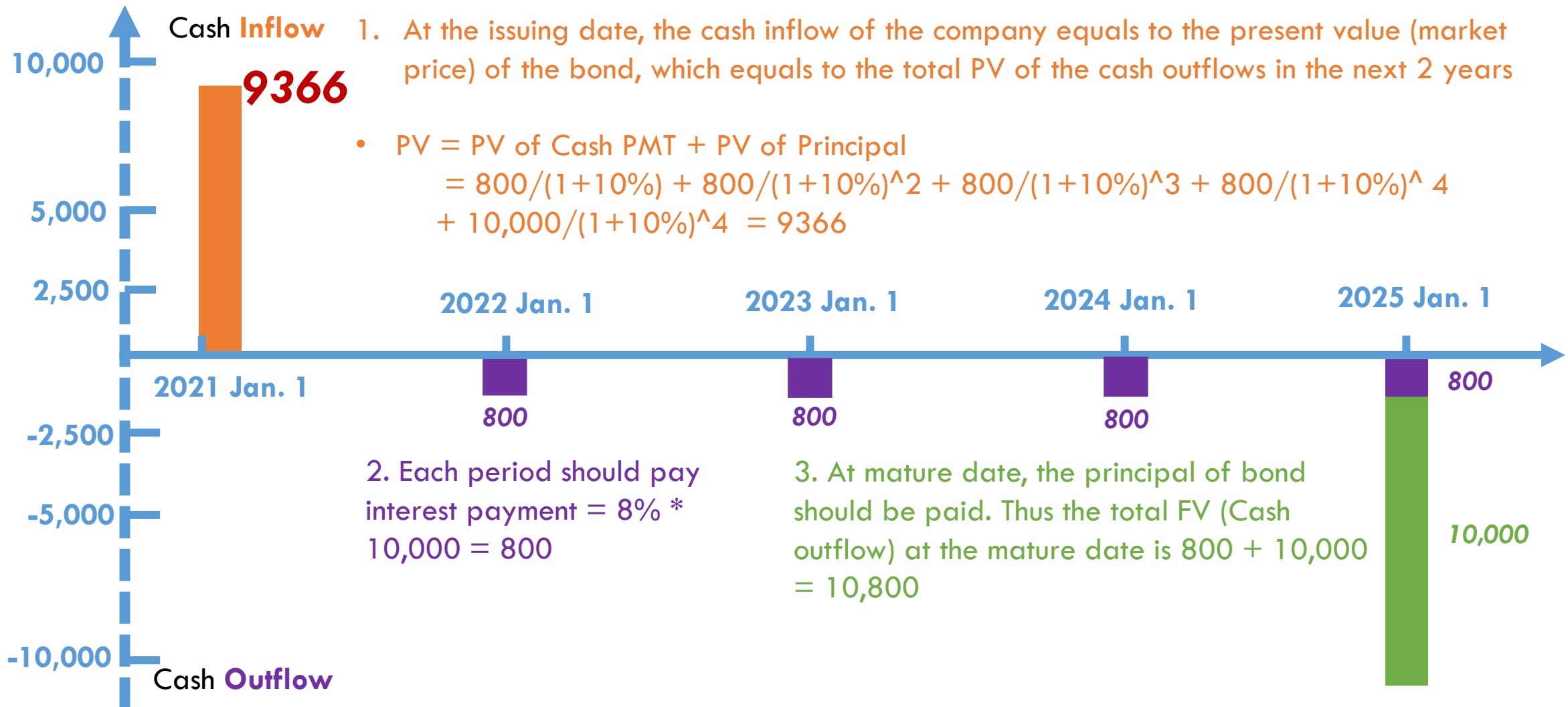
Three Points for Warranty Expense



Non-current Liability – PV of Bond

PV of the Bond

On Jan. 1 2021, Andy.Inc issued a **\$10,000 bond** paying a stated **interest rate of 8%** each year. due in **4 years, yearly** payment. The **discount rate** equals to **10%**.



Tutorial Questions Clarification

Exercise 10.8

Soundgarden Ltd. sold 200 color laser copiers on July 10, 2020, for £ 4,000 apiece, together with a 1-year warranty. Maintenance on each copier during the warranty period is estimated to be £ 330.

Instructions

Prepare entries to record the sale of the copiers, the related warranty costs, and any accrual on December 31, 2020. Actual warranty costs (inventory) incurred in 2020 were £ 17,000.

Exercise 10.8

Soundgarden Ltd. sold 200 color laser copiers on July 10, 2020, for £ 4,000 apiece, together with a 1-year warranty. Maintenance on each copier during the warranty period is estimated to be £ 330.

Prepare entries to record the sale of the copiers, the related warranty costs, and any accrual on December 31, 2020. Actual warranty costs (inventory) incurred in 2020 were £ 17,000.

Information Summary

| Unit Sold | Revenue | Warranty per unit | Total Warranty Expense | Actual Warranty cost incurred |
|-----------|---------|-------------------|------------------------|-------------------------------|
| 200 | 4000 | 330 | 66000 (200 * 330) | 17,000 |

Journal entries for transactions

| | | | |
|--------------------|--------------------------------------|--|---------|
| For current period | 10-Jul-20 | Sell the copiers | |
| | Cash(200X £4,000) | 800,000 | |
| | Sales Revenue | | 800,000 |
| For next period | During 2020 | Warranty honored during the current period | |
| | Warranty Expense | 17,000 | |
| | Inventory | | 17,000 |
| | 31-Dec-20 | Warranty Liability generate | |
| | Warranty Expense | 49,000 | |
| | Warranty Liability (£66,000-£17,000) | | 49,000 |

Exercise 11.5

The following section is taken from Ohlman Ltd.'s. statement of financial position at December 31, 2019.

| | |
|--|----------------|
| Non-current liabilities | |
| Bonds payable, 7%, due January 1, 2024 | HK\$16,000,000 |
| Current liabilities | |
| Interest payable | 1,120,000 |

Bond interest is payable annually on January 1. The bonds are callable on any interest date.

Instructions

- Journalize the payment of the bond interest on January 1, 2020.
- Assume that on January 1, 2020, after paying interest, Ohlman calls bonds having a face value of HK\$6,000,000. The call price is 103. Record the redemption of the bonds.
- Prepare the entry to record the accrual of interest on December 31, 2020.

Exercise 11.5

| | |
|--|----------------|
| Non-current liabilities | |
| Bonds payable, 7%, due January 1, 2024 | HK\$16,000,000 |
| Current liabilities | |
| Interest payable | 1,120,000 |

The following section is taken from Ohlman Ltd.'s statement of financial position at December 31, 2019. Bond interest is payable annually on January 1. The bonds are callable on any interest date.

a. Journalize the payment of the bond interest on January 1, 2020.

| | |
|------------------|----------------------|
| Jan.1 2020 | Pay for the interest |
| Interest Payable | 1,120,000 |
| Cash | 1,120,000 |

b. Assume that on January 1, 2020, after paying interest, Ohlman calls bonds having a face value of HK\$6,000,000. The call price is 103. Record the redemption of the bonds.

| | |
|-----------------------------|------------------|
| Jan. 1 2020 | Recall the bonds |
| Bonds Payable | 6,000,000 |
| Loss on Bond Redemption | 180,000 |
| Cash (HK\$6,000,000 X 1.03) | 6,180,000 |

| Bonds Payable (Jan.1 2020) | | | |
|----------------------------|----------|------|-----------|
| Recall | 6000,000 | Beg. | 16000,000 |
| | | End. | 10000,000 |

c. Prepare the entry to record the accrual of interest on December 31, 2020.

| | |
|--|----------------------|
| Dec. 31 2020 | Accrual the interest |
| Interest Expense | 700,000 |
| Interest Payable (HK\$10,000,000 X 7%) | 700,000 |

Exercise 11.6

Presented below are two independent situations.

1. Longbine plc redeemed £130,000 face value, 12% bonds on June 30, 2020, at 102. The carrying value of the bonds at the redemption date was £117,500. The bonds pay annual interest, and the interest payment due on June 30, 2020, has been made and recorded.
2. Tastove Ltd. redeemed £150,000 face value, 12.5% bonds on June 30, 2020, at 98. The carrying value of the bonds at the redemption date was £151,000. The bonds pay annual interest, and the interest payment due on June 30, 2020, has been made and recorded.

Instructions

Prepare the appropriate journal entry for the redemption of the bonds in each situation.

Exercise 11.6

Prepare the appropriate journal entry for the redemption of the bonds in each situation.

1. Longbine plc redeemed £130,000 face value, 12% bonds on June 30, 2020, at 102. The carrying value of the bonds at the redemption date was £117,500. The bonds pay annual interest, and the interest payment due on June 30, 2020, has been made and recorded.

| | |
|---|--------------------|
| June 30, 2020 | Redeem at discount |
| Bonds Payable | 117,500 |
| Loss on Bond Redemption (£132,600 – £117,500) | 15,100 |
| Cash (£130,000 X 102%) | 132,600 |

Notice: In this question, the interest payment is *due on June 30, 2020, has been made and recorded*, so there is no need to consider interest payable under this situation. However, if the interest payment is not actually paid, the interest payable should be counted

2. Tastove Ltd. redeemed £150,000 face value, 12.5% bonds on June 30, 2020, at 98. The carrying value of the bonds at the redemption date was £151,000. The bonds pay annual interest, and the interest payment due on June 30, 2020, has been made and recorded.

| | |
|---|-------------------|
| June 30, 2020 | Redeem at premium |
| Bonds Payable | 151,000 |
| Gain on Bond Redemption (£151,000 – £147,000) | 4,000 |
| Cash (£150,000 X 98%) | 147,000 |

Exercise 11.12

Lorance SpA issued €400,000, 7%, 20-year bonds on January 1, 2020, for €360,727. This price resulted in an effective-interest rate of 8% on the bonds. Interest is payable annually on January 1. Lorance uses the effective-interest method to amortize bond premium or discount.

Instructions

Prepare the journal entries to record the following. (Round to the nearest euro.)

- a. The issuance of the bonds.
- b. The accrual of interest and the discount amortization on December 31, 2020.
- c. The payment of interest on January 1, 2021.

Exercise 11.12

| Information Summary for the Bond | | | |
|----------------------------------|---------------------------|--------------------------|---------------|
| Face Value | Contractual Interest Rate | Contractual Interest | Discount Rate |
| 400,000 | 7% | 28,000 (7% * 400,000) | 8% |

| Lorance SpA Bond discount amortization schedule | | | | | |
|--|-------------|-------------------------|--------------|-------------|----------------|
| 7% Bonds Issued at 8% with Par 400,000, 20-years | | | | | |
| | (A) | (B) | (C) | (D) | (E) |
| Interest | Interest to | Actual Interest Payment | Discount | Unamortized | Bond |
| Periods | Be Paid | | Amortization | Discount | Carrying Value |
| | | | (B) – (A) | (D) – (C) | (€400,000 – D) |
| | | | | 39273 | \$360,727.41 |
| 1 | 28858.19 | 28000 | 858.19 | 38414.81 | 361585.19 |
| 2 | 28926.82 | 28000 | 926.82 | 37487.99 | 362512.01 |
| 3 | 29000.96 | 28000 | 1000.96 | 36487.03 | 363512.97 |
| 4 | 29081.04 | 28000 | 1081.04 | 35405.99 | 364594.01 |
| 5 | 29167.52 | 28000 | 1167.52 | 34238.47 | 365761.53 |
| 6 | 29260.92 | 28000 | 1260.92 | 32977.55 | 367022.45 |
| 7 | 29361.80 | 28000 | 1361.80 | 31615.75 | 368384.25 |
| 8 | 29470.74 | 28000 | 1470.74 | 30145.02 | 369854.98 |
| 9 | 29588.40 | 28000 | 1588.40 | 28556.62 | 371443.38 |
| 10 | 29715.47 | 28000 | 1715.47 | 26841.15 | 373158.85 |
| 11 | 29852.71 | 28000 | 1852.71 | 24988.44 | 375011.56 |
| 12 | 30000.92 | 28000 | 2000.92 | 22987.51 | 377012.49 |
| 13 | 30161.00 | 28000 | 2161.00 | 20826.51 | 379173.49 |
| 14 | 30333.88 | 28000 | 2333.88 | 18492.63 | 381507.37 |
| 15 | 30520.59 | 28000 | 2520.59 | 15972.05 | 384027.95 |
| 16 | 30722.24 | 28000 | 2722.24 | 13249.81 | 386750.19 |
| 17 | 30940.02 | 28000 | 2940.02 | 10309.79 | 389690.21 |
| 18 | 31175.22 | 28000 | 3175.22 | 7134.58 | 392865.42 |
| 19 | 31429.23 | 28000 | 3429.23 | 3705.34 | 396294.66 |
| 20 | 31703.57 | 28000 | 3703.57 | 1.77 | 399998.23 |

Exercise 11.5

a. The issuance of the bonds.

| | |
|---------------|-------------------|
| Jan.1 2020 | Issue at discount |
| Cash | 360,727 |
| Bonds Payable | 360,727 |

b. The accrual of interest and the discount amortization on December 31, 2020.

| | Interest to pay | Interest Payment | Discount Amortization | Unamortized discount | Bond carrying value |
|---|-----------------|------------------|-----------------------|----------------------|---------------------|
| | | | | 39273 | \$360,727.41 |
| 1 | 28858.19 | 28000 | 858.19 | 38414.81 | 361585.19 |

| | |
|----------------------------------|-----------------------------|
| Dec. 31 2020 | Adjust for interest payable |
| Interest Expense(€360,727 X 8%) | 28,858 |
| Bonds Payable | 858 |
| Interest Payable (€400,000 X 7%) | 28,000 |

c. The payment of interest on January 1, 2021.

| | |
|------------------|------------------|
| Jan.1 2020 | Interest Payment |
| Interest Payable | 28,000 |
| Cash | 28,000 |