

Problem-solving Assignment 2
(P14-2, P14-3)

Amortization Schedule				
Year	Cash	Interest	Amount Unamortized	Carrying Value
1/1/2011			\$5,651	\$ 94,349
2011	\$11,000	\$11,322	5,329	94,671
2012	11,000	11,361	4,968	95,032
2013	11,000	11,404	4,564	95,436
2014	11,000	11,452	4,112	95,888
2015	11,000	11,507	3,605	96,395
2016	11,000	11,567	3,038	96,962
2017	11,000	11,635	2,403	97,597
2018	11,000	11,712	1,691	98,309
2019	11,000	11,797	894	99,106
2020	11,000	11,894		100,000

Instructions

- Indicate whether the bonds were issued at a premium or a discount and how you can determine this fact from the schedule.
- Indicate whether the amortization schedule is based on the straight-line method or the effective-interest method, and how you can determine which method is used.
- Determine the stated interest rate and the effective-interest rate.
- On the basis of the schedule above, prepare the journal entry to record the issuance of the bonds on January 1, 2011.
- On the basis of the schedule above, prepare the journal entry or entries to reflect the bond transactions and accruals for 2011. (Interest is paid January 1.)
- On the basis of the schedule above, prepare the journal entry or entries to reflect the bond transactions and accruals for 2018. Capulet Corporation does not use reversing entries.

P14-2 (LO1,2) EXCEL (Issuance and Redemption of Bonds) Venezuela Co. is building a new hockey arena at a cost of \$2,500,000. It received a downpayment of \$500,000 from local businesses to support the project, and now needs to borrow \$2,000,000 to complete the project. It therefore decides to issue \$2,000,000 of 10.5%, 10-year bonds. These bonds were issued on January 1, 2016, and pay interest annually on each January 1. The bonds yield 10%.

Instructions

- Prepare the journal entry to record the issuance of the bonds on January 1, 2016.
- Prepare a bond amortization schedule up to and including January 1, 2020, using the effective-interest method.
- Assume that on July 1, 2019, Venezuela Co. redeems half of the bonds at a cost of \$1,065,000 plus accrued interest. Prepare the journal entry to record this redemption.

P14-3 (LO1,3) (Negative Amortization) Good-Deal Inc. developed a new sales gimmick to help sell its inventory of new automobiles. Because many new car buyers need financing, Good-Deal offered a low downpayment and low car payments for the first year after purchase. It believes that this promotion will bring in some new buyers.

On January 1, 2017, a customer purchased a new \$33,000 automobile, making a downpayment of \$1,000. The customer signed a note indicating that the annual rate of interest would be 8% and that quarterly payments would be made over 4 years. For the first year, Good-Deal required a \$400 quarterly payment to be made on April 1, July 1, October 1, and January 1, 2018. After this one-year period, the customer was required to make regular quarterly payments that would pay off the loan as of January 1, 2020.

Instructions

- Prepare a note amortization schedule for the first year.
- Indicate the amount the customer owes on the contract at the end of the first year.
- Compute the amount of the new quarterly payments.
- Prepare a note amortization schedule for these new payments for the next 2 years.
- What do you think of the new sales promotion used by Good-Deal?

P14-4 (LO1,2,5) (Issuance and Redemption of Bonds; Income Statement Presentation) Holiday Company issued its \$3,000,000 25-year mortgage bonds in the principal amount of \$3,000,000 on January 2, 2003, at a discount of \$150,000, which it proceeds to amortize by charges to expense over the life of the issue on a straight-line basis. The indenture securing the issue provides