Exam
Name________________________________

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

1) The carrying value of a bond from the issuing corporation's standpoint will always move closer to its face value, regardless of whether the bond is issued at a premium or a discount. 1) ______

2) Under the effective interest method, interest expense is calculated by multiplying the market interest rate by the carrying value of the bonds. 2) ______

3) Assume that a company issues bonds at a discount. Under the effective interest method, the company will record progressively less interest expense with the passage of time. 3) ______

4) Transaction costs are deducted from the carrying value of long-term financial liabilities. 4) ______

5) When the market rate exceeds the stated or nominal rate, a bond's carrying value will be less than its fair value. 5) ______

6) In-substance defeasance leads to the de-recognition of a company's long-term debt. 6) ______

7) The stated rate of interest is the interest rate used to determine the amount of cash interest that will be paid on the principal. 7) ______

8) The capitalization of borrowing costs is mandatory under both IFRS & ASPE. 8) ______

9) A company enters into a forward exchange contract to hedge its US dollar payable which is due in 90 days. The company committed to purchase sufficient US currency to settle its liability at a rate of $1 US=$1.20 CAD US. The company's year-end falls 30 days before the settlement date. On that date, the forward rate for 30-day settlement contracts was 1 US=$1.22 CAD US. As a result of these facts the company will record a gain on its current year financial statements. 9) ______

10) A short-term payable may be the current portion of a long-term liability, which arises when the next payment on such a debt will be made out of current assets. 10) ______

11) Interest may be recognized on a note even though the note does not explicitly state an interest rate. 11) ______

12) The principal amount of a debt is the cash or cash equivalent amount borrowed. 12) ______

13) Use of the effective interest method for amortizing bond premiums and discounts is mandatory under IFRS but not under ASPE. 13) ______

14) Borrowing costs can only be capitalized on non-financial assets. 14) ______

15) The cost of any equity financing is included when calculating the cost of generalized borrowings. 15) ______

16) Bonds are said to be redeemable when they can be prematurely retired at the discretion of the issuing company and retractable when they can be prematurely retired at the investor's discretion. 16) ______

17) When the maturity date of a bond issue is within one year or the operating cycle (whichever is longer) of the current balance sheet date, the bond liability should be reclassified as a current liability (assuming the payment will be made out of current assets). 17) ______

18) Callable bonds are callable at the option of the investor. 18) ______

19) A $1,000, 6%, 10-year bond purchased as a long-term investment at an effective rate at 7%, will pay the investor $70 cash interest each year. 19) ______

20) The amortization of a bind discount or premium over the life of a bond will be the same under both the straight line and effective interest methods. 20) ______

21) In-substance defeasance means that a debtor irrevocably places cash or other monetary assets in a trust fund to pay interest on an outstanding debt. In such situations, the debt is always recorded as paid when the trust fund is set up (i.e. removed from the books). 21) ______

22) Hedging is one method of minimizing foreign exchange risk. 22) ______

23) The present value of any bond payable issued between interest-payment dates will include any interest accrued since the last interest payment date. 23) ______

24) Debt issue costs on long-term debt are expensed upon issue. 24) ______

25) An increase in interest rates may make bond defeasance more attractive to the issuing corporation. 25) ______

26) A company issuing shares to comply with its debt covenants for cash would simultaneously decrease (improve) its debt-to-assets and debt-to equity ratios. 26) ______

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

27) Bonds payable (due 5 years from the balance sheet date) should be classified as follows: 27) ______

A) A contingent liability.
B) A current liability.
C) A long-term liability.
D) An element of the owners' equity.

28) AB sold its 10-year bond at a discount. In reporting the bonds and the related discount on a balance sheet shortly thereafter, the discount should be: 28) ______

A) Added to the bonds.
B) Recorded as expense in the period of sale.
C) Deducted from the bonds payable.
D) Reported as a deferred charge.

29) JMR bought 15 Z Corporation's $1,000 bonds for $15,270 total, on April 1, 2014, (five years prior to maturity). The bonds pay 8% semi-annual interest on April 1 and October 1. On December 31, 2014, the bonds had a market value of $14,950 (not a permanent decline). JMR purchased these bonds at: 29) ______

A) A discount plus accrued interest.
B) Par plus accrued interest.
C) A discount.
D) Par.
E)

A premium.

30) R Company was indebted to A Inc. at January 1, 2014. The note called for a $25,000 payment to be made on December 31, 2014 and also on December 31, 2015. The note was non-interest bearing yet 10% was the prevailing rate at the time the note was issued. What is the book value of the note on R's January 1, 2014 balance sheet (rounded)? 30) ______

A) $50,000 B) $47,727 C) $38,962 D) $47,500 E) $43,388

31) $5,000 (face value) of bonds with a book value of $4,300 was retired 4 years and 9 months prior to maturity. The dollar amount (excluding interest) paid to retire the bonds was $4,700. The entry to record the retirement would include: 31) ______

A) dr. bonds payable $4,700
B) dr. bonds payable $5,000
C) cr. unusual gain $400
D) cr. cash $4,300

32) ER issued for $2,060,000, two thousand of its 9%, $1,000 callable bonds. The bonds are dated January 1, 2019, and mature many years from now. Interest is payable semi-annually on January 1 and July 1. The bonds can be called by the issuer at $102 on any interest payment date after December 31, 2023. The unamortized bond premium was $28,000 at December 31, 2021, and the market price of the bonds was $99 on this date. In its December 31, 2021, balance sheet, at what amount should GC report the carrying value of the bonds? 32) ______

A) $1,980,000
B) $2,032,000
C) $2,040,000
D) $2,028,000
E) Cannot answer; the bond term is not given

33) Gains or losses from the early extinguishment of debt, if material, should be: 33) ______

A) recognized as an extraordinary item in the period of extinguishment.
B) amortized over the life of the new issue.
C) recognized in income as ordinary gains and losses or as unusual items.
D) amortized over the remaining original life of the extinguished issue.

34) All of the following are true with respect to sinking funds except: 34) ______

A) A sinking fund may make the investment more attractive to investors.
B) A sinking fund may be handled by a trustee or by the individual company.
C) Once the sinking fund is established, the company has no more responsibility to the debt.
D) A sinking fund is a cash fund that is restricted for retiring the debt of a company.

35) The rate of interest specified on the face of the debt is called the: 35) ______

A) Yield interest rate.
B) Stated interest rate.
C) Effective interest rate.
D) Market interest rate.

36) The rate of interest used to discount the future cash payments on a debt to the cash equivalent borrowed is least likely to be described by which of the following terms: 36) ______

A) Prevailing interest rate.
B) Effective interest rate.
C) Stated interest rate.
D) Yield interest rate.

37) KR issued bonds payable with a face amount of $200,000 and a maturity date ten years from date of issuance. If the bonds were issued at a premium, this indicated that: 37) ______

A) The effective and stated rates of interest were the same.
B) The stated rate of interest exceeded the effective rate of interest.
C) No necessary relationship exists between the two rates.
D) The effective rate of interest exceeded the stated interest rate.
E) The stated interest rate and the market interest rate were the same.

38) In theory (disregarding any other marketplace variables) the proceeds from the sale of a bond will be equal to: 38) ______
A) The present value of the principal amount due at the end of the life of the bond plus the present value of the interest payments made during the life of the bond, each discounted at the stated rate of interest.
B) The sum of the face amount of the bond and the periodic interest payments.
C) The present value of the principal amount due at the end of the life of the bond plus the present value of the interest payments made during the life of the bond, each discounted at the prevailing market rate of interest.
D) The face amount of the bond plus the present value of the interest payments made during the life of the bond discounted at the prevailing market rate of interest.

39) AB Company issued a $100,000, 10%, bond at $99. Therefore, the bond: 39) ______
A) sold at a discount because the stated interest rate was lower than the market interest rate.
B) was sold at a premium because the stated interest rate was higher than the yield rate.
C) sold at a premium because the $1,000 accrued interest is added to the $100,000 face amount.
D) was sold for $100,000 less $1,000 of accrued interest.

40) For bonds payable, the cash interest paid in each interest period is: 40) ______
A) Different depending upon the date of sale.
B) The same amount regardless of whether the bond was sold at par, a discount, or a premium.
C) Dependent on the initial amount of accrued interest.
D) Not the same amount when the stated and yield interest rates are different.

41) Straight-line amortization of bond premium or discount: 41) ______
A) is appropriate for deep discount bonds.
B) Provides the same total amount of interest expense and interest revenue as the effective interest method over the life of the bonds.
C) Can be used as an optional method of amortization in all situations.
D) Provides the same amounts of interest expense and interest revenue each interest period as the effective interest method.
E) is appropriate when the bond term is especially long.

42) If a bond was sold at $108, the stated rate of interest was: 42) ______
A) Equal to market rate.
B) Higher than market rate.
C) Not related to market rate.
D) Lower than market rate.

43) Bond A and Bond B both have a maturity value of $1,000 and pay annual interest of 9%. The market rate of interest is also 9%. Bond A matures in 4 years and Bond B matures in 5 years. Which of the following is correct? 43) ______
A) Bond A will sell for more than Bond B.
B) Both bonds sell for more than $1,000.

C) Both bonds sell for the same amount, $1,000.
D) Bond B will sell for more than Bond A.
E) There is not sufficient information to answer the question.

44) Bonds payable should be reported as a long-term liability in the balance sheet of the issuer at: 44) ______
A) Issue price less any unamortized bond premium or plus any unamortized discount.
B) Issue price plus any unamortized bond premium or less any unamortized discount.
C) Current market price.
D) lower-of-cost-or-market.
E) Issue price, excluding any accrued interest at purchase date.

45) When the interest payment dates of a bond are May 31 and November 30, and a bond issue is sold on July 1, the amount of cash received by the issuer will be: 45) ______
A) Unaffected by accrued interest.
B) Increased by accrued interest from July 1 to November 30.
C) Increased by accrued interest from May 31 to July 1.
D) Decreased by accrued interest from May 31 to July 1.
E) Decreased by accrued interest from July 1 to November 30.

46) When the interest payment dates of a bond are May 31 and November 30, and a bond issue is sold on July 1, the price of the bond will be: 46) ______
A) Increased by accrued interest from May 31 to July 1.
B) Decreased by accrued interest from July 1 to November 30.
C) Decreased by accrued interest from May 31 to July 1.
D) Increased by accrued interest from July 1 to November 30.
E) Unaffected by accrued interest.

47) A firm retired a long-term note by in-substance defeasance. This means that: 47) ______
A) the debtor will continue to recognize interest expense on the debt but will make no more payments.
B) the debtor has been released of its legal responsibility for all remaining debt payments.
C) there is only a remote chance that the debtor will be required to make further payments on the liability.
D) the debt is shown as an offset against the assets used to retire the debt, in the debtor's balance sheet.
E) the creditors have been paid.

48) There are two methods for amortizing premiums and discounts on the sale of bonds. The differences between the two methods are: 48) ______
A) Both methods charge a constant amount of interest to the financial statements each year; however, the effective interest method charges a larger total amount of interest expense over the life of the bond.
B) There are no differences between the two methods.
C) The effective interest method charges a different interest expense each year while the straight-line method results in a constant amount of expense each year.
D) None of these answers are correct.

49) In-substance defeasance is sometimes used as a method of bond retirement. Choose the correct statement about this practice. 49) ______

A) The bonds are legally retired as a result
B) Neither the assets used to effect the defeasance, nor the bonds themselves, are reported in the balance sheet, even though the bonds remain outstanding
C) The firm may invest in any investment-grade debt security to retire the bonds as long as the investment securities are transferred irrevocably to a trustee
D) The process may require the company which issued the bonds to make substantial payments in addition to the investments purchased for the defeasance

50) Which of the following is not one of the conditions that must be met to qualify as extinguishment of debt by in-substance defeasance? 50) ______
A) Cash inflows into the trust must approximately coincide with required cash outflows.
B) The qualifying assets must not be used for trustee fees.
C) There is a reasonable possibility that the debtor will be called on to make additional payments on the debt.
D) Trust must own monetary assets that are essentially risk free.

51) The result of an effective interest rate that is higher than the stated rate on a debt security is the: 51) ______
A) Cash interest paid on each interest date will be changed.
B) Dollar amount of interest expense reported on the income statement, assuming the interest method is used, will increase each interest period.
C) Carrying value of the debt will decrease each interest period.
D) Security will sell at a premium.

52) Which of the following statements is true? 52) ______
A) If a bond is sold between interest dates, it is necessary to record the interest accrued since the last payment date before sale.
B) If a bond is sold "at a discount," the effective interest rate on the bond is lower than the stated interest rate.
C) Bond price of 98 means that the yield rate is 98% of the stated rate.
D) If a bond is sold "at a premium," the effective interest rate on the bond is higher than the stated interest rate.

53) If bonds are issued initially at a discount and the straight-line method of amortization is used for the discount, interest expense in the early years will be: 53) ______
A) less than the amount of the interest payments.
B) less than if the interest method is used.
C) more than if the interest method is used.
D) The same as if the interest method is used.

54) VB owes a $200,000, 8%, five-year note payable dated January 1, 2020. It is the end of year 2020, and instead of making the interest payment now due, VB has made arrangements to pay the debt and the 2020 interest payment in four equal instalments based on the same interest rate. The first payment is to be made on January 1, 2021. The amount of the equal annual payments is (rounded to the nearest dollar): 54) ______

A) $65,214 B) $54,000 C) $55,912 D) $60,384

55) On January 1, 2014, ER signed a $120,000, 10%, three-year, note payable. The proceeds are to be used to purchase a computer and related software for the company. The lending institution advanced proceeds of $115,800 and took a mortgage on the computer. The

not able in
e is three
pay equal

annual instalments starting on December 31, 2014. The effective interest rate to use for this debt is (rounded to the nearest percent; do not interpolate):

55) ______

A) 12%. B) 11%. C) 13%. D) 10%.

56) On November 1, 2009, WC purchased CX, 10-year, 7%, bonds with a face value of $100,000 for $96,000. The bonds are intended to be held to maturity. An additional $2,333 was paid for the accrued interest. Interest is payable semi-annually on January 1 and July 1. The bonds mature on July 1, 2016. WC uses the straight-line method of amortization. Ignoring income taxes, the amount of interest revenue reported in WC's 2019 income statement (year-end December 31) as a result of WC's long-term bond investment in CX was:

56) ______

A) $1,120 B) $1,067 C) $1,167 D) $1,267

57) On March 1, 2012, WC issued 10% stated interest rate, 10 year debentures dated January 1, 2012, in the face amount of $1,000,000, with interest payable on January 1 and July 1. The debentures were sold to yield 8% plus accrued interest. How much should WC debit to cash on March 1, 2012, if the bondholders receive their pro-rata share of coupon on that date?

57) ______

A) $1,135,927 B) $1,152,573 C) $901,967 D) $903,003

58) On September 1, 2020, ER issued 11%, 10 year bonds dated June 1, 2020, in the face amount of $140,000, with interest payable July 1 and December 31. The bonds were sold for $140,000. How much should ER debit to cash on September 1, 2020?

58) ______

A) $147,700
B) $140,000
C) $142,567
D) Cannot be determined from the information given

59) Which of the following is true with respect to bond retirement?

59) ______

A) If interest rates increase, the issuer can retire bonds at a gain by buying them on the open market.

B) On debt retirement all related accounts should be update.
C) Gains and losses on bond retirements may be classified as ordinary gains and losses or unusual gains and losses.
D) All of these answers are correct.

60) ASPE and IFRS differ in their treatment of long-term Bonds Payable in that: 60) _____
A) ASPE ignores foreign exchanges gains and losses.
B) The straight-line method may be used under ASPE but not under IFRS.
C) Under IFRS, exchange gains and losses on short-term debt are recorded in the income statement immediately.
D) IFRS does not account for foreign exchange gains and losses on Bonds Payable.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

61) A firm issued a 16%, $1,000 bond issued and dated Jan. 1/2000 maturing Jan. 1, 2011 paying interest each June 30 and December 31, and yielding 14%. One bond is used for simplicity.Required:(a) Determine the price of the bond(b) All Year 2000 entries and balance sheet presentations for the bond after each interest date in Year A. Show the interest method and straight-line methods in parallel fashion.

62) JV issued $10,000, 10% bonds payable (interest payable annually), which mature at the end of six years from issue date. The effective rate of interest at issue date was 12%. The sale price of the bonds was: $ ________.

63) RX issued $1,000,000, 10% bonds payable (interest payable annually), which mature at the end of five years from issue date. The effective rate of interest at issuance was 8%. The sale price of the bonds was: $ ________.

64) On January 1, 1999, a company incurred a debt of $11,663, which is payable in four equal annual instalments of $3,600, starting on December 31, 1999.(a) The implicit interest rate is ________% (rounded to the nearest percent).(b) Give the journal entry to record the second annual payment (on December 31, 2000).

65) X owed a debt dated January 1, 2020, amounting to $91,330. Arrangements were made to pay the debt in three equal annual instalments, starting on December 31, 2020. The interest is 15% per annum.(a) Compute the amount of the annual cash payment to be made on each December 31.Payment $ ________.(b) Prepare the related debt amortization schedule for the term of the debt.

66) On September 1, 2015, a company signed a $19,800, one-year, non-interest-bearing note payable and received $18,000 cash.(a) What was the yield rate of interest? ________(b) Give the entry required at September 1, 2015, in the accounts of the company (use the net method).(c) Give the adjusting entry required at the end of the accounting year for the company (December 31, 2015).(d) Give the entry required on the due date, August 31, 2016, assuming no reversing entries were made.

67) A company wishes to finance a long-term construction project and in doing so, capitalize the related interest expense. The company requires $2 million in financing.The company currently has the following debt and equity items on its December 31st, 2019 Balance Sheet:

Bonds payable (8%, Issue at par)	$1,000,000
Unsecured line of credit (6%)	$3,000,000
Common Shares (Par Value $100)	$1,000,000

There are 10,000 common shares outstanding which pay an annual dividend of $5 per share. The company can borrow a maximum of $5 million on its unsecured line of credit.The company's bank

has indicated its willingness to extend an additional credit facility in the amount of $1.5 million at an annual rate of 5% as of March 31st, Year 6. These amounts remained outstanding throughout Year 6.On March 1st, Year 6 the company borrowed $600,000. On April 1st, Year 6, and additional $1.4 million was wired to the company's account, drawn on its new credit facility.Determine the amount of interest that the company would be able to capitalize as per IFRS for Year 6.

68) On July 1, 2012, RC sold two of its $10,000, 9%, bonds payable at an effective interest rate of 8%. Interest is paid each June 30 and the bond matures in six years on June 30, 2018. Round all amounts to the nearest dollar.(a) What was the amount of the premium $ ________ or discount $ ________?(b) The income statement for the accounting year ended December 31, 2012, should report interest expense of, assuming:(1) Straight-line amortization, $ ________.(2) Interest-method amortization, $ ________.

69) It is often necessary to compute the book value of a bond issue several years into its term. Rather than compute an amortization schedule for the entire term, it is possible to directly compute the net bond liability at any interest date under either the interest method or straight-line method. Assume that $100,000 of 8% bonds were issued to yield 10% on January 1, 2010, the bond date. The bonds pay interest each December 31 and are scheduled to mature in ten years. Answer the following questions without producing an amortization schedule.(a) What is the book value of the bonds on January 1, 2016 if the firm uses the straight-line method.(b) What is the book value of the bonds on January 1, 2016 if the firm uses the interest (effective interest) method.

70) A firm has two bonds outstanding today, each with: (1) $1,000 face value, (2) a term of 5 years at issuance, (3) 3 years remaining to maturity, and (4) 10% yield rate at issuance. Bond A is a zero coupon bond; bond B pays 10% annually and just paid interest yesterday. The yield rate today on both bonds is 12%. Which bond has experienced the greatest percentage change in value since issuance?

71) On September 1, 2015, RC sold $10,000, 6% (payable semi-annually each March 1 and September 1), 10-year bonds dated September 1, 2015, to yield 8%. RC uses straight-line amortization. The accounting period ends December 31.(a) The sale price of the bond was $ ________.(b) Interest expense for 2015, was $ ________.

72) On January 1, 2000, a company purchased a machine (an operational asset) with a list price of $4,000. $2,000 was paid in cash and a three-year, noninterest-bearing note was signed. The note was for $3,000 and required payment of equal amounts of $1,000 each December 31, 2000, 2001, and 2002. The going rate of interest was 12%. Using this information, complete the following requirements.(a) Give the entry on January 1, 2000, to record the purchase of the machine (show computations and round to the nearest dollar):(b) Prepare the related debt amortization schedule.(c) Give any adjusting entry related to the note payable required for 2001, assuming the accounting period ends March 31. If none is required, state the reason.(d) Assuming that the accounting period ends March 31 and there were no reversing entries, give the entry to record the annual payment made on December 31, 2001.

73) AB owes a $100,000, 8%, five-year note payable dated January 1, 2020. It is the end of year 2020, and instead of making the interest payment now due, AB has made arrangements to pay the debt and the 2020 interest payment, in four equal instalments based on the same interest rate. The first payment is to be made on January 1, 2021. The amount of the equal annual payments, rounded to the nearest dollar, is:

74) The management of PT authorized an issue of $120,000 bonds payable, 6% (annual interest rate),

dated January 1, 2000. The bonds mature on December 31, 2015 (5 years). Interest is payable each June 30 and December 31. The bonds were sold on May 1, 2010, at an effective (yield) rate of 8%.(a) The bonds were sold at a ________ premium; ________ discount (check one).(b) Give the entry for PT to record the sale of the bonds on May 1, 2010. Show computations for the issue price.

75) On April 1, 2020, the DEF sold a $2,000,000 bond issue dated January 1, 2020, to yield 9% per annum to maturity. The bonds were to be outstanding for twenty years from January 1, 2020, and the stated rate of interest was 8%. Interest is paid each January 1.(a) Give the entry to record the purchase of one-fourth of these bonds as a long-term investment by NOP. Assume effective interest amortization and contra/adjunct accounts.(b) Give the December 31, 2020, adjusting and closing entries for NOP.

76) In August 2005, Crown Corporation Inc., a calendar-year corporation that records adjusting entries only once per year, issued bonds with the following characteristics:

a.	$50,000,000 total face value
b.	12% nominal rate
c.	16% yield rate
d.	Interest dates are 1 February, 1 May, 1 August, and 1 November
e.	Bond date is 31 October 2004
f.	Maturity date is November 2009 $1,000 of bond issue costs were incurred

Part A: Provide the entries required on 1 August 2007 under the effective interest method of amortization.Part B: Provide the entries required on 1 August 2007 under the straight line method of amortization.

77) ABC Inc. issued $10,000,000 worth of bonds on January 1st, 2018. The bonds mature on December 31st, 2027 and carry a coupon rate of 6% payable semi-annually on June 30th and December 31st of each year. A market interest rate of 8% was effective throughout 2018.Required:1) Were the bonds issued at a premium or a discount?2) Prepare all journal entries required during 2018.3) Assume that on January 1st 2019, ABC decided to retire half of the bonds for $4,800,000 in cash. Prepare the required journal entry.

78) GHI Inc. issued $5,000,000 worth of bonds on January 1st, 2018. The bonds mature on December 31st, 2017 and carry a coupon rate of 4% payable semi-annually on June 30th and December 31st of each year. A market interest rate of 6% was effective throughout 2018.Required:1) Were the bonds issued at a premium or a discount?2) Prepare all journal entries required during 2018.3) Assume that on January 1st 2019, GHI Inc. decided to retire ALL of the bonds for $5,500,000 in cash. Prepare the required journal entry.

79) ABC Inc. borrowed funds from its bank. Details are as follows.Four year term loan, U.S. $500,000Funds borrowed 1 January 20X6; due 31 December 20X9Exchange rates:

1 January 20X6	U.S. $1 = Cdn. $1.35
31 December 20X6	U.S. $1 = Cdn. $1.40
31 December 20X7	U.S. $1 = Cdn. $1.42
31 December 20X8	U.S. $1 = Cdn. $.136
31 December 20X9	U.S. $1 = Cdn. $1.39

Part A: Based on the above information prepare entries to record receipt of loan proceeds for January 20X6.Part B: Based on the above information prepare entries to record the adjustment to spot rate for December 20X6.Part C: Based on the above information prepare entries to record adjustment to spot rate December 20X7Part D: Based on the above information prepare entries to record adjustment to spot rate December 20X8Part E: Based on the above information prepare

entries to record adjustment to spot rate December 20X9Part F: Based on the above information prepare entries to record repayment of loan December 20X9Part G: Based on the above information calculate the total accounting recognition of loss.

80) On March 1, 2002, the XYZ Company issued bonds dated January 2, 2002 with the following characteristics:Face value $20,000,000Coupon rate 7.6%Yield to maturity 8%Coupon payment dates June 30, Dec. 31Maturity 15 yearsThe XYZ Company's year-end is December 31.Required:a. Assuming the XYZ Company uses the effective interest method,i. Prepare all journal entries relating to this bond issue for the year 2002.ii. Assume that on July 2, 2008; the company redeems one half of the bond issue on the open market at 98. Prepare the journal entry on July 2, 2008.b. Repeat the above requirements on the assumption the straight-line method is used.

1) FALSE
2) FALSE
3) FALSE
4) FALSE
5) FALSE
6) FALSE
7) FALSE
8) FALSE
9) FALSE
10) FALSE
11) FALSE
12) FALSE
13) FALSE
14) FALSE
15) FALSE
16) FALSE
17) FALSE
18) FALSE
19) FALSE
20) FALSE
21) FALSE
22) FALSE
23) FALSE
24) FALSE
25) FALSE
26) FALSE
27) C
28) C
29) E
30) E
31) B
32) D
33) C
34) C
35) B
36) C
37) B
38) C
39) A
40) B
41) B
42) B
43) C
44) B
45) C
46) E
47) C
48) C
49) B
50) C
51) B

52) A
53) C
54) D
55) A
56) C
57) B
58) C
59) D
60) B
61) (a) Price = $1,000 (PV1, 7%, 20)(.25842) + $80(PVA, 7%, 20)(10.59401)= $1,105.94(b)

Interest	SL
Jan. 1/2000 Cash	1,105.94
(both methods)	Bond premium 105.94
	Bonds payable 1,000.00

Balance sheet disclosure Jan. 1/00 (both methods)

Bonds payable	$1,000.00	
Bond premium	105.94	
Book value of bonds		$1,105.94

June 30/2000	Interest expense	77.42	74.70
	Bond premium	2.58	5.30
	Cash	80.00	80.00

77.42 = $1,105.94(.07) 5.30 = $105.94/20Balance sheet disclosure June 30/00

Bonds payable	$1,000.00	$1,000.00
Premium	103.36	100.64
Book value of bonds	$1,103.46	$1,100.64

Dec. 30/2000	Interest expense	77.24	74.70
	Bond premium	2.76	5.30
	Cash	80.00	80.00

77.24 = $1,103.36(.07) 5.30 = $105.94/20Balance sheet disclosure Dec. 31/00

Bonds payable	$1,000.00	$1,000.00
Premium	100.60	95.34
Book value of bonds	$1,100.60	$1,095.64

62) Please see the following table:

$10,000 x PV1, 12%, 6(.50663) =	$5,066
$1,000 x PVA, 12%, 6(4.11141) =	4,111
	9,177

63) Please see the following table:

$1,00,000 x PV1, 8%, 5(.68058) =	$680,580
$100,000 x PVA, 8%, 5(3.99271) =	399,271
	$1,079,851

64) (a) Implicit interest rate: 9%$11,663 $3,600 = 3.23972, PVA for n = 4 shows 9%(b) December 31, 2000

Liability	2,780	
Interest expense	820	
Cash		3,600

69) (a) Original issue price = $100,000(PV1,.10,10)(.38554) + $8,000(PVA,.10,10)(6.14457) = $87,711. Original discount = $12,289. At Jan. 1/16, 4 years of term are left so BV = $100,000 -.4($12,289) = $95,084.(b) BV = 100,000(PV1,.10, 4)(.68301) + $8,000(PVA,.10, 4)(3.16987) = $93,660.

70) Bond A sold for 62: $1,000(PV1,.10, 5) (.62092).Bond B sold for 100 as coupon and market rate were the same at issuance.Market value of Bond A today = 71 = $1,000(PV1,.12, 3)(.71178).Market value of Bond B today = 95 = $1,000(PV1,.12, 3) (.71178) + $100(PVA,.12, 3)(2.40183)Bond A has increased 15% = (71 - 62)/62Bond B has decreased 5% = (100 - 95)/100 (generally the price of zeros is more volatile with interest rate changes)

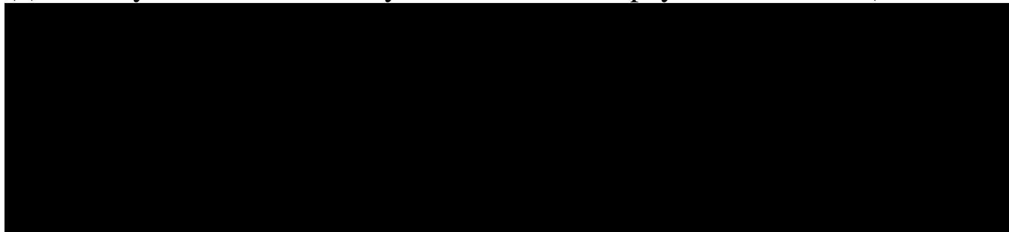
71) (a)

$10,000 x PV1, 4%, 20(.45639) =	$4,564
$300 x PVA, 4%, 20(13.59033) =	4,077
Sale price =	$8,641

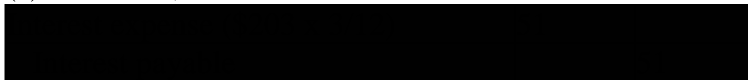
(b)

$1,000 x 3% x 4/6 =	$200
$1,359 x 4/120 =	45
Interest expense =	245

72) (a) January 1, 2000:Machinery 4,402 Cash Note payable*$1,000 x (PVA, 12%, 3)(2.40183) = 2,402(b)



(c) March 31, 2001



(d)

73) $100,000 + ($100,000 .08) = $108,000 3.57710 (PVAD, 8%, 4) = $30,192

74) (a) Discount, because the effective interest rate is higher than the stated rate.(b)

Cash ($110,807* + $2,400)	113,207	
Discount on bonds payable ($120,000 - $110,807)	9,193	
Interest expense ($120,000 x 3% x 4/6)		2,400
Bonds payable		120,000

* To compute issue price on May 1:January 1, 2010:

Principal: $120,000 x PV1, 4%, 10(.67556) =	$81,067
Interest: $3,600 x PVA, 4%, 10(8.11090) =	29,199
Total	$110,266

June 30, 2010:

Principal: $120,000 x PV1, 4%, 9(.70259) =	$84,311
Interest: $3,600 x PVA, 4%, 9(7.43533) =	26,767
Total	$111,078

Interpolation:($111,078 - $110,266 = $812) x 2/6 = $271.00($111,078 - $271) = $10,807

75) (a)

Inves	Interest revenue		40,669
Intere	Interest revenue ($40,669 - $10,000)	30,669	
Dis	Income summary		30,669

(b)

Cash (see computation below)		464,580
Interest receivable ($500,000 x 8%)	40,000	
Discount on bond investment (892 — 223)	669	

PV @ n = 20; i = 9:Principal (500,000 x .17843 = 89,215) + Interest (40,000 x 9.12855 = 365,142) = 454,357PV @ n = 19; i = 9:Principal (500,000 x .19449 = 97,245) + Interest (40,000 x 8.95011 = 358,004) = 455,249Difference: 892PV @ April 1/2000: $454,357 + (892 x ¼ = 223)= 454,580Plus accrued interest = 10,000Total cash paid = $464,580

76) Part A: 1 August 2007 - interest payment date

Interest Expense	1,103	
Discount on bonds payable		203
Cash		900
Bond issue expense	35	
Bond issue cost		35

$1,103 = $27,567 4%$900 = $30,000 3%$35 = (60% of issue remaining) ($1,000/17)Part B:

Interest Expense	1,115	
Discount on bonds payable		215
Cash		900
Bond issue expense	35	
Bond issue cost		35

$215 = $358 60%

77) 1) The bonds were issued at a discount - market rate exceeds nominal (coupon) rate.2) January 1st, 2018:

Cash	$8,640,999	
Bond Discount	$1,359,001	
Bonds Payable		$10,000,000

June 30th, 2018

Interest Expense	$345,640	
Bond Discount		$45,640
Cash		$300,000

Dec 31st, 2018

Interest Expense	$359,466	
Bond Discount		$59,466
Cash		$300,000

3)

Bonds Payable	$5,000,000	
Loss on Bond Disposal	$428,448	
Bond Discount		$628,448
Cash		$4,800,000

78) 1) The bonds were issued at a premium - market rate is less than nominal (coupon) rate.2) January 1st, 2008:

Cash	$5,743,894	
Bond Premium		$743,894
Bonds Payable		$5,000,000

June 30th, 2018

Interest Expense	$172,317	
Bond Premium	$27,683	
Cash		$200,000

Dec 31st, 2018

Interest Expense	$170,509	

Bond	Gain on Bond Disposal	$27,683	$186,720
Cas	Bond Premium	$686,720	
3)	Cash		$5,500,000

Bonds Payable	$5,000,000	

79) Part A:

Cash ($500,000 x 1.35)	$675,000	
Long term debt		$675,000

Part B:

Exchange loss	$25,000	
Long term debt 500,000($1.35 - $1.40)		$25,000

Part C:

Exchange loss	$10,000	
Long term debt 500,000($1.42 - $1.40)		$10,000

Part D:

Long term debt 500,000($1.42 - $1.36)	$30,000	
Exchange gain		$30,000

Part E:

Exchange loss	$15,000	
Long term debt 500,000($1.39 - $1.36)		$15,000

Part F:

Long term debt 500,000($1.42 - $1.40)	$695,000	
Cash		$695,000

Part G:

20X6	$25,000 dr.
20X7	10,000 dr.
20X8	30,000 cr.
20X9	15,000 dr.
Total	$20,000 dr.

80) N.B: The solution below does not use a separate discount account. The discount is deducted directly from Bonds Payable. Students may also use a separate discount account as per the examples in the text.a. i. Proceeds received - N = 30, I = 4, PMT = 760,000, FV = 20,000,000Solve for PV = $19,308,319Accrued interest = $760,000   2/6 = $253,333Mar. 1, 2002

Cash	$19,308,319	
Bonds payable		$19,308,319
Cash	253,333	
Interest expense		253,333

June 30, 2002Interest expense* 772,333Bonds payable 12,333Cash 760,000* $19,308,319   4%Dec. 31, 2002 Interest expense** 772,826Bonds payable 12,826Cash 760,000** ($19,308,319 + 12,333) 4%19,320,652   4%ii. Book value of bonds on July 2, 2008 =N = 17, I = 4, PMT = 760,000, FV = 20,000,000Solve for PV = $19,513,373Book value of bonds redeemed: $19,513,373   ½ = $9,756,687July 2, 2008

Bonds payable	9,756,687	
Loss on redemption bonds	43,313	
Cash		9,800,000

b. i. Mar. 1, 2002

Cash	$19,308,319	
Bonds payable		$19,308,319
Cash	253,333	

$3,886 six months = $23,316ii. Book value of bonds on July 2, 2008 == $20,000,000 - (3,886 102 months remaining)= $20,000,000 - 396,372= $19,603,628Book value of bonds redeemed: $19,603,628 ½ = $9,801,814July 2, 2008

Bonds payable	9,801,814	
Gain on redemption of bonds		1,814
Cash		9,800,000

June 30, 2002

Interest expense	253,333	
Intere		
Bo		
Cash		760,000

* Discount = $691,681 Monthly amortization = $691,681 /178 months= $3,886 four months = $15,544

Dec. 31, 2002

Interest expense 783,316 Bonds payable** 23,316Cash 760,000**