Fall 2004
Mehta, Vikas
ACCT 215
Quiz 4

8

Good

Accounting 215 – Quiz 4
Quiz Section (please circle one): BA BB BC

1/0

1. (1 point) Martine's Knitting Company will be leasing a building to house its factory. What will be the effect if the lease is classified as a capital lease instead of an operating lease?

   a. The assets on the balance sheet will be reduced.
   b. The liabilities on the balance sheet will increase.
   c. Shareholders' equity will increase.
   d. There will be no effect on the balance sheet.

2. On January 1, 2001, David Cassidy established a company by contributing $90,000 and using all of the cash to purchase a warehouse. At the time, he estimated that cash inflows due to renting it out would be $35,000 per year, while annual cash outflows to manage and maintain it would be $15,000. All cash flows occur at the beginning of each year starting Jan. 1, 2001. He felt that the warehouse had a ten-year life and could be sold at the end of that time for $30,000. He also estimated that the effective interest rate during the ten-year period would be 7%.

-90,000
+35000
-15000
20000

   A. (1 point) Draw a timeline and include all of the cash flows mentioned above. Be sure to show inflows and outflows with + and – respectively.

a)

0	1	2	3	4	5	6	7	8	9	10
-90,000										
+20,000	+20,000	+20,000	+20,000	+20,000	+20,000	+20,000	+20,000	+20,000	+20,000	
										+30,000

b)

0	1	2	3	4	5	6	7	8	9	10
-90,000										
+50,000	+50,000	+50,000	+50,000	+50,000	+50,000	+50,000	+50,000	+50,000	+50,000	
										+30,000

c)

0	1	2	3	4	5	6	7	8	9	10
+90,000										
-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	
										-30,000

d)

0	1	2	3	4	5	6	7	8	9	10
+90,000										
-50,000	-50,000	-50,000	-50,000	-50,000	-50,000	-50,000	-50,000	-50,000	-50,000	
										-30,000

B. (2 points) What is the economic value of the building? In other words, find the net present value of all the cash flows. (You can use calculator or present value tables.)

a) 165,555
b) 75,555
c) 140,000
d) 70,000

3. Koji.com is issuing 50 bonds that will pay 8 percent interest and mature in 2 years. Each bond has a face value of $1,000. Interest payments will be made at the end of June and December. Koji sold the bonds on January 1, 2002.

A. (2 points) Determine the issuance price of the bonds assuming 6 percent market rate of return. (You can use calculator or present value tables.)

50 × $1000 = 50,000

semi annual

n = 4
i = 4%

50,000 ×

a) 50,000
b) 51,859
c) 48,141
d) 55,757

B. (2 points) Write Koji's journal entry for the issuance of the bonds on January 1, 2002.

Cash (+A) 51,859
Premium on Bond (+L) 1,859
Bonds Payable (+L) 50,000

C. (2 points) What will be the interest expense when the first interest payment is made on June 30, 2002?

a) 1,859
b) 5,757
c) 1,556
d) 1,141

51,859 × 3% = 1555.77

0 1 2

+50,000 −50000

(end of Quiz 4)