Achievement Exam

Select the single best answer for each question or statement, then go online to www.myashworth.com and enter your answers.

1. Jordan issued $400,000, 10-year, 9% bonds to yield 11%. Interest is payable annually. Using factors from the present value tables in Appendix I near the end of your text, which of the following would be the journal entry to record the issuance of these bonds?

_____ a.

DR Cash	352,884	
DR Bond premium	47,116	
CR Bonds payable		400,000

_____ b.

DR Cash	352,884	
DR Bond discount	47,116	
CR Bonds payable		400,000

_____ c.

DR Cash	447,116	
CR Bond premium		47,116
CR Bonds payable		400,000

_____ d.

DR Cash	447,116	
CR Bond discount		47,116
CR Bonds payable		400,000

2. Concord Inc. issues (sells) $100,000 of its 10-year, 8% bonds to yield 10% on January 1, Year 1. The bonds pay interest annually on December 31. The bonds were sold with a discount of $12,289. What is the bond carrying amount (book value) at the end of Year 1?

_____ a. $88,482

_____ b. $96,482

_____ c. $100,000

_____ d. $100,771

3. Concord Inc. issues (sells) $100,000 of its 10-year, 8% bonds to yield 10% on January 1, Year 1. The bonds pay interest annually on December 31. The bonds were sold with a discount of $12,289. What is the bond interest expense for Year 1?

____ a. $8,000

____ b. $8,771

____ c. $10.000

____ d. $10,771

4. Concord Inc. issues (sells) $100,000 of its 10-year, 8% bonds to yield 10% on January 1, Year 1. The bonds pay interest annually on December 31. The bonds were sold with a discount of $12,289. Calculate the amount of ca interest paid on the bonds in Year 1.

____ a. $7,017.

____ b. $8,000.

____ c. $8,771.

____ d. $10,000.

7. Will Company issued $100,000 worth of bonds on January 1, Year 3 with interest payable annually. The bonds had a contract rate of 8%. The bonds were set up as floating-rate debt with the rate benchmarked to LIBOR plus 3%. What would interest expense for year one if LIBOR is 5% be?

_____ a. $3,000

_____ b. $5,000

_____ c. $8,000

_____ d. $9,000

8. Research on debt-for-equity swaps has shown that most of these swaps have resulted in an extinguishment gain. Therefore, some analysts have argued that debt-for-equity swaps have been undertaken to:

_____ a. negatively alter capital structure.

_____ b. provide no alteration of capital structure.

_____ c. provide no real economic benefit.

_____ d. smooth transitory decreases in quarterly earnings.

11. Hall, Inc. agrees to lease equipment from White Inc. for 10 years for $50,000 at the end of each year. The equipment has a fair value of $350,000 and an estimated useful life of 10 years. The lease includes a guaranteed residual value of $20,000. In addition to the lease payments, Hall will pay $10,000 per year for a maintenance agreement. Hall can finance this lease with its bank at a 12% rate. The lessor's implicit interest rate is 10%. Use the present value factors from Appendix I near the end of your text to perform any necessary present value calculations. What is the entry to record this lease on Hall's books?

_____ a.

DR Leased equipment—capital lease	288,951	
CR Obligation under capital lease		288,951

_____ b.

DR Leased equipment—capital lease	314,939	
DR Obligation under capital lease		314,939

_____ c.

DR Leased equipment—capital lease	314,939	
DR Discount on lease obligation	185,061	
CR Obligation under capital lease		500,000

_____ d.

DR Lease equipment—capital lease	334,939	
DR Discount on lease obligation	165,061	
CR Obligation under capital lease		500,000

13. Hall, Inc. agrees to lease equipment from White Inc. for 10 years for $50,000 at the end of each year. The equipment has a fair value of $350,000 and an estimated useful life of 10 years. The lease includes a guaranteed residual value of $20,000. In addition to the lease payments, Hall will pay $10,000 per year for a maintenance agreement. Hall can finance this lease with its bank at a 12% rate. The lessor's implicit interest rate is 10%. Use the present value factors from Appendix I near the end of your text to perform any necessary present value calculations. At the end of Year 1, Hall will make a payment of $60,000. How much straight-line depreciation expense will Hall record for Year 1?

_____ a. $29,494

_____ b. $30,723

_____ c. $31,494

_____ d. $35,000

14. Burrell Corporation leases a building from Bennett Corporation for 10 years for $50,000 at the end of each year. The building has a fair value of $350,000 and an estimated useful life of 25 years. In addition to the lease payments, Burrell will pay $10,000 per year for general maintenance. Burrell can finance this lease with its bank at a 12% rate. The lessor's implicit interest rate is 10%. Use the present value factors from Appendix I near the end of your text to perform any necessary present value calculations. The Burrell lease is a/an:

_____ a. capital lease because the lease term is more than 75% of the life of the asset.

_____ b. capital lease because the lease value is 90% or more of the fair value of the asset.

_____ c. operating lease because the asset reverts to the lessor at the end of the lease.

_____ d. operating lease because the lease value is less than 90% of the fair value of the asset.

Exhibit 1
Dillon Corporation leases a tractor from Talley Leasing with a five year non-cancelable lease on January 1, Year 1, under the following terms.

- Five payments of $26,379.74 (a 9% implicit rate) due at the end of each year.
- The lease is nonrenewable and the tractor reverts to Talley at the end of the lease period.
- The tractor has a six-year economic life.
- Dillon has an excellent credit rating.
- Talley offers no warranty on the tractor other than the manufacturer's two-year warranty that is handled directly with the manufacturer.

16. Refer to Exhibit 1. Talley Leasing should record this lease with which one of the following entries?

_____ a.

DR Gross investment in leased assets	131,898.70	
CR Equipment		131,898.70

_____ b.

DR Gross investment in leased assets	131,898.70	
CR Equipment		102,607.96
CR Unearned financing income--leases		29,290.74

_____ c.

DR Accounts receivable—lease	131,898.70	
CR Cash		26,379.74
CR Equipment		105,518.96

_____ d.

DR Gross investment in leased assets	131,898.70	
CR Equipment		105,518.96
CR Cash		26,379.74

19. Randall Corporation leases a truck from David's Trucks with a five year non-cancelable lease on January 1, Year 5 with the following terms.

- Five payments of $26,379.74 (a 9% implicit rate) due at the end of each year.
- The fair value of the truck is $100,000 and cost David $80,000.
- The lease is nonrenewable and the truck reverts to David at the end.
- The truck has a six year economic life.
- Randall has an excellent credit rating.
- David offers no warranty on the truck other than the manufacturer's two-year warranty.

Which one of the following entries will David's Trucks make to record the lease?

____ a.

DR Gross investment in leased assets	131,898.70	
CR Equipment		131,898.70

____ b.

DR Gross investment in leased assets	131,898.70	
DR Cost of goods sold	80,000.00	
CR Sales		100,000.00
CR Unearned financing income—leases		31,898.70
CR Inventory		80,000.00

____ c.

DR Accounts receivable—leases	131,898.70	
CR Cash		26,379.74
CR Inventory		105,518.96

____ d.

DR Gross investment in leased assets	131,898.70	
DR Cost of goods sold	80,000.00	
CR Sales		180,000.00
CR Unearned financing income—leases		31,898.70