

**Problem 8-4**

2020

Feb 1 No entry is made for a line of credit until a loan is made. This would be described only in a disclosure note.

April 1	Cash	12,000,000	
	Note payable		12,000,000
July 1	Interest expense (12,000,000 x 8% x 3/12)	240,000	
	Note payable	12,000,000	
	Cash		12,240,000
Nov 1	Cash	19,100,000	
	Discount on note payable (20,000,000 x 6% x 9/12)	900,000	
	Note payable		20,000,000
Dec 31	Interest expense (900,000 x 2/9)	200,000	
	Discount on note payable		200,000
2021			
Aug 1	Interest expense (900,000 x 7/9)	700,000	
	Discount on note payable		700,000
	Note payable	20,000,000	
	Cash		20,000,000

**Problem 8-8**

1.	Land (1,250,000 + 2,847,200)	4,097,200	
	Discount on note payable	1,152,800	
	Cash		1,250,000
	Note payable		4,000,000
	Face value of note payable		4,000,000
	Present value (4,000,000 x .7118)		<u>2,847,200</u>
	Imputed interest		<u>1,152,800</u>
2.	Interest expense	341,664	
	Discount on note payable (12% x 2,847,200)		341,664
3.	Note payable	4,000,000	
	Cash		4,000,000

**Problem 8-10****Question 1 – Answer B**

Present value (600,000 x 3.60)	<u>2,160,000</u>
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**Question 2 – Answer A**

Interest expense (12% x 2,160,000)	<u>259,200</u>
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**Problem 8-11 Answer B**

Note payable, October 1, 2018	3,600,000
Payment on October 1, 2019	<u>(1,200,000)</u>
Balance, October 1, 2019	<u>2,400,000</u>
Accrued interest payable from October 1, 2019 to June 30, 2020 (2,400,000 x 10% x 9/12)	<u>180,000</u>

**Problem 8-12 Answer D**

PV of note payable (200,000 x 5.712)	1,142,400
Payment on 12/31/2020	<u>( 200,000)</u>
Balance - 12/31/2020	<u>942,400</u>

**Problem 8-13 Answer C**

Interest expense (12% x 2,550,000)	<u>306,000</u>
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**Problem 8-14 Answer B**

Note payable	<u>1,000,000</u>
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Although the interest on the note is lower than the prevailing market rate, the note payable is shown at face value because it is short-term and made in the *usual trade terms*.

**Problem 8-15 Answer B**

Note payable, September 1, 2019	1,800,000
Less: Payment on September 1, 2020	<u>600,000</u>
Balance, September 1, 2020	<u>1,200,000</u>
Accrued interest payable from September 1 to December 31, 2020 (1,200,000 x 12% x 4/12)	<u>48,000</u>

**Problem 8-16 Answer C**

Accrued interest from March 1, 2019 to February 28, 2020 (1,000,000 x 12%)	120,000
Accrued interest from March 1 to December 31, 2020 (1,000,000 + 120,000 x 12% x 10/12)	<u>112,000</u>
Total accrued interest payable, December 31, 2020	<u>232,000</u>

If the interest is compounded annually, it means that the accrued interest for one year will also earn interest.

**Problem 8-17 Answer C**

Note payable	2,400,000
Present value	<u>1,989,600</u>
Discount on note payable	410,400
Amortization for 2020 (10% x 1,989,600)	<u>198,960</u>
Discount on note payable – 12/31/2020	<u>211,440</u>
Note payable – 1/1/2020	2,400,000
Annual payment	( 800,000)
Note payable – 12/31/2020	1,600,000
Discount on note payable	( 211,440)
Carrying amount	<u>1,388,560</u>

**Problem 8-18 Answer A**

Note payable, October 1, 2019	1,200,000
Less: Payment on October 1, 2020	<u>400,000</u>
Balance, October 1, 2020	<u>800,000</u>
Interest paid from January 1 to September 30, 2020 (1,200,000 x 15% x 9/12)	135,000
Interest accrued from October 1 to December 31, 2020 (800,000 x 15% x 3/12)	<u>30,000</u>
Interest expense for 2020	<u>165,000</u>

**Problem 8-19****Question 1 Answer B****Question 2 Answer A**

January 1 – October 31, 2020 (500,000 x 12% x 10/12)	50,000
February 1 – July 31, 2020 (1,500,000 x 12% x 6/12)	90,000
May 1 – December 31, 2020 (800,000 x 12% x 8/12)	<u>64,000</u>
Total interest expense of 2020	204,000
Less: Recorded interest expense	<u>150,000</u>
Understatement of interest expense	<u>54,000</u>

**Problem 8-20****Question 1 Answer B****Question 2 Answer C****Question 3 Answer C**

If the **fair value option** is elected for reporting a financial liability, the liability is reported at fair value at every year-end with resulting changes in fair value included in profit or loss.

1. Cash	1,000,000	
Note payable		1,000,000
2. Note payable	25,000	
Gain on note payable (1,000,000 – 975,000)		25,000
3. Interest expense (10% x 1,000,000 x 6/12)	50,000	
Cash		50,000

Under the fair value option, any discount or premium on the note payable is **not recognized**. Therefore, any discount or premium does not affect the interest expense.

**Problem 8-21**

Question 1 Answer C	408,150
Question 2 Answer A (500,000 x 8%)	40,000
Question 3 Answer C	
Question 4 Answer D	

If the fair value option is elected for reporting a financial liability, the accounting rules for reporting discount or premium no longer apply. Thus, the note payable should be reported on December 31, 2020 at the fair value of P408,150 and a net gain of P500,000 minus P408,150 or P91,850 is reported in 2020.

**Problem 8-22**

Question 1 Answer A

Question 2 Answer D

Question 3 Answer A

Note payable – 1/1/2020	1,000,000
Fair value – 1/1/2020 (1,000,000 x .751)	<u>751,000</u>
Decrease in fair value - gain	<u>249,000</u>
Fair value – 1/1/2020 (1,000,000 x .751)	751,000
Fair value – 12/31/2020 (1,000,000 x .842)	<u>842,000</u>
Increase in fair value – loss	<u>91,000</u>
Net gain (249,000 – 91,000)	<u>158,000</u>

**Another computation**

Note payable – 1/1/2020	1,000,000
Fair value – 12/31/2020	<u>842,000</u>
Net gain	<u>158,000</u>

## Problem 8-23

1. C
2. B
3. B
4. A
5. D
6. A
7. D
8. D
9. B
10. B

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