Problems: Set C

P10-1C  On January 1, 2012, the ledger of Flaming Company contained the following liability accounts.

<table>
<thead>
<tr>
<th>Liability Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$52,000</td>
</tr>
<tr>
<td>Sales Taxes Payable</td>
<td>$8,200</td>
</tr>
<tr>
<td>Unearned Service Revenue</td>
<td>$11,000</td>
</tr>
</tbody>
</table>

During January, the following selected transactions occurred.

Jan.  1  Borrowed $18,000 from TriCounty Bank on a 3-month, 8%, $18,000 note.
  5  Sold merchandise for cash totaling $18,480, which includes 6.25% sales taxes.
 12  Provided services for customers who had made advance payments of $8,000. (Credit Service Revenue.)
 14  Paid state revenue department for sales taxes collected in December 2011 ($8,200).
 20  Sold 500 units of a new product on credit at $50 per unit, plus 6.25% sales tax.

During January, the company's employees earned wages of $54,000. Withholdings related to these wages were $4,131 for Social Security (FICA), $3,900 for federal income tax, and $1,200 for state income tax. The company owed no money related to these earnings for federal or state unemployment tax. Assume that wages earned during January will be paid during February. No entry had been recorded for wages or payroll tax expense as of January 31.

Instructions

(a) Journalize the January transactions.

(b) Journalize the adjusting entries at January 31 for the outstanding notes payable and for wages expense and payroll tax expense.

(c) Prepare the current liabilities section of the balance sheet at January 31, 2012. Assume no change in accounts payable.

P10-2C  Skate City Corporation sells skateboard products and also operates an indoor skating facility. During the last part of 2012, Skate City had the following transactions related to notes payable.

Aug.  1  Issued a $6,000 note to Wheeler to purchase inventory. The 3-month note payable bears interest of 9% and is due November 1.
  31  Recorded accrued interest for the Wheeler note.
Sept.  1  Issued a $15,000, 8%, 6-month note to Commerce Bank to finance the purchase of a new ramp for advanced boarders. The note is due March 1.
  30  Recorded accrued interest for the Wheeler note and the Commerce Bank note.
Oct.  1  Issued a $40,000 note and paid $10,000 cash to repair and improve its building. This note bears interest of 8% and matures in 12 months.
  31  Recorded accrued interest for the Wheeler note, the Commerce Bank note, and the improvement note.
Nov.  1  Paid principal and interest on the Wheeler note.
  30  Recorded accrued interest for the Commerce Bank note and the improvement note.
Dec.  31  Recorded accrued interest for the Commerce Bank note and the improvement note.

Instructions

(a) Prepare journal entries for the transactions noted above.

(b) Post the above entries to the Notes Payable, Interest Payable, and Interest Expense accounts. (Use T accounts.)

(c) Show the balance sheet presentation of notes payable and interest payable at December 31.

(d) How much interest expense relating to notes payable did Skate City incur during the year?
Prepare journal entries to record interest payments and redemption of bonds.
(S0 5, 6), AP

(b) Loss $12,000

Prepare journal entries to record issuance of bonds, interest, balance sheet presentation, and bond redemption.
(S0 5, 6, 7), AP

(f) Loss $18,000

Prepare journal entries to record issuance of bonds, show balance sheet presentation, and record bond redemption.
(S0 5, 6, 7), AP

P10-3C The following section is taken from Lyons Corp.’s balance sheet at December 31, 2011.

Current liabilities
Interest payable $ 96,000
Long-term liabilities
Bonds payable (8%, due January 1, 2016) 1,200,000

Interest is payable annually on January 1. The bonds are callable on any annual interest date.

Instructions
(a) Journalize the payment of the bond interest on January 1, 2012.
(b) Assume that on January 1, 2012, after paying interest, Lyons Corp. calls bonds having a face value of $300,000. The call price is 108. Record the redemption of the bonds.
(c) Prepare the adjusting entry on December 31, 2012, to accrue the interest on the remaining bonds.

P10-4C On April 1, 2011, CMV Corp. issued $600,000, 5%, 5-year bonds at face value. The bonds were dated April 1, 2011, and pay interest annually on April 1. Financial statements are prepared annually on December 31.

Instructions
(a) Prepare the journal entry to record the issuance of the bonds.
(b) Prepare the adjusting entry to record the accrual of interest on December 31, 2011.
(c) Show the balance sheet presentation of bonds payable and bond interest payable on December 31, 2011.
(d) Prepare the journal entry to record the payment of interest on April 1, 2012.
(e) Prepare the adjusting entry to record the accrual of interest on December 31, 2012.
(f) Assume that on January 1, 2014, CMV pays the accrued bond interest and calls the bonds. The call price is 102.5. Record the payment of interest and redemption of the bonds.

P10-5C Union Electric sold $5,000,000, 5%, 10-year bonds on January 1, 2012. The bonds were dated January 1 and pay interest on January 1. The bonds were sold at 103.

Instructions
(a) Prepare the journal entry to record the issuance of the bonds on January 1, 2012.
(b) At December 31, 2012, $15,000 of the bond premium had been amortized. Show the long-term liability balance sheet presentation of the bond liability at December 31, 2012.
(c) At January 1, 2013, when the carrying value of the bonds was $5,120,000, the company redeemed the bonds at 104. Record the redemption of the bonds assuming that interest for the year had already been paid.

P10-6C You have been presented with the following selected information taken from the financial statements of Kellogg Company.

KELLOGG COMPANY
Balance Sheet (partial)
December 31
(in millions)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total current assets</td>
<td>$ 2,717</td>
<td>$ 2,427</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>8,680</td>
<td>8,287</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$11,397</strong></td>
<td><strong>$10,714</strong></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$ 4,044</td>
<td>$ 4,020</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>4,827</td>
<td>4,625</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>8,871</strong></td>
<td><strong>8,645</strong></td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>2,526</td>
<td>2,069</td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td><strong>$11,397</strong></td>
<td><strong>$10,714</strong></td>
</tr>
</tbody>
</table>
Other information:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (loss)</td>
<td>$1,103</td>
<td>$1,004</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>444</td>
<td>467</td>
</tr>
<tr>
<td>Interest expense</td>
<td>319</td>
<td>307</td>
</tr>
<tr>
<td>Cash provided by operations</td>
<td>1,503</td>
<td>1,410</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>472</td>
<td>453</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>475</td>
<td>450</td>
</tr>
</tbody>
</table>

**Note 6. Leases and Other Commitments**
The Company's leases are generally for equipment and warehouse space. Future minimum annual lease payments under noncancelable operating leases were as follows: 2008, $159; 2009, $137; 2010, $112; 2011, $83; 2012, $56; after 2012, $183.

**Instructions**
(a) Calculate each of the following ratios for 2007 and 2006.
   (1) Current ratio.
   (2) Free cash flow.
   (3) Debt to total assets.
   (4) Times interest earned ratio.
(b) Comment on the trend in ratios.
(c) Read the company's note on leases. If the operating leases had instead been accounted for like a purchase, assets and liabilities would increase by approximately $584 million. Recalculate the debt to total assets ratio for 2007 in light of this information, and discuss the implications for analysis.

**P10-7C** The following section is taken from Zenith Oil Company’s balance sheet at December 31, 2011.

```
Current liabilities
   Interest payable         $ 144,000
Long-term liabilities
   Bonds payable (4%, due January 1, 2022) $3,600,000
   Add: Premium on bonds payable          280,000 3,880,000
```

Interest is payable annually on January 1. The bonds are callable on any annual interest date. Zenith uses straight-line amortization for any bond premium or discount. From December 31, 2011, the bonds will be outstanding for an additional 10 years (120 months).

**Instructions**
(Round all computations to the nearest dollar.)
(a) Journalize the payment of bond interest on January 1, 2012.
(b) Prepare the entry to amortize bond premium and to accrue interest due on December 31, 2012.
(c) Assume on January 1, 2013, after paying interest, that Zenith Company calls bonds having a face value of $1,800,000. The call price is 102. Record the redemption of the bonds.
(d) Prepare the adjusting entry at December 31, 2013, to amortize bond premium and to accrue interest on the remaining bonds.

**P10-8C** Holmes Corporation sold $2,200,000, 8%, 5-year bonds on January 1, 2012. The bonds were dated January 1, 2012, and pay interest on January 1. Holmes Corporation uses the straight-line method to amortize bond premium or discount.

**Instructions**
(a) Prepare all the necessary journal entries to record the issuance of the bonds and bond interest expense for 2012, assuming that the bonds sold at 102.
(b) Prepare journal entries as in part (a) assuming that the bonds sold at 98.
(c) Show the balance sheet presentation for the bond issue at December 31, 2012, using (1) the 102 selling price, and then (2) the 98 selling price.
Prepare journal entries to record issuance of bonds, interest, and straight-line amortization, and balance sheet presentation.  
(SO 5, 6, 8)

*P10-9C  
Wentworth Co. sold $3,000,000, 7%, 8-year bonds on January 1, 2012. The bonds were dated January 1, 2012, and pay interest on January 1. The company uses straight-line amortization on bond premiums and discounts. Financial statements are prepared annually.

**Instructions**

(a) Prepare the journal entries to record the issuance of the bonds assuming they sold at:
   (1) 103.
   (2) 99.

(b) Prepare amortization tables for both assumed sales for the first three interest payments.

(c) Prepare the journal entries to record interest expense for 2012 under both assumed sales.

(d) Show the balance sheet presentation for both assumed sales at December 31, 2012.

Prepare journal entries to record issuance of bonds, payment of interest, and amortization of bond premium using effective-interest method.  
(SO 5, 9), AP

(c) Interest Expense $198,750

Prepare journal entries to record issuance of bonds, payment of interest, and effective-interest amortization, and balance sheet presentation.  
(SO 5, 7, 9)

*P10-10C  
On January 1, 2012, Imelda Corporation issued $2,000,000 face value, 6%, 10-year bonds at $2,154,434. This price resulted in an effective-interest rate of 5% on the bonds. Imelda uses the effective-interest method to amortize bond premium or discount. The bonds pay annual interest January 1.

**Instructions**

(Round all computations to the nearest dollar.)

(a) Prepare the journal entry to record the issuance of the bonds on January 1, 2012.

(b) Prepare an amortization table through December 31, 2014 (three interest periods) for this bond issue.

(c) Prepare the journal entry to record the accrual of interest and the amortization of the discount on December 31, 2012.

(d) Prepare the journal entry to record the payment of interest on January 1, 2013.

(e) Prepare the journal entry to record the accrual of interest and the amortization of the discount on December 31, 2013.

*P10-11C  
On January 1, 2012, Murphy Company issued $1,600,000 face value, 7%, 10-year bonds at $1,717,761. This price resulted in a 6% effective-interest rate on the bonds. Murphy uses the effective-interest method to amortize bond premium or discount. The bonds pay annual interest on each January 1.

**Instructions**

(Round all computations to the nearest dollar.)

(a) Prepare the journal entry to record the issuance of the bonds on January 1, 2012.

(b) Prepare an amortization table through December 31, 2014 (three interest periods) for this bond issue.

(c) Prepare the journal entry to record the accrual of interest and the amortization of the discount on December 31, 2012.

(d) Prepare the journal entry to record the payment of interest on January 1, 2013.

(e) Prepare the journal entry to record the accrual of interest and the amortization of the discount on December 31, 2013.

Prepare installment payments schedule, journal entries, and balance sheet presentation for a mortgage note payable.  
(SO 7, 10)

(c) Current portion $58,822

*P10-12C  
Lyman purchased a new piece of equipment to be used in its new facility. The $380,000 piece of equipment was purchased with a $40,000 down payment and with cash received through the issuance of a $340,000, 8%, 5-year mortgage note payable issued on October 1, 2012. The terms provide for quarterly installment payments of $20,792 on December 31, March 31, June 30, and September 30.

**Instructions**

(Round all computations to the nearest dollar.)

(a) Prepare an installment payments schedule for the first five payments of the notes payable.

(b) Prepare all journal entries related to the notes payable for December 31, 2012.

(c) Show the balance sheet presentation for this obligation for December 31, 2012.  
(Hint: Be sure to distinguish between the current and long-term portions of the note.)
**P10-13C**  Ronald Allerton has just approached a venture capitalist for financing for a new business venture, the development of a local ski hill. On July 1, 2011, Ronald was loaned $140,000 at an annual interest rate of 8%. The loan is repayable over 5 years in annual installments of $35,064, principal and interest, due each June 30. The first payment is due June 30, 2012. Ronald uses the effective-interest method for amortizing debt. The ski hill company’s year-end will be June 30.

**Instructions**

(a) Prepare an amortization schedule for the 5 years, 2011–2016. Round all calculations to the nearest dollar.

(b) Prepare all journal entries for Ronald Allerton for the first 2 fiscal years ended June 30, 2012, and June 30, 2013. Round all calculations to the nearest dollar.

(c) Show the balance sheet presentation of the note payable as of June 30, 2013. *(Hint: Be sure to distinguish between the current and long-term portions of the note.)*