# Worksheet for Financial Accounting II

1. ABC co. issued Br 1,000,000, 5 year, 10% bond dated March 31 with interest payable every March 31 and September 30. ABC has incurred a bond issue cost of 200,000 and the bonds are sold to XYZ Pvt.Ltd.co. on

   Case A. March 31, 20X1.

   Case B. June 1, 20X1.

**Required:**

   A. Determine the value of the bond at the yield rate of 8% for each of the above cases.
   B. Determine the value of the bond at the yield rate of 12% for each of the above cases.
   C. Compute the interest expense using straight line method and effective interest method of amortization for each case at the yield rate of 8%.
   D. Compute the interest expense using straight line method and effective interest method of amortization for each case at the yield rate of 12%.
   E. Present journal entries for 1st and 2nd year including on year end, if any, for each cases using both methods of amortization at the yield rate of 8%.
   F. Present journal entries for 1st and 2nd year including on year end, if any, for each cases using both methods of amortization at the yield rate of 12%.
   G. Determine the interest expense, interest payable, bonds payable, discount/premium on bonds payable to presented on financial statements of year 20X1 and 20X2.

2. On Dec31 20X5, ABC co. calls the entire bonds issued and sold on March 31, 20X1 to XYZ Pvt.Ltd.co. at 102. Determine the gain or loss on redemption when the yield rate of the bonds reacquired was 8% and 12%. And pass the appropriate journal entries on Dec 31, 2015.
3. Belachew Pvt.Ltd.co. issued Br 1,000,000, 5 year, 10% serial bond dated Jan1, 20X1 to be repaid Br 200,000 with interest payable annually on Jan 1 of each year. The annual yield rate for bonds issued were (A) 8% (B) 12%

**Required:**

   i. Compute the value of debt.
   ii. Determine the interest expense for year 20X1, 20X2 and 20X3.
   iii. Present the journal entries for year 20X1, 20X2 and 20X3.

4. XYZ Pvt.Ltd.co. requires a consultation service with regard to the accounting treatment of its investment on bonds of ABC Co. (classified as held-to-maturity) stated above in question no.1 with different scenarios specified in case A and Case B at yield rate of 8% and 12%.

   You’re asked to determine the **value of investment**, **investment income** and other accounts affected by the transactions to be recognized over year 20X1 and 20X2 and their respective value to be reported on the balance sheet of year end Dec 31, 20X1 and 20X2 (including the appropriate journal entries over year 20X1 and 20X2).

   Determine the realized gain or loss on bonds investment of calls of ABC co on Dec31, 20X5 at given call price and present the journal entries to remove investment on bonds account.

5. The following transactions are given for Mela Share Company:
    - On Sept 1, 20X1 Purchased Br 100,000 par value bond at 98 of face amount plus accrued interest. These bonds were issued earlier and interest is paid every March 30 and Sept 30 and broker fees were Br 500.
    - On June 1, 20X2 Mela sold bonds at 102 plus accrued interest and cost of sales was Br 1,000.

**Required:** (1) Determine the value of an investment on bonds.

(2) Determine the gain or loss from sale of an investment if premium or discount amortization is disregarded as the investment is classified as short term investment.

(3) Present the journal entries on date of acquisition, interest collection dates, year end and sales date.

(4) What if the investment was classified as held-to-maturity by the management?

6. Yene PLC purchased Br 100,000, 8% Available for sale-bonds of Enenegn Yale S.c. on Jan 1, 20X1 due on Jan 1, 20X6 with interest payable on July 1 and Jan 1. Investors require an effective interest rate of

    (A) 6% (B) 8% (C) 10%

    The fair market value of an investment is Br 110,000, 102,000 and 92,000 at the end of year 20X1, 20X2 and 20X3 respectively.

    On April 1, 20X4 Yene has sold the investment in bonds at 102 and cost of sales is Br 1,000.

    Required: (A) Compute the price of an investment and periodic interest revenue for each year.

    (B) Determine the value of an investment and other related accounts to be presented on balance sheet and income statement and

    (C) Determine the unrealized gain (loss), unrealized gain(loss) and total holding gain for each year including on date of sale(April 1, 20X4).

    (D) What if the investment is classified as held-to-maturity or trading security? What would be the answers for requirement (A)-(C)?

7. Beka Company purchased a 25% interest in Zola Share Company on Jan 10, 20X1 through acquiring 10,000 outstanding Br 100 par value common shares at purchase price of Br 150 a share. Now Beka has also a significant influence on decision making process of Zola.

    On Dec 31, 20X1 Zola has reported a net income of Br 500,000 and on Feb 15, 20X2 40% of net income is declared as a cash dividend payable on Mar 15, 20X2.

    Moreover, at the end of the first year (Dec 31, 20X1) the Beka 10,000 shares have a fair market value of Br 140 a share.

    Required: Present journal entries on each transaction dates for both the investor-Beka and investee-Zola.

    - What if Beka has no significant influence on decision making other things remaining the same.

**8.** On Jan 1, 20X2 AB Corporation purchased Br 200,000 of 10%, **held-for-collection** bond of XYZ Corporation, and due on January 1, 2017, with interest payable each July 1 and January 1. Investors require an effective interest rate of 8% and AB Company uses effective interest method of premium/discount amortization. Compute

    1. Cash paid by AB Company on issue date is

    2. How much interest revenue shall AB recognize on July 1, 20X2?

3. Determine the value of debt investment to be recognized on the statement of financial position of AB Company at the year end Dec 31, 20X2?
   4. If the bond is **held for collection plus trading** compute the unrealized holding gain or loss on fair value at the end of Dec 31, 20X2 if the fair value of debt investment was Br 210,000. Show where to present this unrealized holding gain or loss?

9. **Illustration (Change in policy—Long-Term Contracts):** Pam Erickson Construction Company changed from the completed-contract to the percentage-of-completion method of accounting for long-term construction contracts during 2018. For tax purposes, the company employs the completed-contract method and will continue this approach in the future. (Hint: Adjust all tax consequences through the Deferred Tax Liability account.)

| | Pretax Income from: | | |
|---|---|---|---|
| | Percentage-of-Completion | Completed-Contract | Difference |
| 2017 | $780,000 | $590,000 | $190,000 |
| 2018 | 700,000 | 480,000 | 220,000 |

Required Instructions: (assume a tax rate of 35%)

(a) What entry (ies) are necessary to adjust the accounting records for the change in accounting principle?

(b) What is the amount of net income and retained earnings that would be reported in 2018? Assume beginning retained earnings for 2017 to be $100,000.

10. On January 1, 2015, Adams Corporation signed a 5-year, non-cancelable lease for a machine. The terms of the lease called for Adams to make annual payments of $9,968 at the beginning of each year, starting January 1, 2015. The machine has an estimated useful life of 6 years and a $5,000 unguaranteed residual value. The machine reverts back to the lessor at the end of the lease term. Adams uses the straight-line method of depreciation for all of its plant assets. Adams's incremental borrowing rate is 10%, and the lessor's implicit rate is unknown (it is impracticable to determine).

Instructions

(a) What type of lease is this? Explain.

(b) Compute the present value of the minimum lease payments.

(c) Prepare all necessary journal entries for Adams for this lease through January 1, 2020.

(d) Assume the $5,000 residual value is guaranteed, Compute the present value of the minimum lease payments, Prepare all necessary journal entries for Adams for this lease through January 1, 2020?

11. On January 1, 2015, Secada Co. leased a building to Ryker Inc. The relevant information related to the lease is as follows.

1. The lease arrangement is for 10 years.
2. The leased building cost €3,600,000 and was purchased for cash on January 1, 2015.
3. The building is depreciated on a straight-line basis. Its estimated economic life is 50 years with no residual value.
4. Lease payments are €220,000 per year and are made at the end of the year.

Instructions

(a) What type of lease is this? Explain.

(b)Prepare the journal entries that Secada Co. should make in 2015.

(C) Prepare the journal entries that Ryker Inc. should make in 2015.