Financial & Managerial Accounting for Decision Makers, 3rd Edition by Dyckman, Hanlon, Magee, Pfeiffer, Hartgraves, and Morse

Chapter 9—Reporting and Analyzing Liabilities

Solutions to Practice Quiz

1. The following information is available for Compton Company.

- Company XYZ retired $45,000 of 9.25% bonds before they were supposed to come due.
- The bonds were retired at 103 (103% of the bond face amount).
- The loss on the retirement was $3,100
- Bond interest has been paid up-to-date.

Based on this information, what is the bond book value?

a. $43,157
b. $41,900
c. $46,350
d. $43,250

Answer: d
Rationale:

Amount paid to retire bonds ($45,000 x 103%)	$46,350
Less the loss on the retirement	- 3,100
Book value of retired bonds	$43,250

Use the following information to answer Questions 2-5.

On January 2, 2016, Computers-R-Us (CRU) purchased 25 computers from Maxim Distributors on credit at a cost of $1,000 per computer. The computers were purchased to be held in stock at the store for sale to customers. On January 30, 2016, CRU sold 22 computers at a price of $1,100 each. The store received cash payments for 10 of these, with the balance sold on credit. On February 15, CRU settled its account with Maxim. On February 28, CRU received payment for the computers sold on credit

2. Based on CRU's information, what transaction should CRU record on January 2, 2016?

a.	Merchandise Inventory	25,000	
	Accounts Payable		25,000
b.	Accounts Payable	25,000	
	Merchandise Inventory		25,000
c.	Cash	25,000	
	Merchandise Inventory		25,000
d.	Merchandise Inventory	25,000	
	Cash		25,000

Answer: a

Rationale:

Merchandise Inventory	25,000	
Accounts Payable		25,000

3. Based on CRU's information, the transactions CRU would record on January 30, 2016 would include all of the following *except*:

a.	Cost of Goods Sold	11,000	
	Merchandise Inventory		11,000
b.	Accounts Receivable	13,200	
	Sales		13,200
c.	Cash	11,000	
	Sales		11,000
d.	Cost of Goods Sold	22,000	
	Merchandise Inventory		22,000

Answer: a

Rationale: Since the Cost of Goods Sold must be recorded for all sales, both cash and credit, at historical cost, the following entry incorrect records only the expense for the cash sales and at sales price rather than cost.

Cost of Goods Sold	11,000	
Merchandise Inventory		11,000

4. Based on CRU's information, what transaction should CRU record on February 15, 2016?

a.

Cash	25,000	
Accounts Receivable		25,000

b.

Accounts Receivable	25,000	
Cash		25,000

c.

Merchandise Inventory	25,000	
Cash		25,000

d.

Accounts Payable	25,000	
Cash		25,000

Answer: d

Rationale:

Accounts Payable	25,000	
Cash		25,000

5. Based on CRU's information, what transaction should CRU record on February 28, 2016?

a.

Cash	13,200	
Accounts Receivable		13,200

b.

Cash	13,200	
Merchandise Inventory		13,200

c.

Accounts Payable	12,000	
Cash		12,000

d.

Cash	13,200	
Accounts Receivable		13,200

Answer: a

Rationale:

Cash	13,200	
Accounts Receivable		13,200

6. Jamison Company's total assets were equal to $16,560 and its total liabilities were equal to $4,560. Based on this information which of the following statements is *true*?

a. Jamison's debt-to-equity ratio is approximately 3.63
b. Jamison's has a greater proportion of debt that equity
c. Jamison's debt-to-equity ratio is approximately 0.28
d. Jamison's debt-to-equity ratio is approximately 0.38

Answer: d
Rationale: $16,560 – 4,560 = $12,000 SE
$4,560 / $12,000 = 0.38

7. On April 30, 2016, one year before maturity, Upton Laboratories retired $350,000 of 9% bonds payable at 103. The book value of the bonds on April 30 was $345,600. Bond interest was last paid on April 30, 2016.

What is the gain or loss on the retirement of the bonds?

a. $ 4,400 gain
b. $ 4,400 loss
c. $14,900 loss
d. $14,900 gain

Answer: c
Rationale The loss is the difference between the retirement value and the book value of the bond: (103% x $350,000) – $345,600 = $14,900.

8. Alpine Inc. issued a 120-day note in the amount of $120,000 on 12/16/16 with an annual rate of 12%.

What amount of interest has accrued as of 12/31/16?

a. $14,400.00
b. $ 1,800.00
c. $ 591.78
d. $ 1,200.00

Answer: c
Rationale:

Interest Accrued	=	Principal	x	Annual Rate	x	Portion of Year Outstanding
$591.78	=	$120,000	x	12%	x	15 / 365 days

9. The current portion of long-term debt should be reported:

a. In the long-term liabilities section of the balance sheet, along with the other long-term debt.
b. In the current liabilities section of the balance sheet.
c. In a separate section of the balance sheet, between long-term liabilities and stockholders' equity.
d. Separately in the long-term liabilities section of the balance sheet.

Answer: b
Rationale: Any portion of long-term debt that must be paid within the upcoming 12 months, is reported in the current liabilities section as current maturities of long-term debt.

10. When a corporation has a right to redeem bonds in advance of the maturity date, the bond is known as:

a. Collateral
b. Callable
c. Discounted
d. Defaulted

Answer: b
Rationale: The callable option gives the company the right to repurchase a bond in advance of the maturity date.