Problems: Set C

P10-1C On January 1, 2014, the ledger of Fleming Company contained the following liability accounts.

<table>
<thead>
<tr>
<th>Liability Account</th>
<th>Amount</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, 7%, $18,000 note.
5    Sold merchandise for cash totaling $18,480, which includes 5% 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 2013 ($8,200).
20   Sold 500 units of a new product on credit at $50 per unit, plus 5% 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, 2014. Assume no change in accounts payable.

P10-2C Majestic Mountain Bikes markets mountain-bike tours to clients vacationing in various locations in the mountains of Colorado. In preparation for the upcoming summer biking season, Majestic entered into the following transactions related to notes payable.

Mar. 1  Purchased Puma bikes for use as rentals by issuing a $9,000, 3-month, 6% note payable that is due June 1.
Mar. 31 Recorded accrued interest for the Puma note.
Apr. 1  Issued a $45,000 9-month note for the purchase of mountain property on which to build bike trails. The note bears 8% interest and is due January 1.
Apr. 30 Recorded accrued interest for the Puma note and the land note.
May 1  Issued a 4-month note to Jackson State Bank for $12,000 at 6%. The funds will be used for working capital for the beginning of the season; the note is due September 1.
May 31 Recorded accrued interest for all three notes.
June 1  Paid principal and interest on the Puma note.
June 30 Recorded accrued interest for the land note and the Jackson State Bank 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) Assuming that Majestic’s year-end is June 30, show the balance sheet presentation of notes payable and interest payable at that date.
(d) How much interest expense relating to notes payable did Majestic incur during the year?

P10-3C The following section is taken from Lois Corp.’s balance sheet at December 31, 2013.

<table>
<thead>
<tr>
<th>Liability Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td>$84,000</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Bonds payable (7%, due January 1, 2018)</td>
<td>$1,200,000</td>
</tr>
</tbody>
</table>

Prepare current liability entries, adjusting entries, and current liabilities section.

(LO 1, 2, 3, 7), AP

GLS

Prepare journal entries to record interest payments and redemption of bonds.

(LO 5, 6), AP

(b) Interest Payable $1,020
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, 2014.

(b) Assume that on January 1, 2014, after paying interest, Lois Corp. calls bonds having a face value of $300,000. The call price is 104. Record the redemption of the bonds.

(c) Prepare the adjusting entry on December 31, 2014, to accrue the interest on the remaining bonds.

**P10-4C** On April 1, 2013, CMV Corp. issued $600,000, 8%, 5-year bonds at face value. The bonds were dated April 1, 2013, 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, 2013.

(c) Show the balance sheet presentation of bonds payable and bond interest payable on December 31, 2013.

(d) Prepare the journal entry to record the payment of interest on April 1, 2014.

(e) Prepare the adjusting entry to record the accrual of interest on December 31, 2014.

(f) Assume that on January 1, 2015, CMV pays the accrued bond interest and calls the bonds. The call price is 103. Record the payment of interest and redemption of the bonds.

**P10-5C** Crescent Electric sold $5,000,000, 9%, 10-year bonds on January 1, 2014. 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, 2014.

(b) At December 31, 2014, $15,000 of the bond premium had been amortized. Show the long-term liability balance sheet presentation of the bond liability at December 31, 2014.

(c) At January 1, 2016, 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** Suppose the following selected information was taken from the financial statements of Krispy Kreme Doughnuts, Inc.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet (partial)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>$ 59,223</td>
<td>$ 75,806</td>
</tr>
<tr>
<td>Capital assets and other long-term assets</td>
<td>106,053</td>
<td>119,120</td>
</tr>
<tr>
<td>Total assets</td>
<td>$165,276</td>
<td>$194,926</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$ 37,673</td>
<td>$ 39,616</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>64,836</td>
<td>97,555</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>102,509</td>
<td>137,171</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>62,767</td>
<td>57,755</td>
</tr>
<tr>
<td>Total liabilities and shareholders’ equity</td>
<td>$165,276</td>
<td>$194,926</td>
</tr>
<tr>
<td><strong>Other information:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>$ 10,685</td>
<td>$ 10,679</td>
</tr>
<tr>
<td>Tax expense (benefit)</td>
<td>575</td>
<td>(503)</td>
</tr>
<tr>
<td>Net loss</td>
<td>(157)</td>
<td>(4,061)</td>
</tr>
<tr>
<td>Cash provided by operations</td>
<td>19,827</td>
<td>16,593</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>7,967</td>
<td>4,694</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>-0-</td>
<td>-0-</td>
</tr>
</tbody>
</table>

**Prepare journal entries to record issuance of bonds, interest, balance sheet presentation, and bond redemption.**

(LO 5, 6, 7), AP

**Prepare journal entries to record issuance of bonds, show balance sheet presentation, and record bond redemption.**

(LO 5, 6, 7), AP

**Calculate and comment on ratios.**

(LO 7), AN
Chapter 10 Reporting and Analyzing Liabilities


Instructions
(a) Calculate each of the following ratios for 2014 and 2013.
   (1) Current ratio.
   (2) Free cash flow.
   (3) Debt to assets ratio.
(b) Comment on Krispy Kreme's liquidity and solvency.
(c) Read the company's note on leases (Note 10). If the operating leases had instead been accounted for like a purchase, assets and liabilities would have increased by approximately $68,000,000. Recalculate the debt to assets ratio for 2014 and discuss the implications for analysis.

Note 10. Leases
The Company leases equipment and facilities under both capital and operating leases. The approximate future minimum lease payments under noncancelable (operating) leases as of January 31, 2014, are set forth in the following table:

<table>
<thead>
<tr>
<th>Fiscal Year Ending in</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$8,866</td>
</tr>
<tr>
<td>2016</td>
<td>7,972</td>
</tr>
<tr>
<td>2017</td>
<td>6,769</td>
</tr>
<tr>
<td>2018</td>
<td>5,830</td>
</tr>
<tr>
<td>2019</td>
<td>5,420</td>
</tr>
<tr>
<td>Thereafter</td>
<td>56,667</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$91,524</strong></td>
</tr>
</tbody>
</table>


Instructions
(a) Calculate each of the following ratios for 2014 and 2013.
   (1) Current ratio.
   (2) Free cash flow.
   (3) Debt to assets ratio.
(b) Comment on Krispy Kreme's liquidity and solvency.
(c) Read the company's note on leases (Note 10). If the operating leases had instead been accounted for like a purchase, assets and liabilities would have increased by approximately $68,000,000. Recalculate the debt to assets ratio for 2014 and discuss the implications for analysis.

Prepare journal entries to record interest payments, straight-line premium amortization, and redemption of bonds
(LO 5, 6, 8), AP

Prepare issuance of bonds, interest, and straight-line amortization, and balance sheet presentation.
(LO 5, 7, 8), AP

Interest is payable annually on January 1. The bonds are callable on any annual interest date. Centralia uses straight-line amortization for any bond premium or discount. From December 31, 2013, 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, 2014.
(b) Prepare the entry to amortize bond premium and to accrue interest due on December 31, 2014.
(c) Assume on January 1, 2015, after paying interest, that Centralia 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, 2015, to amortize bond premium and to accrue interest on the remaining bonds.

Prepare journal entries to record interest payments, straight-line premium amortization, and redemption of bonds
(LO 5, 6, 8), AP

Prepare issuance of bonds, interest, and straight-line amortization, and balance sheet presentation.
(LO 5, 7, 8), AP

*P10-8C Champeau Company sold $2,500,000, 8%, 25-year bonds on January 1, 2014. The bonds were dated January 1, 2014, and pay interest on January 1. Champeau Company 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 2014, assuming that the bonds sold at 102.
Prepare journal entries as in part (a) assuming that the bonds sold at 96.

Prepare the balance sheet presentation for the bond issue at December 31, 2014, using (1) the 102 selling price, and then (2) the 96 selling price.

**P10-9C** Marini Corporation sold $2,600,000, 9%, 20-year bonds on December 31, 2013. The bonds were dated December 31, 2013, and pay interest on December 31. The company uses straight-line amortization for premiums and discounts. Financial statements are prepared annually.

**Instructions**
(a) Prepare the journal entry to record the issuance of the bonds assuming they sold at:
(1) 98.
(2) 104.

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

(c) Prepare the journal entries to record interest expense for the first two interest payments under both of the bond issuances assumed in part (a).

(d) Show the long-term liabilities balance sheet presentation for both of the bond issuances assumed in part (a) at December 31, 2014.

**P10-10C** On January 1, 2014, Pedraza Corporation issued $1,000,000 face value, 6%, 10-year bonds at $1,077,217. This price resulted in an effective-interest rate of 5% on the bonds. Pedraza 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, 2014.
(b) Prepare an amortization table through December 31, 2016 (three interest periods) for this bond issue.
(c) Prepare the journal entry to record the accrual of interest and the amortization of the premium on December 31, 2014.
(d) Prepare the journal entry to record the payment of interest on January 1, 2015.
(e) Prepare the journal entry to record the accrual of interest and the amortization of the premium on December 31, 2015.

**P10-11C** On January 1, 2014, Witzling Company issued $4,000,000 face value, 8%, 15-year bonds at $3,391,514. This price resulted in an effective-interest rate of 10% on the bonds. Witzling uses the effective-interest method to amortize bond premium or discount. The bonds pay annual interest January 1.

**Instructions**
(a) Prepare the journal entries to record the following transactions.
(1) The issuance of the bonds on January 1, 2014.
(2) The accrual of interest and the amortization of the discount on December 31, 2014.
(3) The payment of interest on January 1, 2015.
(4) The accrual of interest and the amortization of the discount on December 31, 2015.
(b) Show the proper long-term liabilities balance sheet presentation for the liability for bonds payable at December 31, 2015.
(c) Provide the answers to the following questions in narrative form.
(1) What amount of interest expense is reported for 2015?
(2) Would the bond interest expense reported in 2015 be the same as, greater than, or less than the amount that would be reported if the straight-line method of amortization were used?
(3) Determine the total cost of borrowing over the life of the bond.
(4) Would the total bond interest expense be greater than, the same as, or less than the total interest expense that would be reported if the straight-line method of amortization were used?

**P10-12C** Daisy Corporation purchased a new piece of equipment to be used in its new facility. The $450,000 piece of equipment was purchased with a $50,000 down payment and with cash received through the issuance of a $400,000, 6%, 5-year mortgage note payable issued on October 1, 2014. The terms provide for quarterly installment payments of $23,298 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 the journal entry related to the notes payable for December 31, 2014.

(c) Show the balance sheet presentation for these obligations for December 31, 2014. (Hint: Be sure to distinguish between the current and long-term portions of the note.)

*P10-13C Scott Robertson has just approached a venture capitalist for financing for his sailing school. The venture capitalist is willing to loan Scott $90,000 at a high-risk annual interest rate of 18%. The loan is payable over 2 years in monthly installments of $4,493. Each payment includes principal and interest, calculated using the effective-interest method for amortizing debt. Scott receives the loan on May 1, 2014, which is the first day of his fiscal year. Scott makes the first payment on May 31, 2014.

Instructions

(a) Prepare an amortization schedule for the period from May 1, 2014, to August 31, 2014. Round all calculations to the nearest dollar.

(b) Prepare all journal entries for Scott Robertson for the period beginning May 1, 2014, and ending July 31, 2014. Round all calculations to the nearest dollar.