

ACCT 215 Fall 2008 Quiz #4

Quiz Section: DL

31/35 = 3.6
-2

Instructions:

- There are 35 points possible.
- Please follow the directions for each question.

1. Please circle the correct answer (2 points).

The portion of long-term debt due within a year should be reclassified as a current liability.

- ☒ a. True
☐ b. False

2. Please circle the correct answer (2 points).

The effective ^{MR}rate of interest is used to calculate the actual amount of interest bondholders will receive from a company.

- ☒ a. True
☐ b. False

3. Please circle the correct answer (2 points).

When the market interest rate is 13% and the coupon rate is 10%, a bond sells at:

MR > SR discount
MR < SR premium

- ☒ a. a discount
☐ b. a premium
☐ c. at par
☐ d. liquidation value
☐ e. cannot be determined without more information

P d
P d

↓ ↑ P ↓

4. Please circle the correct answer or answers (5 points).

Which of the following is NOT true of bonds issued at a premium?

- ☒ a. The cash proceeds exceed the face amount of the bonds.
☒ b. The amortization of bond premium decreases the interest expense.
☒ c. The amount of the Premium on Bonds Payable account is subtracted from the face amount of the bonds to determine the net liability reported in the balance sheet.
☐ d. At the time of issuance, the market rate was below the coupon rate.
☐ e. Amortization on the Premium on Bonds Payable decreases the carrying value of the bond.

5. (12 points) On January 1, 20X4, Crawford Company issued \$5,000,000 of 9%, 10-year bonds dated January 1, 20X4, with annual interest payments on December 31. The bonds were issued for \$4,692,570 yielding an effective interest rate of 10%. Crawford uses the effective-interest method of amortization.

$$SR = 9\% \quad MR = 10\%$$

- Prepare the necessary journal entries to record the issuance of the bonds and the first interest payment.
- Determine the ending net liability of the bonds on December 31, 20X4.

a. Jan 1 - 20X4 Cash 4,692,570

discount on
bond payable 307,430

Bond Payable 5,000,000

BV 4692570

Dec 31 - 20X4 Interest Exp 469257

discount on
bond

Cash

19,257

450000

288173

4711827

b. 307430

- 19257

288173

← ending net liability

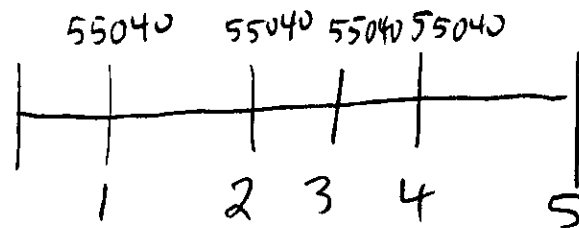
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6. (12 points) Hammond Corporation signs an agreement on January 1, 20X5, to lease office equipment for a 5-year period. The estimated useful life of the office equipment is 8 years. The market value of the office equipment is \$235,000. The lease agreement calls for lease payments of \$55,040. The first payment is due on December 31, 20X5; all subsequent payments are made each December 31 thereafter. The interest rate stated in the lease agreement is 8%. The present value of the lease payments is \$219,758. At the end of the lease term, the equipment reverts back to the lessor.

$$SR = 8\%$$

Prepare journal entries to record:

- the lease agreement on January 1, 20X5
- the first lease payment on December 31, 20X5
- the amortization of the leased asset on December 31, 20X5



a. 1-1-X5 Leased equipment 219,758
 Lease Liability 219,758

$$\frac{219,758}{5} = 43,952$$

b. 12-31-X5 Lease interest exp 17,581
 Lease Liability 37,459
 Cash 55,040

Handwritten calculation: 8% x lease liability = 17,581

c. 12-31-X5 Lease amortization exp 43,952
 Leased equipment 43,952