CHAPTER 10

SOLUTIONS TO EXERCISES - SET B

EXERCISE 10-1B

July 1, 2022

Cash 50,000

Notes Payable 50,000

November 1, 2022

Cash 60,000

Notes Payable 60,000

December 31, 2022

Interest Expense

  ($50,000 X 7% X 6/12) 1,750

Interest Payable 1,750

Interest Expense

  ($60,000 X 8% X 2/12) 800

Interest Payable 800

February 1, 2023

Notes Payable 60,000

Interest Payable 800

Interest Expense 400

Cash 61,200

April 1, 2023

Notes Payable 50,000

Interest Payable 1,750

Interest Expense 875

Cash 52,625

EXERCISE 10-2B

(a) June 1 Cash  90,000

Notes Payable  90,000

(b) June 30 Interest Expense     600

Interest Payable

  [($90,000 X 8%) X 1/12]     600

(c) Dec. 1 Notes Payable  90,000

Interest Payable

  ($90,000 X 8% X 6/12)   3,600

Cash  93,600

(d) $3,600

EXERCISE 10-3B

VELEZ COMPANY

Apr. 10 Cash  31,800

Sales Revenue  30,000

Sales Taxes Payable   1,800

HAMPTON COMPANY

15 Cash  26,500

Sales Revenue ($26,500 ÷ 1.06)  24,000

Sales Taxes Payable

  ($26,500 – $25,000)   1,500

EXERCISE 10-4B

(a) Nov. 30 Cash 432,000

Unearned Subscription Revenue

  (12,000 X $36) 432,000

(b) Dec. 31 Unearned Subscription Revenue  36,000

Subscription Revenue

  ($432,000 X 1/12) 36,000

(c) Mar. 31 Unearned Subscription Revenue 108,000

Subscription Revenue

  ($432,000 X 3/12) 108,000

EXERCISE 10-5B

(a) Net pay = Gross pay – FICA taxes – Federal income tax

Net pay = $1,780 – $143 – $318

Net pay = $1,319

(b) Salaries and Wages Expense 1,780

FICA Taxes Payable 143

Federal Income Taxes Payable  318

Salaries and Wages Payable    1,319

(c) Salaries and Wages Payable 1,319

Cash 1,319

EXERCISE 10-6B

Payroll Tax Expense 619.29

FICA Taxes Payable 341.96

Federal Unemployment Taxes Payable  35.76

State Unemployment Taxes Payable    241.57

EXERCISE 10-7B

1. True.

2. True.

3. False. *Unsecured* bonds are also known as debenture bonds.

4. True.

5. True.

6. True.

7. True.

EXERCISE 10-8B

(a) Jan.  1 Cash 500,000

Bonds Payable 500,000

(b) July  1 Interest Expense   15,000

Cash ($500,000 X 6% X 1/2)   15,000

(c) Dec. 31 Interest Expense   15,000

Interest Payable   15,000

EXERCISE 10-9B

(a) Jan.  1 Cash 200,000

Bonds Payable 200,000

(b) Dec. 31 Interest Expense   12,000

Interest Payable ($200,000 X 6%)   12,000

(c) Jan. 1 Interest Payable 12,000

Cash 12,000

EXERCISE 10-10B

(a) (1) Cash 388,000

Discount on Bonds Payable 12,000

Bonds Payable 400,000

(2) Annual interest payments

  ($24,000\* X 5) $120,000

Plus: Bond discount 12,000

Total cost of borrowing $132,000

\*($400,000 X .06)

OR

Principal at maturity $400,000

Annual interest payments

  ($24,000 X 5)   120,000

Cash to be paid to bondholders 520,000

Cash received from bondholders 388,000

Total cost of borrowing $132,000

(b) (1) Cash 420,000

Bonds Payable 400,000

Premium on Bonds Payable 20,000

(2) Annual interest payments

  ($24,000 X 5) $120,000

Less: Bond premium 20,000

Total cost of borrowing $100,000

OR

Principal at maturity $400,000

Annual interest payments

  ($24,000 X 5)   120,000

Cash to be paid to bondholders 520,000

Cash received from bondholders 420,000

Total cost of borrowing $100,000

EXERCISE 10-11B

(a) Jan.  1 Interest Payable 128,000

Cash 128,000

(b) Jan  1 Bonds Payable 600,000

Loss on Bond Redemption 12,000

Cash ($600,000 X 1.02)   612,000

(c) Dec. 31 Interest Expense   80,000

Interest Payable ($1,000,000 X 8%)   80,000

EXERCISE 10-12B

1. June 30 Bonds Payable 130,000

Loss on Bond Redemption

  ($133,900 – $117,500)  16,400

Discount on Bonds Payable

  ($130,000 – $117,500)  12,500

Cash ($130,000 X 103%) 133,900

2. June 30 Bonds Payable 150,000

Premium on Bonds Payable   1,000

Gain on Bond Redemption

 ($151,000 – $145,500)   5,500

Cash ($150,000 X 97%) 145,500

EXERCISE 10-13B

2022

Issuance of Note

Dec. 31 Cash 250,000

Mortgage Payable 250,000

2023

First Installment Payment

Dec. 31 Interest Expense

  ($250,000 X 8%) 20,000

Mortgage Payable   20,000

Cash  40,000

2024

Second Installment Payment

Dec. 31 Interest Expense

  [($250,000 – $20,000) X 8%] 18,400

Mortgage Payable   21,600

Cash  40,000

EXERCISE 10-14B

Long-term liabilities

Lease liability, due after 2023 $89,500

Bonds payable, due 2026 $180,000

Add: Premium on bonds payable 30,000 210,000

Total long-term liabilities $299,500

Note: Interest Payable is a current liability

EXERCISE 10-15B

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Plan One  Issue Stock |  | Plan Two  Issue Bonds |
|  |  |  |  |  |
| Income before interest and taxes  Interest ($2,760,000 X 10%)  Income before taxes  Income tax expense (30%)  Net income  Outstanding shares  Earnings per share |  | $900,000  —   900,000  270,000  $630,000   150,000     $4.20 |  | $900,000  276,000   624,000   187,200  $436,800    90,000     $4.85 |

EXERCISE 10-16B

(a) Current ratio

2021   $10,795 ÷ $5,897 = 1.83:1

2022   $12,215 ÷ $6,959 = 1.76:1

Working capital

2021   $10,795 – $5,897 = $4,898 million

2022   $12,215 – $6,959 = $5,256 million

(b) Current ratio

$12,015 ÷ $6,759 = 1.78:1

Working capital

$12,015 – $6,759 = $5,256 million

It would make its current ratio increase slightly, but its working capital would remain the same.

\*EXERCISE 10-17B

2022

(a) Jan.  1 Cash ($400,000 X 103%) 412,000

Premium on Bonds Payable  12,000

Bonds Payable 400,000

(b) Dec. 31 Interest Expense  35,400

Premium on Bonds Payable

  ($12,000 X 1/20)     600

Interest Payable ($400,000 X 9%)  36,000

2023

(c) Jan. 1 Interest Payable  36,000

Cash  36,000

2042

(d) Jan.  1 Bonds Payable 400,000

Cash 400,000

\*EXERCISE 10-18B

(a) 2021

Dec. 31 Cash 740,000

Discount on Bonds Payable  60,000

Bonds Payable 800,000

(b) 2022

Dec. 31 Interest Expense  94,000

Discount on Bonds Payable

  ($60,000 ÷ 10) 6,000

Interest Payable ($800,000 X 11%)  88,000

(d) 2031

Dec. 31 Bonds Payable 800,000

Cash 800,000

\*EXERCISE 10-19B

2022

(a) Jan. 1 Cash 375,076

Discount on Bonds Payable  24,924

Bonds Payable 400,000

(b) Dec. 31 Interest Expense

  ($375,076 X 10%) 37,508

Discount on Bonds Payable 1,508

Interest Payable ($400,000 X 9%)  36,000

2023

(c) Jan. 1 Interest Payable 36,000

Cash 36,000

\*EXERCISE 10-20B

2022

(a) Jan.  1 Cash 340,775

Premium on Bonds Payable  40,775

Bonds Payable 300,000

(b) Dec. 31 Interest Expense

  ($340,775 X 8%) 27,262

Premium on Bonds Payable   2,738

Interest Payable

  ($300,000 X 10%) 30,000

2023

(c) Jan. 1 Interest Payable 30,000

Cash  30,000

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **(b), (c)** |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Semiannual**  **Interest**  **Periods** |  | **(A)**  **Interest to**  **Be Paid**  **(5% X $300,000)** |  | **(B)**  **Interest Expense**  **to Be Recorded**  **(4.0% X Preceding**  **Bond Carrying Value)**  **(E X .04)** |  | **(C)**  **Premium**  **Amortization**  **(A) – (B)** |  | **(D)**  **Unamortized**  **Premium**  **(D) – (C)** |  | **(E)**  **Bond**  **Carrying Value** |
|  |  |  |  |  |  |  |  |  |  |  |
| **Issue date**  **1**  **2** |  | **15,000**  **15,000** |  | **13,631**  **13,576** |  | **1,369**  **1,424** |  | **40,775**  **39,406**  **37,982** |  | **340,775**  **339,406**  **337,982** |

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\*EXERCISE 10-20B (Continued)