Chapter 10 Questions

Multiple Choice

1. Bonds that may be exchanged for common stock at the option of the bondholders are called
a. options.
b. stock bonds.
c. convertible bonds.
d. callable bonds.

2. Ramano Company issued $1,000,000 of 10%, 10-year bonds at 96. Assuming straight-line amortization and annual interest payments, how much bond interest expense is recorded on the next interest date?
a. $100,000
b. $104,000
c. $96,000
d. $102,000

3. Ramano Company issued $1,000,000 of 10%, 10-year bonds at 102. Assuming straight-line amortization and annual interest payments, how much bond interest expense is recorded on the next interest date?
a. $100,000
b. $102,000
c. $98,000
d. $104,000

4. The contractual interest rate on a bond is often referred to as the
a. callable rate.
b. the maturity rate.
c. market rate.
d. stated rate.

5. If the market interest rate for a bond is higher than the stated interest rate, the bond will sell at
a. a premium.
b. a discount.
c. par.
d. either a discount or premium.

6. On January 1, 20X1, $3,000,000, 10-year, 10% bonds, were issued for $2,910,000. Interest is paid annually on January 1. If the issuing corporation uses the straight-line method to amortize discount on bonds payable, the annual amortization amount is
a. $29,100.
b. $9,000.
c. $2,424.
d. $750.

7. West County Bank agrees to lend Drake Builders Company $400,000 on January 1. Drake Builders Company signs a $400,000, 6%, 6-month note. What is the adjusting entry required if Drake Builders Company prepares financial statements on March 30?

a.	Interest Expense	12,000	
	Interest Payable		12,000
b.	Interest Expense	12,000	
	Cash		12,000
c.	Interest Expense	6,000	
	Interest Payable		6,000
d.	Interest Payable	6,000	
	Interest Expense		6,000

8. The journal entry to record the issuance and proceeds of a note would include
a. a debit to notes payable
b. a debit to interest expense
c. a credit to interest expense
d. a debit to cash

9. Bonds with a face value of $500,000 and a quoted price of 97¼ have a selling price of
a. $486,250.
b. $485,125.
c. $485,013.
d. $487,500.

10. Bonds with a face value of $500,000 and a quoted price of 102¼ have a selling price of
a. $601,125.
b. $510,125.
c. $510,013.
d. $511,250.

11. Morgan Company does not ring up sales taxes separately on the cash register. Total receipts for February amounted to $38,160. If the sales tax rate is 6%, what amount must be remitted to the state for February's sales taxes?
a. $2,290
b. $2,160
c. $2,152
d. It cannot be determined.

12. Gomez Corporation issues 900, 10-year, 8%, $1,000 bonds dated January 1, 2017, at 96. The journal entry to record the issuance will show a
a. debit to Cash of $900,000.
b. credit to Discount on Bonds Payable for $36,000.
c. credit to Bonds Payable for $864,000.
d. debit to Cash for $864,000.

13. Five thousand bonds with a face value of $1,000 each, are sold at 102. The entry to record the issuance is

a.	Cash	5,100,000	
	Bonds Payable		5,100,000
b.	Cash	5,000,000	
	Premium on Bonds Payable	100,000	
	Bonds Payable		5,100,000
c.	Cash	5,100,000	
	Premium on Bonds Payable		100,000
	Bonds Payable		5,000,000
d.	Cash	5,100,000	
	Discount on Bonds Payable		100,000
	Bonds Payable		5,000,000

14. The interest charged on a $100,000 note payable, at the rate of 10%, on a 60-day note would be
a. $1,667.
b. $10,000.
c. $6,000.
d. $16,667.

15. Unearned Rent Revenue is
a. a contra account to Rent Revenue.
b. a revenue account.
c. reported as a current liability.
d. debited when rent is received in advance.

EXERCISES

1. Steiner Sales Company has the following selected accounts after posting adjusting entries:

Accounts Payable	$ 65,000
Notes Payable, 3-month	50,000
Accumulated Depreciation—Equipment	14,000
Notes Payable, 5-year, 6%	80,000
Payroll Tax Expense	4,000
Interest Payable	3,000
Mortgage Payable	120,000
Sales Taxes Payable	38,000

Prepare the current liability section of Steiner Sales Company's balance sheet, assuming $15,000 of the mortgage is payable next year.

2. Peterson Company billed its customers a total of $840,000 for the month of November. The total includes a 5% state sales tax.

(a) ***Determine the proper amount of revenue and sales taxes to report for the month.***

(b) ***Prepare the general journal entry to record the revenue and related liabilities for the month.***

	Date	Debit	Credit

3. On January 1, 20X1, Hannigan Company issued bonds with a face value of $600,000. The bonds carry a stated interest of 7% payable each January 1.

(a) Prepare the journal entry for the issuance assuming the bonds are issued at 97.

	Date	Debit	Credit

(b) Prepare the journal entry for the issuance assuming the bonds are issued at 102.

	Date	Debit	Credit

4. On March 1, Cooper Company borrows $80,000 from New National Bank by signing a 6-month, 6%, interest-bearing note.
Prepare the necessary entries below associated with the note payable on the books of Cooper Company.
(a) Prepare the entry on March 1 when the note was issued.

	Date	Debit	Credit

(***b) Prepare any adjusting entries necessary on June 30 in order to prepare the semiannual financial statements. Assume no other interest accrual entries have been made.***

	Date	Debit	Credit

(c) Prepare the entry to record payment of the note at maturity.

	Date	Debit	Credit

5. Renfro Company issued $300,000 of 8%, 10-year bonds at 102. Interest is paid annually, and the straight-line method is used for amortization. Assume that the market rate for similar investments is 7%. The bonds are issued on the date of the bonds.

a. What amount was received for the bonds?

b. How much interest is paid each interest period?

c. What is the premium amortization for the first interest period?

d. How much interest expense is recorded on the first interest date?

e. What is the carrying value of the bonds after the first interest date?

6. On January 1, 20X1, Powell Corporation issued $600,000, 5%, 5-year bonds dated January 1, 20X1, at 95. The bonds pay annual interest on January 1. The company uses the straight-line method of amortization and has a calendar year end.

Prepare all the journal entries that Powell Corporation would make related to this bond issue through January 1, 20X2 (including December 31, 20X1). Be sure to indicate the date on which the entries would be made.

	Date	Debit	Credit

7. Presented below are two independent situations:

(a) Morten Corporation purchased $480,000 of its bonds on June 30, 2017, at 102 and immediately retired them. The carrying value of the bonds on the retirement date was $431,100. The bonds pay annual interest and the interest payment due on June 30, 2017, has been made and recorded.

(b) McEvoy, Inc., purchased $330,000 of its bonds at 96 on June 30, 2017, and immediately retired them. The carrying value of the bonds on the retirement date was $321,000. The bonds pay annual interest and the interest payment due on June 30, 2017, has been made and recorded.

For each of the independent situations, prepare the journal entry to record the retirement or conversion of the bonds.

(a)

	Date	Debit	Credit

(b)

	Date	Debit	Credit

Chapter 10 Solutions

Multiple Choice Solutions

1. **C**
2. **B**
3. **C**
4. **D**
5. **B**
6. **B**
7. **C**
8. **D**
9. **A**
10. **D**
11. **B**
12. **D**
13. **C**
14. **A**
15. **C**

Exercise Solutions

1. STEINER SALES COMPANY

Current Liabilities	
Current portion of long-term debt	$ 15,000
Notes payable, 3-month	50,000
Accounts payable	65,000
Sales taxes payable	38,000
Interest payable	3,000
Total current liabilities	**$171,000**

Mort. Pay(cur. Par.) + N/P + A/P + sal. tax. Pay. + int. pay.)

2.

(a) $840,000 ÷ 1.05 = **$**

$800,000 × .05 OR $840,000 - $800,000 =

(b)

	Date	Debit	Credit
Accounts Receivable		840,000	
Sales Revenue			800,000
Sales Taxes Payable			40,000

Chapter 10 Solutions (Cont.)

Exercise Solutions (Cont.)

3.

(a)

	Date	Debit	Credit
Cash ($600,000 × 0.97)	**Jan. 1**	582,000	
Discount on Bonds Payable		18,000	
Bonds Payable			600,000

(b)

	Date	Debit	Credit
Cash ($600,000 × 1.02)	**Jan. 1**	612,000	
Bonds Payable			600,000
Premium on Bonds Payable			12,000

4.

(a)

	Date	Debit	Credit
Cash	**Mar. 1**	80,000	
Notes Payable			80,000

(b)

	Date	Debit	Credit
Interest Expense	**Jun. 30**	1,600	
Interest Payable **($80,000 × 6% × (4 ÷ 12))**			1,600

(c)

	Date	Debit	Credit
Notes Payable	**Sept. 1**	80,000	
Interest Payable		1,600	
Interest Expense **($80,000 × 6% × (2 ÷ 12))**		800	
Cash**($80,000 × 6% × (6 ÷ 12))**			82,400

Chapter 10 Solutions (Cont.)

Exercise Solutions (Cont.)

5.

a. **$306,000** ($300,000 × 1.02)........ (Face val. × 102%)
b. **$24,000** ($300,000 × .08)
c. **$600** [($306,000 – $300,000)/10]............. [(Face val. × 102%) – face val.] ÷10
d. **$23,400** ($24,000 – $600)
e. **$305,400** ($306,000 – $600) (Face val. × 102%) – [(face val. × 102%) – face val.) ÷ 10]

6.

	Date	Debit	Credit
Cash **($600,000 × .95)**	**Jan. 1**	570,000	
Discount on Bonds Payable	**20x1**	30,000	
Bonds Payable			600,000
(To record sale of bonds at a discount)			
Interest Expense **($600,000 x 0.05) + ($30,000 ÷ 5)**	**Dec. 31**	36,000	
Discount on Bonds Payable	**20x1**		600
Interest Payable **($600,000 × 0.05)**			30,000
(To record annual accrued bond interest and amortization of bond discount)			
Interest Payable	**Jan. 1**	30,000	
Cash	**20X2**		30,000
(To record payment of bond interest liability)			

Chapter 10 Solutions (Cont.)

Exercise Solutions (Cont.)

7.

(a)

	Date	Debit	Credit
Bonds Payable	**Jun. 30**	480,000	
Loss on Bond Redemption		58,500	
Discount on Bonds Payable **($480,000 – $431,100)**			48,900
Cash **($480,000 × 1.02)**			489,600

(b)

	Date	Debit	Credit
Bonds Payable	**Jun. 30**	330,000	
Discount on Bonds Payable **($330,000 – $321,000)**			9,000
Gain on Bond Redemption			4,200
Cash **($330,000 × 96%)**			316,800