ACCOUNTING 202

CHAPTER 11

TRUE-FALSE STATEMENTS

1. All liabilities must be paid out of current earnings.

2. Current liabilities are expected to be paid within one year or the operating cycle, whichever is longer.

3. The relationship between current liabilities and current assets is important in evaluating a company's ability to pay off its long-term debt.

4. A company should try to keep its current ratio as high as possible.

5. Notes payable usually require the borrower to pay interest.

6. Notes payable are often used instead of accounts payable.

7. Accounts payable are usually interest-bearing.

8. A $15,000, 8%, 9-month note payable requires an interest payment of $900 at maturity.

9. Most notes are not interest bearing.

10. With an interest-bearing note, the amount of cash received upon issuance of the note generally exceeds the note's face value.

MULTIPLE CHOICE QUESTIONS

11. Most companies pay current liabilities
    a. out of current assets.
    b. by issuing interest-bearing notes payable.
    c. by issuing stock.
    d. by creating long-term liabilities.

12. A current liability is a debt that can reasonably expected to be paid
    a. within one year.
    b. between 6 months and 18 months.
    c. out of currently recognized revenues.
    d. out of cash currently on hand.

Use the following information for questions 13-15.

Chase County Bank agrees to lend Agler Brick Company $300,000 on January 1. Agler Brick Company signs a $300,000, 8%, 9-month note.

13. The entry made by Agler Brick Company on January 1 to record the proceeds and issuance of the note is

a.
Interest Expense	18,000	
Cash	282,000	
Notes Payable		300,000

b.
Cash	300,000	
Notes Payable		300,000

c.	Cash	300,000	
	Interest Expense	18,000	
	Notes Payable		318,000
d.	Cash	300,000	
	Interest Expense	18,000	
	Notes Payable		300,000
	Interest Payable		18,000

14. What is the adjusting entry required if Agler Brick Company prepares financial statements on June 30?

a.	Interest Expense	12,000	
	Interest Payable		12,000
b.	Interest Expense	12,000	
	Cash		12,000
c.	Interest Payable	12,000	
	Cash		12,000
d.	Interest Payable	12,000	
	Interest Expense		12,000

15. What entry will Agler Brick Company make to pay off the note and interest at maturity assuming that interest has been accrued to September 30?

a.	Notes Payable	318,000	
	Cash		318,000
b.	Notes Payable	300,000	
	Interest Payable	18,000	
	Cash		318,000
c.	Interest Expense	18,000	
	Notes Payable	300,000	
	Cash		318,000
d.	Interest Payable	12,000	
	Notes Payable	300,000	
	Interest Expense	6,000	
	Cash		318,000

16. The interest expense on a $1,000, 4%, 3-month note is
   a. $10
   b. $40
   c. $100
   d. $120

17. A retail store credited the Sales account for the sales price and the amount of sales tax on sales. If the sales tax rate is 5% and the balance in the Sales account amounted to $168,000, what is the amount of the sales taxes owed to the taxing agency?
   a. $160,000.
   b. $168,000.
   c. $8,400.
   d. $8,000.

18. On December 31, 2005, Bertram Company had an outstanding note payable totaling $125,000. The note is due in equal annual installments of $25,000 on January 1 of each of the next 5 years. The current portion of long-term debt that should be reported on the December 31, 2005 balance sheet is
   a. $0
   b. $25,000
   c. $50,000
   d. $125,000

19. Bonds with a face amount of $1,000,000 and a contractual interest rate of 8% are sold to yield 7.5%. The annual interest expense recorded for the bonds will be
   a. $5,000

b. $40,000
c. $75,000
d. $80,000.

20. The contractual rate of interest is usually stated as
a. a monthly rate.
b. a daily rate.
c. a semiannual rate.
d. an annual rate.

21. If twenty $1,000 convertible bonds with a carrying value of $25,000 are converted into 3,000 shares of $5 par value common stock, the journal entry to record the conversion is

a.	Bonds Payable	25,000	
	Common Stock		25,000
b.	Bonds Payable	20,000	
	Premium on Bonds Payable	5,000	
	Common Stock		25,000
c.	Bonds Payable	20,000	
	Premium on Bonds Payable	5,000	
	Common Stock		15,000
	Paid-in Capital in Excess of Par		10,000
d.	Bonds Payable	25,000	
	Discount on Bonds Payable		5,000
	Common Stock		15,000
	Paid-in Capital in Excess of Par		5,000

22. A corporation issued $600,000, 10%, 5-year bonds on January 1, 2003 for $648,666 which reflects an effective-interest rate of 8%. Interest is paid semiannually on January 1 and July 1. If the corporation uses the effective-interest method of amortization of bond premium, the amount of bond interest expense to be recognized on July 1, 2003, is
a. $30,000.
b. $24,000.
c. $32,433.
d. $25,947.

ANSWERS

True and False
1. F 2. T 3.F 4. T 5. T 6. T 7. F 8. T 9. F 10. F

Multiple Choice
11. A 12. A 13. B 14. A 15.B 16. A 17. C
18. B 19. C 20. D 21. C 22. D