On January 1, 19X1, Maple Company issued five-year bonds with a face amount of $200,000 and a stated interest rate of 8%, payable semiannually on June 30 and December 31. The bonds were priced to yield 6%. The present value factor for the present value of $1 for 10 periods at 3% is 0.74409; the factor for the present value of an ordinary annuity of $1 for 10 periods at 3% is 8.53020.

**Required:** Determine the total issue price of the bonds. Record their issuance.

\[
\begin{align*}
\text{PV interest} &= 200,000 \times 0.04 \times 2.00 \times 0.74409 \\
&= 28,881.6 \\
\text{PV Principle} &= 200,000 \times 0.74409 \\
&= 148,818 \\
\text{Cash} &= 17,059.6 \\
\text{Premium} &= 217,059.6 - 200,000 \\
\text{Bond Payable} &= 17,059.6 \\
\end{align*}
\]

11-15. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

**Terms:**
- A. Accrued liabilities
- B. Advances from customers
- C. Callable
- D. Discount on notes payable
- E. Interest payable
- F. Probable
- G. Sales tax payable
- H. Secured loan
- I. Short-term note
- J. Warranty liability

**Phrases:**
11. __ A liability when received.
12. __ Confirming event is likely to occur.
13. __ A loss contingency accrued in the period of related sales.
14. __ Most common temporary financing arrangement.
15. __ Requires collateral.

31-35. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

**Terms:**
- A. Bond price
- B. Book value method
- C. Convertible stocks
- D. Effective interest method
- E. Induced conversion
- F. Market value method
- G. Straight-line method
- H. Troubled debt restructuring
- I. Warrants
- J. Zero-coupon bonds

**Phrases:**
31. __ Requires no cash outflow before maturity. __
32. __ Often traded separately from associated bonds. __
33. __ A practical expediency when not misleading. __
34. __ Additional consideration is recorded as an expense. __
35. __ No gain or loss recorded when convertible bond option is exercised.
During 1994, Haft Co. became involved in a tax dispute with the IRS. At December 31, 1994, Haft's tax advisor believed that an unfavorable outcome was probable. A reasonable estimate of additional taxes was $200,000 but could be as much as $300,000. After the 1994 financial statements were issued, Haft received and accepted an IRS settlement offer of $275,000.

What amount of accrued liability should Haft have reported in its December 31, 1994 balance sheet?

a. $200,000
b. $250,000
c. $275,000
d. $300,000

98. ABC Company leased equipment to Best Corporation under a lease agreement that qualifies as a direct financing lease. The cost of the asset is $120,000. The lease contains a bargain purchase option that is effective at the end of the fifth year. The expected economic life of the asset is ten years. The lease term is 5 years. The asset is expected to have a residual value of $4,500 at the end of ten years. Using the straight-line method, what would Best record as annual depreciation?

\[
\frac{120,000 - 4,500}{10} = 11,550
\]

126. Four independent situations are described below. Each involves future deductible amounts and/or future taxable amounts produced by temporary differences reported first on:

\[
\begin{array}{ccc}
\text{Tax Return} & \text{Income Statement} \\
\text{Revenue} - \text{Expense} & \text{Revenue} - \text{Expense} \\
(1.) & $20,000 \\
(2.) & $20,000 \\
(3.) & $20,000 \\
(4.) & $15,000
\end{array}
\]

Required:
For each situation, determine the taxable income assuming pretax financial income is $100,000. Show well-labeled computations.

1) \(100,000 + 20,000 = 120,000\)
2) \(100,000 - (-20,000) = 120,000\)
3) \(100,000 - 20,000 - 15,000 = 65,000\)
4) \(100,000 + 15,000 - 20,000 - 5,000 + 10,000 = 100,000\)
Lease A does not contain a bargain purchase option, but the lease term is equal to 90 percent of the estimated economic life of the leased property. Lease B does not transfer ownership of the property to the lessee by the end of the lease term, but the lease term is equal to 75 percent of the estimated economic life of the leased property. How should the lessee classify these leases?

Lease A | Lease B
--- | ---
1. Operating lease | Capital lease
2. Operating lease | Operating lease
3. Capital lease | Capital lease
4. Capital lease | Operating lease

On December 31, 1990, Day Co. leased a new machine from Parr with the following pertinent information:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease term</td>
<td>6 years</td>
</tr>
<tr>
<td>Annual rental payable at beginning of each year</td>
<td>$50,000</td>
</tr>
<tr>
<td>Useful life of machine</td>
<td>8 years</td>
</tr>
<tr>
<td>Day's incremental borrowing rate</td>
<td>15%</td>
</tr>
<tr>
<td>Implicit interest rate in lease (known by Day)</td>
<td>12%</td>
</tr>
<tr>
<td>Present value of an annuity of 1 in advance for 6 periods at 12%</td>
<td>4.61</td>
</tr>
<tr>
<td>Present value of an annuity of 1 in advance for 6 periods at 15%</td>
<td>4.35</td>
</tr>
</tbody>
</table>

The lease is not renewable, and the machine reverts to Parr at the termination of the lease. The cost of the machine on Parr's accounting records is $375,500. At the beginning of the lease term, Day should record a lease liability of:

a. $375,500  
b. $230,500  
c. $217,500  
d. $0

Premium Corporation issued ten thousand $1,000 bonds on January 1, 2000. They have a ten-year term and pay interest semiannually. This is the partial bond amortization schedule for the bonds.

<table>
<thead>
<tr>
<th>Payment</th>
<th>Cash</th>
<th>Effective Interest</th>
<th>Decrease in Balance</th>
<th>Outstanding Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/00</td>
<td>400,000</td>
<td>344,632</td>
<td>55,368</td>
<td>11,487,747</td>
</tr>
<tr>
<td>12/31/00</td>
<td>400,000</td>
<td>342,971</td>
<td>57,029</td>
<td>11,432,717</td>
</tr>
<tr>
<td>6/30/01</td>
<td>400,000</td>
<td>341,261</td>
<td>58,739</td>
<td>11,375,978</td>
</tr>
<tr>
<td>12/31/01</td>
<td>400,000</td>
<td>339,498</td>
<td>60,501.67</td>
<td>11,316,476.33</td>
</tr>
</tbody>
</table>

82. What is the stated annual rate of interest on the bonds?
   A) 3%  
   B) 4%  
   C) 6%  
   D) 8%  

83. What is the effective annual rate of interest on the bonds?
   A) 3%  
   B) 4%  
   C) 6%  
   D) 8%  

84. What is the interest expense on the bonds in 2001?
   A) $800,000  
   B) $680,759  
   C) $342,961  
   D) $119,241.
Rumsfeld Corporation leased a machine on December 31, 2006, for a three-year period. The lease agreement calls for annual payments in the amount of $16,000 on December 31 of each year beginning on December 31, 2006. Rumsfeld has the option to purchase the machine on December 31, 2009, for $20,000 when its fair value is expected to be $30,000. The machine's estimated useful life is expected to be 5 years with no residual value. Rumsfeld uses straight-line depreciation for this type of machinery. The appropriate interest rate for this lease is 12%.

\[
\begin{array}{cccc}
\text{n/i} & \text{PV of $1} & \text{PV, ordinary} & \text{PV, annuity} \\
& & \text{annuity} & \text{due} \\
1 \text{ period, 12\%} & 0.89286 & 0.89286 & 1.00000 \\
2 \text{ periods, 12\%} & 0.79719 & 1.69005 & 1.89286 \\
3 \text{ periods, 12\%} & 0.71178 & 2.40183 & 2.69005 \\
\end{array}
\]

126. Required:
(1.) Calculate the amount to be recorded as a leased asset and the associated lease liability.
(2.) Prepare Rumsfeld's journal entries for this lease for 2006 and 2007.

\[
\begin{align*}
1) & (16,000 \times 2.69005) + (20,000 \times 0.71178) \\
& = 4304.08 + 14,235.6 \\
& = 57,306.4 \\
\text{Leased Asset} & \quad 57,306.4 \\
\text{Leased Liability} & \quad 57,306.4 \\
\text{Leased Payable} & \\
\text{Lease Payable} & 16,000 \\
\text{Cash} & 16,000 \\
\end{align*}
\]

\[
\begin{align*}
2) & 2006 \\
\text{12/31} & \text{Interest Expense} \quad 4957 \\
\text{Leased Payable} & \quad 16,043 \\
\text{Cash} & \\
\text{Leased Payable} & 16,000 \\
\text{Cash} & 16,000 \\
\end{align*}
\]

\[
\begin{align*}
3) & 2007 \\
\text{12/31} & \text{Interest Expense} \quad 4957 \\
\text{Leased Payable} & \quad 11,043 \\
\text{Cash} & \\
\text{Leased Payable} & 16,000 \\
\text{Cash} & 16,000 \\
\end{align*}
\]

The basic concept of "substance over form" influences lease accounting. Explain.

Leases are accounted for based on the substance of the lease agreement. So while a capital lease is called a lease, the nature of the agreement makes it more like an installment sale rather than an actual lease.

\[\text{THIS TEST WAS:} \text{Just a piece of a very LONG week - a week that makes me go AHHHHH, OHHHH, MMMMM, EEEEEE, NNNNN, WOAHH... *sigh*}\]