Quiz 3

Section Time: _____ 12:30 _____

Instructions: There are 12 multiple-choice questions and 2 quantitative questions on the following pages. *Your final answers must be entered in the spaces provided on this cover page in order to be graded.*

Code of Conduct: By signing below you acknowledge that you are a member of a learning community at the Foster School of Business that is committed to the highest academic standards and that you adhered to these standards while completing this quiz. Specific to this quiz, by signing below you acknowledge that you did not receive or give help to others, nor did you witness others receiving or giving help to others, during the quiz.

Signature: _____   Date: ___ 12/4/09 ___
Your quiz will not be graded without signature above.

Answer Key:

Multiple Choice Answers:

1	2	3	4	5
B	B	C	A	A
6	7	8	9	10
C	B	A	C	C
11	12			
D	D			

Quantitative Answers:

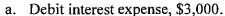| 13	14
$ 186,410.31	7,456.41

Multiple Choice Questions

Be sure to record your answers in the spaces provide on the cover sheet.

1. Which of the following is **NOT** typically a current liability?

    a. Accounts payable.
    b. A note payable due in 2 years.
    c. Current portion of long-term debt
    d. Sales tax payable.

B

2. On September 1, 2010, Daylight Donuts signed a $100,000, 9%, six-month note payable. The principle and accrued interest are due on March 1, 2011. Daylight Donuts records the appropriate adjusting entry for the note on December 31, 2010. In recording interest expense for 2011 and the payment of the note at maturity on March 1, 2011, Daylight Donuts would

    a. Debit interest expense, $3,000.
    b. Debit interest expense, $1,500.
    c. Debit interest payable, $1,500.
    d. Debit interest expense, $4,500.

$100,000 \cdot 0.09 \cdot \frac{1}{12} = 750$ a month

4 month = 3,000
2 mar = $1500

Interest Expense
I Payable

3. Region Jet has a $50 million liability at December 31, 2010, of which $10 million is payable in 2011. In its December 31, 2010 balance sheet, the company records the $50 million debt as

    a. a $50 million current liability on the balance sheet.
    b. a $50 million long-term liability on the balance sheet.
    c. a $10 million current liability and a $40 million long-term liability on the balance sheet.
    d. a $40 million current liability and a $10 million long-term liability on the balance sheet.

C

10 mil due in 1 year

4. Skyway Corporation can estimate the amount of loss that will occur due to a lawsuit filed against the company. If the likelihood of loss is judged to be *reasonably possible*, a loss contingency should be

    a. disclosed in the notes but not reported as a liability.
    b. disclosed in the notes and reported as a liability.
    c. neither disclosed in the notes or reported as a liability.
    d. reported as a liability but not disclosed in the notes.

A

5. Reeves Company filed suit against Higgins Corporation seeking damages for copyright violations. Higgins' legal counsel believes it is *probable* that Higgins will settle the lawsuit for an estimated amount in the range of $100,000 to $200,000, with all amounts in the range considered equally likely. How should Higgins report this litigation?

A

    a. as a liability for $100,000 with disclosure of the range.
    b. as a liability for $150,000 with disclosure of the range.
    c. as a liability for $200,000 with disclosure of the range.
    d. as a disclosure only. No liability is reported.

6. Carpenter Corporation estimates warranty expense at 2% of sales. Sales during the year were $4 million and warranty expenditures were $44,000. What was the balance in the warranty liability account at the end of the year, assuming it had a $0 balance at the beginning of the year?

C

    a. $44,000.
    b. $80,000. $80,000
    c. $36,000.
    d. $480,000.

7. Serial bonds are:

B

    a. bonds backed by collateral.
    b. bonds that mature in installments.
    c. bonds with greater risk.
    d. bonds issued below the face amount.

8. Which of the following leases is accounted for just like a regular short-term rental?

A

    a. an operating lease.
    b. a capital lease.
    c. both an operating and a capital lease.
    d. neither an operating lease nor a capital lease.

Ramirez Mining Company issued callable bonds on January 1, 2010. Ramirez's accountant has calculated the following amortization schedule over the life of the bonds:

Date	Cash Paid	Interest Expense	Increase in Carrying Value	Carrying Value
1/1/10				$194,758
6/30/10	$7,000	$7,790	790	195,548
12/31/10	$7,000	$7,822	822	196,370
6/30/11	$7,000	$7,855	855	197,225
12/31/11	$7,000	$7,889	889	198,114
6/30/12	$7,000	$7,925	925	199,039
12/31/12	$7,000	$7,961	961	200,000

9. Ramirez issued the bonds:
   a. At par.
   b. At a premium.
   c. At a discount.
   d. Cannot be determined from the given information.

C

10. As of 12/31/11, the present value of the interest and principle payments of the bonds will be (hint: no calculations are required):

   a. $200,000
   b. $194,758
   c. $198,114
   d. Cannot be determined from the given information.

C

11. What is the **annual** stated interest rate on the bonds?
   a. 3%
   b. 3.5%
   c. 6%
   d. 7%

D

12. What is the **annual** market interest rate on the bonds (hint: no calculations are required)?
   a. 4%
   b. 3.5%
   c. 7%
   d. 8%

D

Quantitative Questions

Be sure to record your answers in the spaces provide on the cover sheet.

Stealth Fitness Center issues 7%, 10-year bonds with a face amount of $200,000. The market interest rate for bonds of similar risk and maturity is 8%. Interest is paid semi-annually.

4.0   20
3.5   20

13. At what price will the bonds issue?

$200,000 \cdot 0.45639 = 91,278.00$

$7000 \cdot 13.59033 = 95,132.31$

$186,410.31$

14. What amount of interest expense will be recorded upon the first interest payment?

$186,410.31 \cdot 0.04 = 7456.41$

PRESENT VALUE OF $1

n\i	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
1	0.99010	0.98522	0.98039	0.97561	0.97087	0.96618	0.96154	0.95694	0.95238	0.94787	0.94340	0.93897	0.93458	0.93023	0.92593	0.92166	0.91743	0.91324	0.90909
2	0.98030	0.97066	0.96117	0.95181	0.94260	0.93351	0.92456	0.91573	0.90703	0.89845	0.89000	0.88166	0.87344	0.86533	0.85734	0.84946	0.84168	0.83401	0.82645
3	0.97059	0.95632	0.94232	0.92860	0.91514	0.90194	0.88900	0.87630	0.86384	0.85161	0.83962	0.82785	0.81630	0.80496	0.79383	0.78291	0.77218	0.76165	0.75131
4	0.96098	0.94218	0.92385	0.90595	0.88849	0.87144	0.85480	0.83856	0.82270	0.80722	0.79209	0.77732	0.76290	0.74880	0.73503	0.72157	0.70843	0.69557	0.68301
5	0.95147	0.92826	0.90573	0.88385	0.86261	0.84197	0.82193	0.80245	0.78353	0.76513	0.74726	0.72988	0.71299	0.69656	0.68058	0.66505	0.64993	0.63523	0.62092
6	0.94205	0.91454	0.88797	0.86230	0.83748	0.81350	0.79031	0.76790	0.74622	0.72525	0.70496	0.68533	0.66634	0.64796	0.63017	0.61295	0.59627	0.58012	0.56447
7	0.93272	0.90103	0.87056	0.84127	0.81309	0.78599	0.75992	0.73483	0.71068	0.68744	0.66506	0.64351	0.62275	0.60275	0.58349	0.56493	0.54703	0.52979	0.51316
8	0.92348	0.88771	0.85349	0.82075	0.78941	0.75941	0.73069	0.70319	0.67684	0.65160	0.62741	0.60423	0.58201	0.56077	0.54027	0.52067	0.50187	0.48382	0.46651
9	0.91434	0.87459	0.83676	0.80073	0.76642	0.73373	0.70259	0.67290	0.64461	0.61763	0.59190	0.56735	0.54393	0.52158	0.50025	0.47988	0.46043	0.44185	0.42410
10	0.90529	0.86167	0.82035	0.78120	0.74409	0.70892	0.67556	0.64393	0.61391	0.58543	0.55839	0.53273	0.50835	0.48519	0.46319	0.44229	0.42241	0.40351	0.38554
11	0.89632	0.84893	0.80426	0.76214	0.72242	0.68495	0.64958	0.61620	0.58468	0.55491	0.52679	0.50021	0.47509	0.45134	0.42888	0.40764	0.38753	0.36851	0.35049
12	0.88745	0.83639	0.78849	0.74356	0.70138	0.66178	0.62460	0.58966	0.55684	0.52598	0.49697	0.46968	0.44401	0.41985	0.39711	0.37570	0.35553	0.33654	0.31863
13	0.87866	0.82403	0.77303	0.72542	0.68095	0.63940	0.60057	0.56427	0.53032	0.49856	0.46884	0.44102	0.41496	0.39056	0.36770	0.34627	0.32618	0.30734	0.28966
14	0.86996	0.81185	0.75788	0.70773	0.66112	0.61778	0.57748	0.53997	0.50507	0.47257	0.44230	0.41410	0.38782	0.36331	0.34046	0.31914	0.29925	0.28067	0.26333
15	0.86135	0.79985	0.74301	0.69047	0.64186	0.59689	0.55526	0.51672	0.48102	0.44793	0.41727	0.38883	0.36245	0.33797	0.31524	0.29414	0.27454	0.25632	0.23939
16	0.85282	0.78803	0.72845	0.67362	0.62317	0.57671	0.53391	0.49447	0.45811	0.42458	0.39365	0.36510	0.33873	0.31439	0.29189	0.27110	0.25187	0.23409	0.21763
17	0.84438	0.77639	0.71416	0.65720	0.60502	0.55720	0.51337	0.47318	0.43630	0.40245	0.37136	0.34281	0.31657	0.29245	0.27027	0.24986	0.23107	0.21378	0.19784
18	0.83602	0.76491	0.70016	0.64117	0.58739	0.53836	0.49363	0.45280	0.41552	0.38147	0.35034	0.32189	0.29586	0.27205	0.25025	0.23028	0.21199	0.19523	0.17986
19	0.82774	0.75361	0.68643	0.62553	0.57029	0.52016	0.47464	0.43330	0.39573	0.36158	0.33051	0.30224	0.27651	0.25307	0.23171	0.21224	0.19449	0.17829	0.16351
20	0.81954	0.74247	0.67297	0.61027	0.55368	0.50257	0.45639	0.41464	0.37689	0.34273	0.31180	0.28380	0.25842	0.23541	0.21455	0.19562	0.17843	0.16282	0.14864

PRESENT VALUE OF AN ORDINARY ANNUITY OF $1

n\i	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
1	0.99010	0.98522	0.98039	0.97561	0.97087	0.96618	0.96154	0.95694	0.95238	0.94787	0.94340	0.93897	0.93458	0.93023	0.92593	0.92166	0.91743	0.91324	0.90909
2	1.97040	1.95588	1.94156	1.92742	1.91347	1.89969	1.88609	1.87267	1.85941	1.84632	1.83339	1.82063	1.80802	1.79557	1.78326	1.77111	1.75911	1.74725	1.73554
3	2.94099	2.91220	2.88388	2.85602	2.82861	2.80164	2.77509	2.74896	2.72325	2.69793	2.67301	2.64848	2.62432	2.60053	2.57710	2.55402	2.53129	2.50891	2.48685
4	3.90197	3.85438	3.80773	3.76197	3.71710	3.67308	3.62990	3.58753	3.54595	3.50515	3.46511	3.42580	3.38721	3.34933	3.31213	3.27560	3.23972	3.20448	3.16987
5	4.85343	4.78264	4.71346	4.64583	4.57971	4.51505	4.45182	4.38998	4.32948	4.27028	4.21236	4.15568	4.10020	4.04588	3.99271	3.94064	3.88965	3.83971	3.79079
6	5.79548	5.69719	5.60143	5.50813	5.41719	5.32855	5.24214	5.15787	5.07569	4.99553	4.91732	4.84101	4.76654	4.69385	4.62288	4.55359	4.48592	4.41983	4.35526
7	6.72819	6.59821	6.47199	6.34939	6.23028	6.11454	6.00205	5.89270	5.78637	5.68297	5.58238	5.48452	5.38929	5.29660	5.20637	5.11851	5.03295	4.94961	4.86842
8	7.65168	7.48593	7.32548	7.17014	7.01969	6.87396	6.73274	6.59589	6.46321	6.33457	6.20979	6.08875	5.97130	5.85730	5.74664	5.63818	5.53482	5.43344	5.33493
9	8.56602	8.36052	8.16224	7.97087	7.78611	7.60769	7.43533	7.26879	7.10782	6.95220	6.80169	6.65610	6.51523	6.37889	6.24689	6.11906	5.99525	5.87528	5.75902
10	9.47130	9.22218	8.98259	8.75206	8.53020	8.31661	8.11090	7.91272	7.72173	7.53763	7.36009	7.18883	7.02358	6.86408	6.71008	6.56135	6.41766	6.27880	6.14457
11	10.36763	10.07112	9.78685	9.51421	9.25262	9.00155	8.76048	8.52892	8.30641	8.09254	7.88687	7.68904	7.49867	7.31542	7.13896	6.96698	6.80519	6.64730	6.49506
12	11.25508	10.90751	10.57534	10.25776	9.95400	9.66333	9.38507	9.11858	8.86325	8.61852	8.38384	8.15873	7.94269	7.73528	7.53608	7.34469	7.16073	6.98384	6.81369
13	12.13374	11.73153	11.34837	10.98318	10.63496	10.30274	9.98565	9.68285	9.39357	9.11708	8.85268	8.59974	8.35765	8.12584	7.90378	7.69095	7.48690	7.29118	7.10336
14	13.00370	12.54338	12.10625	11.69091	11.29607	10.92052	10.56312	10.22283	9.89864	9.58965	9.29498	9.01384	8.74547	8.49915	8.24424	8.01010	7.78615	7.57185	7.36669
15	13.86505	13.34323	12.84926	12.38138	11.93794	11.51741	11.11839	10.73955	10.37966	10.03758	9.71225	9.40267	9.10791	8.82712	8.55948	8.30424	8.06069	7.82818	7.60608
16	14.71787	14.13126	13.57771	13.05500	12.56110	12.09412	11.65230	11.23402	10.83777	10.46216	10.10590	9.76776	9.44665	9.14151	8.85137	8.57533	8.31256	8.06226	7.82371
17	15.56225	14.90765	14.29187	13.71220	13.16612	12.65132	12.16567	11.70719	11.27407	10.86461	10.47726	10.11058	9.76322	9.43396	9.12164	8.82519	8.54363	8.27604	8.02155
18	16.39827	15.67256	14.99203	14.35336	13.75351	13.18968	12.65930	12.15999	11.68959	11.24607	10.82760	10.43247	10.05909	9.70601	9.37189	9.05548	8.75563	8.47127	8.20141
19	17.22601	16.42617	15.67846	14.97889	14.32380	13.70984	13.13394	12.59329	12.08532	11.60765	11.15812	10.73471	10.33560	9.95908	9.60360	9.26772	8.95011	8.64956	8.36492
20	18.04555	17.16864	16.35143	15.58916	14.87747	14.21240	13.59033	13.00794	12.46221	11.95038	11.46992	11.01851	10.59401	10.19449	9.81815	9.46334	9.12855	8.81238	8.51356