

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: [Redacted] Date: 12/4/09
Your quiz will not be graded without signature above.

Answer Key:

Multiple Choice Answers:

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

Quantitative Answers:

13 \$186,410.31	14 7,456.41
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14/14

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.

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

$$4 \text{ month} = 3,000$$

$$2 \text{ month} = 1,500$$

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.
 - c. \$36,000.
 - d. \$480,000.
- 80,000
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
<u>12/31/11</u>	<u>\$7,000</u>	<u>\$7,889</u>	<u>889</u>	<u>198,114</u>
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.

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.

11. What is the **annual** stated interest rate on the bonds?

- a. 3%
- b. 3.5%
- c. 6%
- d. 7%

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%

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.

4.6 20
3.5 20

13. At what price will the bonds issue?

$$\begin{array}{r} 200,000 \cdot 0.45639 = 91,278.00 \\ 7000 \cdot 13.59033 = 95,132.31 \\ \hline 186,410.31 \end{array}$$

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

$$186,410.31 \cdot 0.04 = 7456.41$$

