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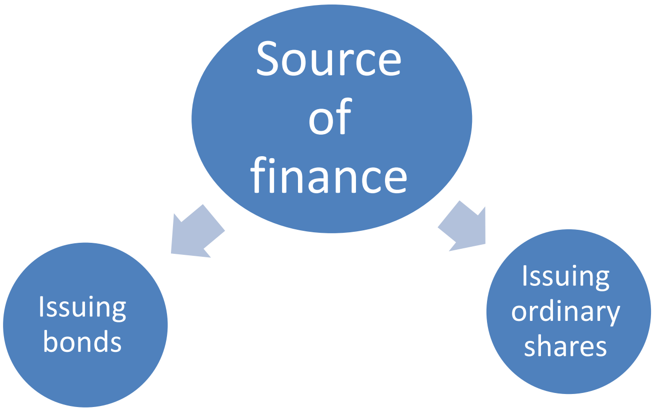
## NON-CURRENT LIABILITIES

**Bonds:** are a form of interest-bearing note payable to obtain large amounts of long term capital.




## Advantages of issuing bonds than ordinary shares:

1-shareholders control is not affected.

2-tax saving results.

3-earnings per share may be higher.

## disadvantages of issuing bonds:

1- Net income will be less than if we issue shares.

2- Obligation to pay interest.

## Type of bonds:

1-Secured and unsecured bonds.

2- High return high risk.

3- Term and serial bonds.

4- Registered and bearer bonds.

5- convertible and callable bonds.

1-Each of the following is correct regarding bonds **except** they are

a. a form of interest-bearing notes payable.
b. attractive to many investors.
c. issued by corporations and governmental agencies.
**d. sold in large denominations.**

2-From the standpoint of the issuing company, a disadvantage of using bonds as a means of long-term financing is that

a. bond interest is deductible for tax purposes.
**b. interest must be paid on a periodic basis regardless of earnings.**
c. income to shareholders may increase as a result of trading on the equity.
d. the bondholders do not have voting rights.

3-Secured bonds are bonds that

a. are in the possession of a bank.
b. are registered in the name of the owner.
**c. have specific assets of the issuer pledged as collateral.**
d. have detachable interest coupons.

4-A legal document which summarizes the rights and privileges of bondholders as well as the obligations and commitments of the issuing company is called

**a. a bond indenture.**
b. a bond debenture.
c. trading on the equity.
d. a term bond.

5-Shareholders of a company may be reluctant to finance expansion through issuing more equity because

a. leveraging with debt is always a better idea.
**b. their earnings per share may decrease.**
c. the price of the shares will automatically decrease.
d. dividends must be paid on a periodic basis.

6-Which of the following is **not** an advantage of issuing bonds instead of ordinary shares?

a. Shareholder control is not affected.
**b. Earnings per share may be lower.**
c. Income to ordinary shareholders may increase.
d. Tax savings result.

7-A major disadvantage resulting from the use of bonds is that

a. earnings per share may be lowered.
**b. interest must be paid on a periodic basis.**
c. bondholders have voting rights.
d. taxes may increase.

2

# E10-7

Global Car Rental is considering two alternatives for the financing of a purchase of a fleet of cars. These two alternatives are:

1. Issue 60,000 ordinary shares at ¥40 per share. (Cash dividends have not been paid nor is the payment of any contemplated.)
2. Issue 7%, 10-year bonds at face value for ¥2,400,000.

It is estimated that the company will earn ¥800,000 before interest and taxes as a result of this purchase. The company has an estimated tax rate of 30% and has 90,000 ordinary shares outstanding prior to the new financing.

***Instructions***

Determine the effect on net income and earnings per share for these two methods of financing.

1-If a corporation issued ¥5,000,000,000 in bonds which pay 10% annual interest, what is the annual net cash cost of this borrowing if the income tax rate is 30%?

a. ¥5,000,000,000
b. ¥150,000,000
c. ¥500,000,000
**d. ¥350,000,000**

2-Bonds that are secured by real estate are termed

**a. mortgage bonds.**
b. serial bonds.
c. debentures.
d. bearer bonds.

3-Bonds that mature at a single specified future date are called

a. coupon bonds.
**b. term bonds.**
c. serial bonds.
d. debentures.

4-Bonds that may be exchanged for ordinary shares at the bondholder's option are called

a. options.
b. stock bonds.
**c. convertible bonds.**
d. callable bonds.

5-Bonds that are subject to retirement at a stated dollar amount prior to maturity at the option of the issuer are called

**a. callable bonds.**
b. early retirement bonds.
c. options.
d. debentures.

6-Bonds issued in the name of the owner are

**a. registered bonds.**
b. coupon bonds.
c. bearer bonds.
d. direct bonds.

7-A bondholder that sends in a coupon to receive interest payments must have a(n)

a. unsecured bond.
**b. bearer bond.**
c. mortgage bond.
d. serial bond.

8-Bonds that are not registered are

- **a. bearer bonds.**
- b. debentures.
- c. registered bonds.
- d. transportable bonds.

9-The party who has the right to exercise a call option on bonds is the

- a. investment banker.
- b. bondholder.
- c. bearer.
- **d. issuer.**

10-Bonds will always fall into all but which one of the following categories?

- **a. Callable or convertible**
- b. Term or serial
- c. Registered or bearer
- d. Secured or unsecured

11-Which of the following statements concerning bonds is **not** a true statement?

- a. Bonds are generally sold through an investment company.
- **b. The bond indenture is prepared after the bonds are printed.**
- c. The bond indenture and bond certificate are separate documents.
- d. The trustee keeps records of each bondholder.

12-A bond trustee does not

- **a. issue the bonds.**
- b. keep a record of each bondholder.
- c. hold conditional title to pledged property.
- d. maintain custody of unsold bonds.

13-The contractual interest rate is usually stated as a(n)

- a. monthly rate.
- b. daily rate.
- c. semiannual rate.
- **d. annual rate.**

14-When authorizing bonds to be issued, the board of directors does **not** specify the 140.

- a. total number of bonds authorized to be sold.
- b. contractual interest rate.
- **c. selling price.**
- d. total face value of the bonds.

15-A ¥1,000,000 face value bond with a quoted price of 99 is selling for

a. ¥1,000,000.
**b. ¥990,000.**
c. ¥909,000.
d. ¥99,000.

16-A bond with a face value of ¥200,000,000 and a quoted price of 101¼ has a selling price of

a. ¥220,450,000.
b. ¥202,050,000.
c. ¥200,250,000.
**d. ¥202,500,000.**

17-On the day of trading referred to above,

a. no Kmart bonds were traded.
b. bonds with market prices of $3,500 were traded.
**c. at closing, the selling price of the bond was higher than the previous day's price.**
d. the bond sold for $100.25

18-The following exhibit is for Kmart bonds. .

| Net Change | Volume | Yield | Close | Bonds |
|---|---|---|---|---|
| +7/8 | 35 | 8.4 | 100¼ | Kmart 8 3/8 17 |

The contractual interest rate of the K mart bonds is

a. greater than the market interest rate.
**b. less than the market interest rate.**
c. equal to the market interest rate.
d. not determinable.

**3**

# Bond trading

A $1,000 bond with a quoted price of 97. determine the selling price pf the bond:

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**Factors that determine the present value:**

1- **The amount to be received.**
2- **The length of time until the amounts are received.**
3- **The market interest rate.**

 

4

## ISSUING PROCEDURES

*** Face value:** is the amount of principle the issuing company must pay at maturity date

*Contractual rate = stated rate

***Bond indenture** shows the term and summarizes the rights of the bondholders.

***Bonds certificate** provide information about: name of the issuer, face value, contractual interest rate and maturity date

## ISSUING BONDS AT FACE VALUE

Example: On January,1, 2017, ABC corporation issues 100,000$, five year, 10% bonds at 100, assume the interest is payable semiannually.

| Date | Account | Dr | Cr |
|---|---|---|---|
| | | | |
| | | | |
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5

## ACCOUNTING FOR BOND ISSUES

Bonds may be issued at:

-Face value

-Discount

-Premium

1-If the market interest rate is greater than the contractual interest rate, bonds will sell

a. at a premium.
b. at face value.
**c. at a discount.**
d. only after the stated interest rate is increased.

2-The total cost of borrowing is increased only if the

a. bonds were issued at a premium.
**b. bonds were issued at a discount.**
c. bonds were sold at face value.
d. market interest rate is less than the contractual interest rate on that date.

3-If the market interest rate is 10%, a $10,000, 12%, 10-year bond, that pays interest semiannually would sell at an amount

a. less than face value.
b. equal to face value.
**c. greater than face value.**
d. that cannot be determined.

4-The present value of a $10,000, 5-year bond, will be less than $10,000 if the

**a. contractual interest rate is less than the market interest rate.**
b. contractual interest rate is greater than the market interest rate.
c. bond is convertible.
d. contractual interest rate is equal to the market interest rate.

5-Gomez Corporation issues 5,000, 10-year, 8%, $1,000 bonds dated January 1, 2014, at 98. The journal entry to record the issuance will show a

a. debit to Cash of $5,000,000.
b. credit to Discount on Bonds Payable for $100,000.
c. credit to Bonds Payable for $5,000,000.
**d. debit to Cash for $4,900,000.**

6-The market interest rate is often called the

a. stated rate.
**b. effective rate.**
c. coupon rate.
d. contractual rate.

7-If bonds are issued at a discount, it means that the

a. financial strength of the issuer is suspect.
**b. market interest rate is higher than the contractual interest rate.**
c. market interest rate is lower than the contractual interest rate.
d. bondholder will receive effectively less interest than the contractual interest rate.

**6**

## ISSUING BONDS AT DISCOUNT

Example: On January,1, 2017, ABC corporation issues 100,000$, five year, 10% bonds for 92,639$ at 92.639% of face value), assume the interest is payable semiannually and the market rate is 12%.

| Date | Account | Dr | Cr |
|---|---|---|---|
| | | | |
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**7**

## ISSUING BONDS AT PREMIUM

On January,1, 2017, ABC corporation issues 100,000$, five year, 10% bonds for 108,111$ at 108.111% of face value), assume the interest is payable semiannually, when the market rate is 8%.

| Date | Account | Dr | Cr |
|---|---|---|---|
| | | | |
| | | | |
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**8**

**E10-8** On January 1, 2017, Klosterman Ltd. issued £500,000, 10%, 10-year bonds at face value. Interest is payable annually on January 1.

***Instructions***

Prepare journal entries to record the following.

1. The issuance of the bonds.
2. The accrual of interest on December 31, 2017.
3. The payment of interest on January 1, 2018.

| Date | Account | Dr | Cr |
|---|---|---|---|
| | | | |
| | | | |
| | | | |

**9**

**E10-10** Pueblo Company issued €500,000 of 5-year, 8% bonds at 97 on January 1, 2017. The bonds pay interest annually.

***Instructions***

1.
   a-Prepare the journal entry to record the issuance of the bonds.

   b-Compute the total cost of borrowing for these bonds.

2. Repeat the requirements from part (a), assuming the bonds were issued at 105.

**10**

**E10-16** Lorance SpA issued €400,000, 7%, 20-year bonds on January 1, 2017, for €360,727. This price resulted in an effective-interest rate of 8% on the bonds. Interest is payable annually on January 1. Lorance uses the effective-interest method to amortize bond premium or discount.

***Instructions***

Prepare the journal entries to record the following. (Round to the nearest euro.)

1. The issuance of the bonds.
2. The accrual of interest and the discount amortization on December 31, 2017.
3. The payment of interest on January 1, 2018.

| Date | Account | Dr | Cr |
|---|---|---|---|
| | | | |
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**11**

**P10-5B** On January 1, 2017, 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***

1. Prepare the journal entry to record the issuance of the bonds on January 1, 2017.
2. Prepare an amortization table through December 31, 2018 (2 interest periods) for this bond issue.
3. Prepare the journal entry to record the accrual of interest and the amortization of the discount on December 31, 2017.
4. Prepare the journal entry to record the payment of interest on January 1, 2018.
5. Prepare the journal entry to record the accrual of interest and the amortization of the discount on December 31, 2018.

**12**

**P10-6B** On January 1, 2017, Ashlock Chemical AG 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***

1. Prepare the journal entries to record the following transactions.
    1. The issuance of the bonds on January 1, 2017.
    2. Accrual of interest and amortization of the premium on December 31, 2017.
    3. The payment of interest on January 1, 2018.
    4. Accrual of interest and amortization of the premium on December 31, 2018.
2. Show the proper non-current liabilities statement of financial position presentation for the bond liability at December 31, 2018.
3. Provide the answers to the following questions in narrative form.
    1. What amount of interest expense is reported for 2018?

1-The statement that "Bond prices vary inversely with changes in the market interest rate" means that if the

a. market interest rate increases, the contractual interest rate will decrease.
b. contractual interest rate increases, then bond prices will go down.
**c. market interest rate decreases, then bond prices will go up.**
d. contractual interest rate increases, the market interest rate will decrease.

2-The carrying value of bonds will equal the market price

a. at the close of every trading day.
b. at the end of the fiscal period.
**c. on the date of issuance.**
d. every six months on the date interest is paid.

3-The sale of bonds above face value

a. is a rare occurrence.
**b. will cause the total cost of borrowing to be less than the bond interest paid.**
c. will cause the total cost of borrowing to be more than the bond interest paid.
d. will have no net effect on interest expense by the time the bonds mature.

4-Bond interest paid is

a. higher when bonds sell at a discount.
b. lower when bonds sell at a premium.
**c. the same whether bonds sell at a discount or a premium.**
d. higher when bonds sell at a discount and lower when bonds sell at a premium.

5-Mendez Corporation issues 4,000, 10-year, 8%, $1,000 bonds dated January 1, 2014, at 103. The journal entry to record the issuance will show a

a. debit to Cash of $4,000,000.
**b. credit to Bonds Payable for $4,120,000.**
c. credit to Premium on Bonds Payable for $120,000.
d. credit to Cash for $4,120,000.

6-Herman Company received proceeds of ₤377,000 on 10-year, 8% bonds issued on January 1, 2014. The bonds had a face value of ₤400,000, pay interest semi-annually on June 30 and December 31, and have a call price of 101. Herman uses the straight-line method of amortization.

What is the amount of interest Herman must pay the bondholders in 2014?

a. ₤30,160
**b. ₤32,000**
c. ₤34,300
d. ₤29,700

7-In the statement of financial position, the account Interest Payable is

a. added to bonds payable.
**b. deducted from bonds payable.**
c. classified as a current liability.
d. classified as a revenue account.

8-A bond with a face value of $20,000,000 and a quoted price of 102¼ has a selling price of

**a. $20,450,000**
b. $20,045,000
c. $20,000,000
d. $19,550,000

9-A bond with a face value of $20,000,000 and a quoted price of 97½ has a selling price of

a. $19,410,000
**b. $19,500,000**
c. $20,000,000
d. $20,500,000

13

## ACCOUNTING FOR BOND RETIREMENTS

Example: On January,1, 2017, ABC corporation issues 100,000$, five year, 10% bonds for 108,111$ at 108.111% of face value), assume the interest is payable semiannually, when the market rate is 8%.

After 8 periods the company retires the bond at 103, assume the carrying value of the bonds at the redemption date is 101623$.

**14**

**E10-11** The following section is taken from Ohlman Ltd.'s. statement of financial position at December 31, 2016.

Non-current liabilities

Bonds payable, 7%, due January 1, 2021 16,000,000$

Current liabilities

Interest payable 1,120,000$

Bond interest is payable annually on January 1. The bonds are callable on any interest date.

***Instructions***

1. Journalize the payment of the bond interest on January 1, 2017.
2. Assume that on January 1, 2017, after paying interest, Ohlman calls bonds having a face value of HK$6,000,000. The call price is 103. Record the redemption of the bonds.
3. Prepare the entry to record the accrual of interest on December 31, 2017.

| Date | Account | Dr | Cr |
|---|---|---|---|
| | | | |
| | | | |
| | | | |

**15**

**E10-12** Presented below are two independent situations.

1. Longbine plc redeemed £130,000 face value, 12% bonds on June 30, 2017, at 102. The carrying value of the bonds at the redemption date was £117,500. The bonds pay annual interest, and the interest payment due on June 30, 2017, has been made and recorded.
2. Tastove Ltd. redeemed £150,000 face value, 12.5% bonds on June 30, 2017, at 98. The carrying value of the bonds at the redemption date was £151,000. The bonds pay annual interest, and the interest payment due on June 30, 2017, has been made and recorded.

***Instructions***

Prepare the appropriate journal entry for the redemption of the bonds in each situation.

**16**

**P10-2B** On June 1, 2017, Weller SA issued €1,200,000, 8%, 5-year bonds at face value. The bonds were dated June 1, 2017, and pay interest annually on June 1. Financial statements are prepared annually on December 31.

***Instructions***

1. Prepare the journal entry to record the issuance of the bonds.
2. Prepare the adjusting entry to record the accrual of interest on December 31, 2017.
3. Show the statement of financial position presentation on December 31, 2017.
4. Prepare the journal entry to record payment of interest on June 1, 2018.
5. Prepare the adjusting entry to record the accrual of interest on December 31, 2018.
6. Assume that on January 1, 2019, Weller pays the accrued interest and calls the bonds at 102. Record the payment of interest and redemption of the bonds.

**17**

**P10-3B** Shonrock Co. sold R$800,000, 9%, 10-year bonds on January 1, 2017. The bonds were dated January 1, 2017, and paid interest on January 1. The bonds were sold at 105.

***Instructions***

1. Prepare the journal entry to record the issuance of the bonds on January 1, 2017.
2. At December 31, 2017, the amount of amortized bond premium is R$4,000. Show the statement of financial position presentation of the bond liability at December 31, 2017.
3. On January 1, 2019, when the carrying value of the bonds was R$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.

1-Wittebury Corporation retires its £4,000,000 face value bonds at 105 on January 1, following the payment of annual interest. The carrying value of the bonds at the redemption date is $4,149,800. The entry to record the redemption will include

a. a credit of £50,200 to Gain on Bond Redemption.
**b. a debit of £50,200 to Loss on Bond Redemption.**
c. a credit of £20,000 to Bonds Payable.
d. a credit of £50,200 to Bonds Payable.

2-Chang Company retired bonds with a face amount of ¥150,000,000 at 98 when the carrying value of the bond was ¥149,450,000. The entry to record the retirement would include a

**a. gain on bond redemption of ¥2,450,000.**
b. loss on bond redemption of ¥550,000.
c. loss on bond redemption of ¥3,000,000.
d. gain on bond redemption of ¥3,550,000.

3-A ¥900,000,000 bond was retired at 98 when the carrying value of the bond was ¥888,000,000. The entry to record the retirement would include a

a. gain on bond redemption of ¥12,000,000.
b. loss on bond redemption of ¥12,000,000.
c. loss on bond redemption of ¥6,000,000.
**d. gain on bond redemption of ¥6,000,000.**

4-The current carrying value of Kruger's $1,600,000 face value bonds is $1,594,000. If the bonds are retired at 102, what would be the amount Kruger would pay its bondholders?

a. $1,594,000
b. $1,600,000
c. $1,608,000
**d. $1,632,000**

5-Lahey Corporation retires its $1,000,000 face value bonds at 105 on January 1, following the payment of annual interest. The carrying value of the bonds at the redemption date is $1,037,450. The entry to record the redemption will include a

a. credit of $12,550 to Loss on Bond Redemption.
**b. debit of $12,550 to Loss on Bond Redemption.**
c. credit of $1,037,450 to Bonds Payable.
d. debit of $1,000,000 to Bonds Payable.

6-A $900,000 bond was retired at 103 when the carrying value of the bond was $933,000. The entry to record the retirement would include a

a. gain on bond redemption of $27,000.
b. loss on bond redemption of $18,000.
c. loss on bond redemption of $27,000.
**d. gain on bond redemption of $6,000.**

7-A corporation recognizes a gain or loss

a. only when bonds are redeemed at maturity.
**b. only when bonds are redeemed before maturity.**
c. when bonds are redeemed at or before maturity.
d. when bonds are redeemed at maturity.

8-If there is a loss on bonds redeemed early, it is

a. debited directly to Retained Earnings.
**b. reported as an "Other income and expense" on the income statement.**
c. reported as an "operating expense" on the income statement.
d. debited to Interest Expense, as a cost of financing.

18

## ACCOUNTING FOR LONG TERM NOTE PAYABLE

Example: ABC company issues a $500,000, 12%,20-year mortgage notes on December 31,2017, to obtain needed financing for new research laboratory. the term provides semiannual payments of $33231.

1-Which one of the following amounts increases each period when accounting for long term notes payable?

a. Cash payment
b. Interest expense
c. Principal balance
**d. Reduction of principal**

2-In the statement of financial position, mortgage payable is reported as

a. a current liability only.
b. a non-current liability only.
**c. both a current and a non-current liability.**
d. a current liability except for the reduction in principal amount.

3-A mortgage note payable with a fixed interest rate requires the borrower to make installment payments over the term of the loan. Each installment payment includes interest on the unpaid balance of the loan and a payment on the principal. With each installment payment, indicate the effect on the portion allocated to interest expense and the portion allocated to principal.

| Portion Allocated<br>to Payment of Principal | Portion Allocated<br>to Interest Expense | |
|---|---|---|
| Increases | Increases | a. |
| Decreases | Increases | b. |
| Decreases | Decreases | c. |
| **Increases** | **Decreases** | **d.** |

4-The entry to record an installment payment on a mortgage loan is

a. Mortgage Payable
    Cash
b. Interest Expense
    Cash
c. **Mortgage Payable**
   **Interest Expense**
    **Cash**
d. Bonds Payable
    Cash

5-Delmar Company purchased a building on January 2 by signing a long-term $720,000 mortgage with monthly payments of $6,600. The mortgage carries an interest rate of 10 percent.

The entry to record the first monthly payment will include a

a. debit to the Cash account for $6,600.
b. credit to the Cash account for $6,000.
**c. debit to the Interest Expense account for $6,000.**
d. credit to the Mortgage Payable account for $6,600.

The amount owed on the mortgage after the first payment will be

a. $720,000.
**b. $719,400.**
c. $714,000.
d. $713,400.

6-Finney Company borrowed €1,600,000 from BankTwo on January 1, 2013 in order to expand its mining capabilities. The five-year note required annual payments of €416,698 and carried an annual interest rate of 9.5%.

What is the amount of expense Finney must recognize on its 2014 income statement?

a. €152,000
**b. €126,854**
c. €112,412
d. €99,318

What is the balance in the notes payable account at December 31, 2014?

a. €1,600,000
**b. €1,045,458**
c. €1,335,302
d. €1,296,000

7-On January 1, 2014, Michelin Company, a calendar-year company, issued €7,500,000 of mortgage notes payable, of which €2,500,000 is due on January 1 for each of the next three years. The proper statement of financial position presentation on December 31, 2014, is

a. Current liabilities, €7,500,000.
b. Non-current Liabilities, €7,500,000.
c. Current liabilities, €3,750,000; Non-current Liabilities, €3,750,000.
**d. Current liabilities, €2,500,000; Non-current Liabilities, €5,000,000.**

8-Fretz Inc. Issues a CHF2,500,000, 8%, 20-year mortgage on January 1, 2014. The terms call for semi-annual installment payments of CHF252,620.

The entry to record the first installment payment will include

a. a credit to Interest Payable of CHF100,000.
**b. a debit to Mortgage Payable of CHF152,620.**
c. a debit to Interest Expense of CHF252,620.
d. a credit to Cash of CHF152,620.

9-Whitmore Corporation Issues a £3,000,000, 10%, 10-year mortgage on December 31, 2014. The terms call for semi-annual installment payments of £240,725.The entry to record the first installment payable will include

a. a debit to Interest Payable of £240,725.
**b. a debit to Mortgage Payable of £90,725.**
c. a debit to Interest Expense of £300,000.
d. a credit to Cash of £240,725.

19

# Lease Liabilities

- A lease is a contractual agreement between a lessor (owner of a property) and a lessee (renter of the property).
- Lease assets (right of use) and lease liability will be on the statement of financial position under non-current assets.
- The portion of lease liability that would be paid next year will be **current** assets on the statement of financial position.

---

Assume that Gonzalez Construction decides to lease new equipment. The lease term is four years. The present value of the lease payments is 190,000. Gonzalez records the transaction as follows:

---

Which of the following statements concerning leases is true?

a. A lessee records a lease liability and an asset for all leases.
b. The appearance of the account, Leased Liability, on the statement of financial position, signifies a lease term of less than one year.
**c. The portion of a lease liability expected to be paid in the next year is reported as a current liability.**
d. Present value is irrelevant in accounting for leases.

20

## ANALYSIS

Ratios to measure debt paying ability and long-term solvency:

1-debt to total asset.

2-times interest earned.

Example: ABC company had total liabilities of 39048$ M, total asset of 64782$ M, interest expense of 778$ M, income tax of 1092$ M, net income of 2967$ M.

Calculate debt to asset ratio and times interest earned.

1-The adjusted trial balance for Beneteau Corporation at the end of the 2014 included the following accounts:

| | |
|---|---|
| 5-year Bonds Payable 8% | €4,120,000 |
| Interest Payable | 240,000 |
| Notes Payable (3 mo.) | 50,000 |
| Notes Payable (5 yr.) | 1,650,000 |
| Mortgage Payable (€150,000 due currently) | 2,000,000 |
| Salaries and Wages Payable | 68,000 |
| Taxes Payable (due 3/15 of next yr) | 85,000 |

The total non-current liabilities reported on the statement of financial position at December 31, 2014 are

a. €7,380,000
b. €7,530,000
**c. €7,620,000**
d. €7,860,000

2-Selected data from 2014 financial statements of Xi Corporation include the following (amount in millions):

| | | | |
|---|---|---|---|
| Current assets = 759 | Current liabilities = 300 | Cash = 80 | Income taxes = 100 |
| Total assets = 1,250 | Total liabilities = 850 | Interest expense = 50 | Net income = 160 |

The debt to total assets ratio is

**a. 68.0%**
b. 92.0%
c. 1.47%
d. 6.2 times

3-Each of the following may be shown on a supporting schedule instead of on the statement of financial position **except** the

**a. current maturities of long-term debt.**
b. conversion privileges.
c. interest rates.
d. maturity dates.

4-The times interest earned ratio is computed by dividing

a. net income by interest expense.
b. income before income taxes by interest expense.
c. income before interest expense by interest expense.
**d. income before income taxes and interest expense by interest expense.**

5-In a recent year Hill Corporation had net income of $140,000, interest expense of $20,000, and tax expense of $40,000. What was Hill Corporation's times interest earned ratio for the year?

**a. 10**
b. 9
c. 8
d. 7

6-In a recent year Cey Corporation had net income of $250,000, interest expense of $50,000, and a times interest earned ratio of 8. What was Cey Corporation's income before taxes for the year?

a. $450,000
b. $400,000
**c. $350,000**
d. None of the above.

7-A current liability is a debt the company reasonably expects to pay from existing current assets within

a. one year.
b. the operating cycle.
**c. one year or the operating cycle, whichever is longer.**
d. one year or the operating cycle, whichever is shorter.

8-The debt to total assets ratio is computed by dividing

a. long-term liabilities by total assets.
**b. total debt by total assets.**
c. total assets by total debt.
d. total assets by long-term liabilities.

9-Companies report current liabilities on the statement of financial position in

a. alphabetical order.
b. order of maturity.
c. random order.
**d. order of magnitude.**

10-On August 1, 2014, a company borrowed cash and signed one year interest – bearing note on which both the face value and interest are payable on August 1, 2015. How will the note payable and the related interest be classified in the December 31, 2014, statement of financial position?

| Interest Payable | Note Payable | |
|---|---|---|
| Non-current liability | Current liability | a. |
| Current liability | Non-current liability | b. |
| **Current liability** | **Current liability** | **c.** |
| Not shown | Non-current liability | d. |

10-Which of the following statements concerning current liabilities is **incorrect?**

a. Current liabilities include unearned revenues.
b. A company that has more current liabilities than current assets is usually the subject of some concern.
**c. Current liabilities include prepaid expenses.**
d. A current liability is a debt that can reasonably be expected to be paid out of existing current assets or result in the creation of other current liabilities.

11-The adjusted trial balance for Lifesaver Corp. at the end of the current year, 2014, contained the following accounts.

| | |
|---|---|
| 5-year Bonds Payable 8% | $1,800,000 |
| Interest Payable | 50,000 |
| Notes Payable (3 mo.) | 40,000 |
| Notes Payable (5 yr.) | 165,000 |
| Mortgage Payable ($15,000 due currently) | 200,000 |
| Salaries and Wages Payable | 18,000 |
| Taxes Payable (due 3/15 of 2015) | 25,000 |

The total non-current liabilities reported on the statement of financial position are

a. $2,065,000.
b. $2,050,000.
c. $2,165,000.
**d. $2,150,000.**

12-The 2014 financial statements of Shadow Co. contain the following selected data (in millions).

| | |
|---|---|
| Current Assets | $ 75 |
| Total Assets | 140 |
| Current Liabilities | 40 |
| Total Liabilities | 77 |
| Cash | 8 |

The debt to total assets ratio is

**a. 55.0%.**
b. 53.3%.
c. 28.6%.
d. 1.82%.

13-The market value (present value) of a bond is a function of all of the following **except** the

a. dollar amounts to be received.
b. length of time until the amounts are received.
c. market rate of interest.
**d. length of time until the bond is sold.**

14-The market rate of interest for a bond issue which sells for more than its face value is

a. independent of the interest rate stated on the bond.
b. higher than the interest rate stated on the bond.
c. equal to the interest rate stated on the bond.
**d. less than the interest rate stated on the bond.**

15-When a company retires bonds before maturity, the gain or loss on redemption is the difference between the cash paid and the

**a. carrying value of the bonds.**
b. face value of the bonds.
c. original selling price of the bonds.
d. maturity value of the bonds.

16-Hoffman Corporation retires its bonds at 106 on January 1, following the payment of semi-annual interest. The face value of the bonds is $1,000,000. The carrying value of the bonds at the redemption date is $1,049,500. The entry to record the redemption will include a

a. credit of $49,500 to Loss on Bond Redemption.
b. debit of $1,060,000 to Bonds Payable.
c. credit of $10,500 to Gain on Bond Redemption.
**d. debit of $1,049,500 to Bonds Payable.**

17-Each payment on a mortgage note payable consists of

a. interest on the original balance of the loan.
b. reduction of loan principal only.
c. interest on the original balance of the loan and reduction of loan principal.
**d. interest on the unpaid balance of the loan and reduction of loan principal.**

18-Buffon Electronics Company issues a $1,500,000, 10%, 20-year mortgage note on January 1. The terms provide for semiannual installment payments, exclusive of real estate taxes and insurance, of $87,414. After the first installment payment, the principal balance is

a. $1,500,000.
b. $1,474,551.
**c. $1,487,586.**
d. $1,168,688.

| Issuing bonds at face value | | |
|---|---|---|
| Issuing the bond | Cash XX<br>Bonds payable XX | |
| حان وقت دفع الفوايد و دفعت | Bonds interest expense XX<br>Cash XX | FV * % * period |
| حان وقت دفع الفوايد بس ما دفعت | Bonds interest expense XX<br>Bonds interest payable XX | FV * % * period |
| لمن ندفع الفوايد الي سجلناهم فوق بس ما دفعناهم | Bonds interest payable XX<br>Cash XX | |

| Issuing bonds at discount | | |
|---|---|---|
| Issuing the bond | Cash XX<br>Bonds payable XX | |
| حان وقت دفع الفوايد و دفعت | Bonds interest expense XX<br>Bonds payable XX<br>Cash XX | CV * market % * period<br>الفرق<br>ثابتFV * rate * period |
| حان وقت دفع الفوايد بس ما دفعت | Bonds interest expense XX<br>Bonds payable XX<br>Cash XX | CV * market % * period<br>الفرق<br>ثابتFV * rate * period |
| CV = discount amount + bonds payable | | |

| Issuing bonds at premium | | |
|---|---|---|
| Issuing the bond | Cash XX<br>Bonds payable XX | |
| حان وقت دفع الفوايد و دفعت | Bonds interest expense XX<br>Bonds payable XX<br>Cash XX | CV * market % * period<br>الفرق و يكون دبت عشان نقلله<br>ثابتFV * rate * period |
| حان وقت دفع الفوايد بس ما دفعت | Bonds interest expense XX<br>Bonds payable XX<br>Cash XX | CV * market % * period<br>الفرق<br>ثابتFV * rate * period |
| CV = discount amount - bonds payable | | |

| Note payable schedule | | | | |
|---|---|---|---|---|
| | A | B | C | D |
| Date | Cash payment | Interest expense | Reduction of principle | Principle balance |
| البداية | | | | Principle |
| | ثابت كل فترة | D*%<br>ننتبه اذا نص سنة نقسم النسبة على 2 | A-B | D-C |

*THE END*

*Good luck*