

Name: _____

Student Number: _____

TA: (circle one) **Brady**
 Kim
 Sara

Section Time: _____

Code of Conduct: By signing below you acknowledge that you are a member of a learning community at the Foster School of Business that is committed to the highest academic standards and that you adhered to these standards while completing this exam. Specific to this exam, by signing below you acknowledge that you did not receive or give help to others, nor did you witness others receiving or giving help to others, during the exam.

Signature: _____ Date: _____

A215
Winter 2013
Exam III
KEY

*There were two version of Exam 3. If a question was the same across versions I only list one answer (in red). If a question differed across versions I list the answer to both versions (one in red and one in blue).

- You have **one hour and fifty minutes** to complete this exam.
- For problems that require calculations show your work.
- Provide your answers in the space provided (not on a separate answer sheet).
- Please check to see that you have 11 pages (they are numbered) plus a present value table.

***If required, round your answers to the nearest cent (two decimal places). I will be careful to NOT penalize you for rounding errors.*

1. (4 pts) Match each term with its most relevant definition by placing the appropriate letter next to the term.

_____ Sinking fund bond	A. Bond payments for interest decline over time.
_____ Convertible bonds	B. Bond is backed by collateral.
_____ Unsecured bond	C. Requires lessee to recognize an asset and liability.
_____ Capital lease	D. Bond can be converted to common stock.
	E. Bond is not backed by collateral.
	F. Issuer makes installment payments to a fund.
	G. Does not require lessee to recognize an asset and liability.
	H. Borrower can pay off bond early.

CH 9

F = Sinking fund bond

D = Convertible bond

E = Unsecured bond

C = Capital lease

OTHER VERSION

F = Sinking fund bond

D = Convertible bond

B = Secured bond

C = Capital lease

2. (1 pt) Fire Company issues bonds with a 4-year life and a stated interest rate of 5%. The market rate of interest at the time of issuance is also 5%. The bonds pay interest quarterly. Did Fire Company issue the bonds at face, a discount, or a premium? (circle one)

FACE DISCOUNT PREMIUM

CH 9

Face

3. (3 pts) On January 1, 2013, Rapids Company signs a note to borrow \$400,000 cash for 3 years. The note has an annual interest rate of 12%. Rapid makes cash payments of \$13,285.72 at the end of every month for 3 years. Provide the journal entry that Rapids will record when it makes its **second** payment on February 28, 2013.

JANUARY 31, 2013 [not required...shown so you can see where \$9,285.72 comes from]

Interest expense	4,000.00 (400,000 x .12 x 1/12)	
Note payable	9,285.72 (difference)	
Cash		13,285.72 (cash payment)

FEBRUARY 28, 2013

CH 9

Interest expense 3,907.14 ((400,000 – 9,285.72) x .12 x 1/12)

Note payable 9,378.58 (difference)

 Cash 13,285.72 (cash payment)

4. (3 pt) United Company issues 4-year bonds and produces the following amortization schedule:

Date	Cash payment	Interest expense	Change in carrying value	Carrying value
Issuance				9,653.49
End of Year 1	500.00	579.21	79.21	9,732.70
End of Year 2	500.00	583.96	83.96	9,816.66
End of Year 3	500.00	589.00	89.00	9,905.66
End of Year 4	500.00	594.34	94.34	10,000.00
	10,000.00			0

After making the interest payment at the end of Year 3, United decides to retire the bonds by paying investors \$9,800. Provide the journal entry United will record to retire the bonds at the end of Year 3.

CH 9

Bond payable	9,905.66		
Cash		9,800.00	
Gain on retirement		105.66	

5. (2 pts) Galaxy Company leases a telescope by signing an operating lease on January 1, 2013. The lease requires Galaxy to make monthly payments of \$5,400 cash. There is no lump sum payment due at the end of the lease. The market rate of interest at the time Galaxy signs the lease is 12%. Provide the journal entry Galaxy will record when it makes its first lease payment on January 31, 2013.

JANUARY 31, 2013

CH 9

Rent (or lease) expense	5,400		
Cash		5,400	

OTHER VERSION (the payment is \$4,500)