CHAPTER 15

PROBLEMS: SET B

P15-1B On June 1, 2015, Weller Corp. issued $3,000,000, 9%, 5-year bonds at face value. The bonds were dated June 1, 2015, and pay interest annually on June 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, 2015.
(c) Show the balance sheet presentation on December 31, 2015.
(d) Prepare the journal entry to record payment of interest on June 1, 2016.
(e) Prepare the adjusting entry to record the accrual of interest on December 31, 2016.
(f) Assume that on January 1, 2017, Weller pays the accrued interest and calls the bonds at 102. Record the payment of interest and redemption of the bonds.

P15-2B Shonrock Co. sold $800,000, 9%, 10-year bonds on January 1, 2015. The bonds were dated January 1, 2015, and paid interest on January 1. The bonds were sold at 105.

Instructions
(a) Prepare the journal entry to record the issuance of the bonds on January 1, 2015.
(b) At December 31, 2015, $4,000 of the Premium on Bonds Payable account has been amortized. Show the balance sheet presentation of the long-term liability at December 31, 2015.
(c) On January 1, 2017, when the carrying value of the bonds was $832,000, the company redeemed the bonds at 106. Record the redemption of the bonds assuming that interest for the period has already been paid.

P15-3B The following section is taken from Lyons Corp.’s balance sheet at December 31, 2015.

Current liabilities
- Interest payable $ 96,000
- Long-term liabilities
  - Bonds payable (8%, due January 1, 2020) 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, 2016.
(b) Assume that on January 1, 2016, 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, 2016, to accrue the interest on the remaining bonds.

P15-4B Crosetti’s Electronics issues an $800,000, 8%, 10-year mortgage note on December 31, 2015, to help finance a plant expansion program. The terms of the note provide for annual installment payments, exclusive of real estate taxes and insurance, of $119,224. Payments are due on December 31.

Instructions
(a) Prepare an installment payments schedule for the first 4 years.
(b) Prepare the entries for (1) the loan and (2) the first installment payment.
(c) Show how the total mortgage liability should be reported on the balance sheet at December 31, 2016.

P15-5B Presented below are three different lease transactions in which Naylor Enterprises engaged in 2016. Assume that all lease transactions start on January 1, 2016. In no case does Naylor receive title to the properties leased during or at the end of the lease term.

<table>
<thead>
<tr>
<th>Lessor</th>
<th>Baxter Springs Co.</th>
<th>Mendenhall Co.</th>
<th>Midas Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of property</td>
<td>Bulldozer</td>
<td>Truck</td>
<td>Furniture</td>
</tr>
<tr>
<td>Bargain purchase option</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Lease term</td>
<td>4 years</td>
<td>6 years</td>
<td>3 years</td>
</tr>
<tr>
<td>Estimated economic life</td>
<td>8 years</td>
<td>7 years</td>
<td>5 years</td>
</tr>
<tr>
<td>Yearly rental</td>
<td>$13,000</td>
<td>$20,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Fair value of leased asset</td>
<td>$80,000</td>
<td>$96,000</td>
<td>$20,500</td>
</tr>
<tr>
<td>Present value of the lease rental payments</td>
<td>$48,000</td>
<td>$82,000</td>
<td>$9,000</td>
</tr>
</tbody>
</table>

Analyze three different lease situations and prepare journal entries. (LO 4)
**Instructions**
(a) Identify the leases above as operating or capital leases. Explain.
(b) How should the lease transaction for Mendenhall Co. be recorded on January 1, 2016?
(c) How should the lease transaction for Midas Inc. be recorded in 2016?

*P15-6B* Fernetti Company sold $6,000,000, 8%, 20-year bonds on January 1, 2015. The bonds were dated January 1 and pay interest annually on January 1. Fernetti Company uses the straight-line method to amortize bond premium or discount. The bonds were sold at 96.

**Instructions**
(a) Prepare the journal entry to record the issuance of the bonds on January 1, 2015.
(b) Prepare a bond discount amortization schedule for the first 4 interest periods.
(c) Prepare the journal entries for interest and the amortization of the discount in 2015 and 2016.
(d) Show the balance sheet presentation of the bond liability at December 31, 2016.

*P15-7B* Rosewell Corporation sold $4,000,000, 7%, 10-year bonds on January 1, 2015. The bonds were dated January 1, 2015, and pay interest annually on January 1. Rosewell 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 2015, assuming that the bonds sold at 103.
(b) Prepare journal entries as in part (a) assuming that the bonds sold at 96.
(c) Show the balance sheet presentation for the bond liability at December 31, 2015.

*P15-8B* The following is taken from the Sinjh Corporation balance sheet.

<table>
<thead>
<tr>
<th>SINJH CORPORATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet (partial)</td>
</tr>
<tr>
<td>Current liabilities</td>
</tr>
<tr>
<td>Interest payable (for 12 months from January 1 to December 31)</td>
</tr>
<tr>
<td>Long-term liabilities</td>
</tr>
<tr>
<td>Bonds payable, 9%, due January 1, 2026</td>
</tr>
<tr>
<td>Less: Discount on bonds payable</td>
</tr>
<tr>
<td>$2,310,000</td>
</tr>
</tbody>
</table>

Interest is payable annually on January 1. The bonds are callable on any annual interest date. Sinjh uses straight-line amortization for any bond premium or discount. From December 31, 2015, 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, 2016.
(b) Prepare the entry to amortize bond discount and to accrue the interest due on December 31, 2016.
(c) Assume that on January 1, 2017, after paying interest, Sinjh Corp. calls bonds having a face value of $800,000. The call price is 102. Record the redemption of the bonds.
(d) Prepare the adjusting entry at December 31, 2017, to amortize bond discount and to accrue interest on the remaining bonds.

*P15-9B* On January 1, 2015, Witherspoon Satellites issued $4,500,000, 9%, 10-year bonds at $4,219,600. This price resulted in an effective-interest rate of 10% on the bonds. Witherspoon 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, 2015.
(b) Prepare an amortization table through December 31, 2016 (2 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, 2015.
(d) Prepare the journal entry to record the payment of interest on January 1, 2016.
(e) Prepare the journal entry to record the accrual of interest and the amortization of the discount on December 31, 2016.

*P15-10B* On January 1, 2015, Ashlock Chemical Company issued $4,000,000, 10%, 10 year bonds at $4,543,627. This price resulted in an 8% effective-interest rate on the bonds. Ashlock 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 entries to record the following transactions.
   (1) The issuance of the bonds on January 1, 2016.
   (2) Accrual of interest and the amortization of the premium on December 31, 2015.
   (3) The payment of interest on January 1, 2016.
   (4) Accrual of interest and amortization of the premium on December 31, 2016.

(b) Show the proper long-term liabilities balance sheet presentation for the liability for bonds payable at December 31, 2016.

(c) Provide the answers to the following questions in letter form.
   (1) What amount of interest expense is reported for 2016?
   (2) Would the bond interest expense reported in 2016 be the same as, greater than, or less than the amount that would be reported if the straight-line method of amortization were used?