John Molson School of Business
Department of Accountancy
ACCO 320 – Financial Reporting II
Prof. Trevor Hagyard, Dr. Kelly F. Gheyara
Midterm Examination, Fall 2013
Friday, October 18, 2013

Student Name:______________________________**Student ID:**___________________**Section**:_________

		Estimated time	Marks
Question I	Multiple Choice	45 minutes	30 Marks
Question II	Liabilities	72 minutes	25 Marks
Question III	Shareholders' Equity	40 minutes	23 Marks
Question IV	Complex Financial Instruments	23 minutes	22 Marks
TOTAL		**180 minutes**	**100 Marks**

Instructions:

1. Make sure you put your name, student ID, and section above on this exam booklet as well as on each answer booklet you use. **There are 4 Questions and 12 Pages.**

2. **ANSWER QUESTION I IN THIS QUESTION BOOKLET. ALL OTHER ANSWERS** must be written on the **ANSWER BOOKLET** and **their number clearly stated**. **Answers written elsewhere or unmarked answers will not be marked**.

3. There is partial credit available on **ALL** Questions and so please make sure you **show ALL your work and computations**.

4. Allocate your time wisely…You have **3** hours to complete this exam. **You MUST STOP all your work** and turn in the exam when the invigilator declares the examination ended.

5. **You MUST return (1) this exam booklet document, and (2) your answer booklet/s. Failure to do so will invoke penalty**.

READ EACH PROBLEM AND THINK CAREFULLY.
GOOD LUCK!! WE WISH YOU ALL WELL!

QUESTION I - Multiple Choice - 30 Marks

INSTRUCTIONS: Write your answers to **THIS QUESTION** on **THIS BOOKLET ONLY.** Answers written anywhere else **WILL NOT BE GRADED. Attempt ALL Questions.**

Circle the alphabet corresponding to the one single statement which **best** answers each question. Multiple markings on any question will be marked as an incorrect response. **Your answers must be based on IFRS unless otherwise indicated or stated.**

Use the following information to solve Questions 1 and 2.
GCC Computer Systems Inc. maintains office equipment (photocopiers and computers) under contract. The contracts are issued for durations of one year, two years and three years respectively. These contracts for labour only and customers must reimburse GCC for parts. The number of new maintenance agreement sold in 2013 and its rate schedule is as follows:

	1-year	2-year	3-year
Photocopiers	$240	$420	$600
Number of agreements	24	12	36
Computers	$180	$320	n/a
Number of agreements	24	24	0

Assume that the contract sales occurred even during the year. Thus in the current year, on a one-year contract, on average, 50% revenue would accrue. Similarly, on a two-year contract, on average 25% revenue would accrue; and so on.

1. Determine the amount of revenue that GCC will recognize for the year ended December 31, 2013.
   a. $22,200
   b. $11,820
   c. $23,640
   d. $10,800
   e. none of the above but $_______________ .

2. What amount of deferred revenue will GCC report as total liability (both current and non-current) at the end of 2013?
   a. $32,580
   b. $22,200
   c. $20,760
   d. $34,320
   e. none of the above but $_______________ .

3. Aaron Robinson Architects, Ltd. (ARAL) is a private company that reports its financial results in accordance with ASPE. Unfortunately, a three-storey apartment building that ARAL designed recently collapsed. The owners of the apartment complex are suing ARAL for $10 million in damages. ARAL's legal counsel estimate that the plaintiff has an 80% likelihood of success and that if successful, the litigants will be awarded $6 million to $8 million with all payouts in the range being equally likely. ARAL's $5 million protected errors and omissions liability insurance policy includes a $500,000 deductible clause. The appropriate accounting treatment for this situation would lead to:
   a. a loss of $600,000 being reported as footnotes.
   b. a $500,000 gain to be recorded.
   c. a $1,400,000 loss to be accrued.
   d. a $1,000,000 loss to be accrued.
   e. none of the above but __either 1 MM OR 1.5MM__ .

4. On January 1, 2014, GT Transmission Services Co., issued a $20,000, non-interest bearing note due on January 1, 2015, in exchange for a custom-built computer system. The fair value of the computer system is not easily determinable. The market rate of interest for similar transactions is 4%. GT's year-end is December 31.
   How much interest expense would GT recognize for its 2014 year on this transaction and how much would be the year end balance of the note payable, respectively?
   a. $0; $20,000 respectively.
   b. $769; $20,000 respectively.
   c. $800; $20,000 respectively.
   d. $800; and $20,800 respectively.
   e. none of the above but $_______________ .

5. A company using IFRS, issues convertible bonds between interest payment dates with face value of $6,000,000 and receives proceeds of $6,540,000. Each $1,000 bond can be converted at the option of the holder into 40 common shares. The underwriter estimated the market value of the bonds alone, excluding conversion rights, to be approximately $6,200,000. Accumulated interest paid by the holder on issuance of the bonds was $$50,000. The appropriate journal entry on issuance of these bonds would be:
   a. **DR** Cash $6,590,000; **CR** Bonds payable $6,540,000; **CR** Interest payable (or Interest expense) $50,000.
   b. **DR** Cash $6,590,000; **CR** Bonds payable $6,000,000; **CR** Contributed surplus $540,000; **CR** Interest payable (or Interest expense) $50,000.
   c. DR Cash $6,590,000; CR Bonds payable $6,200,000; CR Contributed surplus $340,000; CR Interest payable (or Interest expense) $50,000.
   d. **DR** Cash $6,540,000; **CR** Bonds payable $6,200,000; **CR** Contributed surplus $340,000.
   e. none of the above _________________________________ .

6. On June 18, 2013, Railway Inc., a public company, issued 30,000, $4 cumulative preferred shares for $102 per share. Each preferred share could be converted into 5 common shares at the option of the preferred shareholder. On June 18, 2013, similar non-convertible preferred shares were selling for $100 each. On August 17, 2016, 50% of all of the preferred shares were converted into common shares. The market value of the common shares at date of conversion was $30 per share. The journal entry to record the conversion into common shares would include:
   a. debit to preferred shares of $3,060,000.
   b. debit to preferred shares of $3,000,000.
   c. credit to contributed surplus- conversion of $30,000.
   d. credit to common shares of $2,250,000.
   e. **credit to common shares of $1,530,000**.

7. Quebec Jetski Corp. sold motorized watercraft starting in 2013. Quebec Jetski includes a three year warranty on each watercraft they sell. Management estimates that the revenue portion associated with the sale for the warranty was 6.5% of revenue and that the cost of providing the warranty coverage is 2% of sales in the first year and 1% of sales in each of years two and three. Other facts are:
   - Quebec Jetski Corp. reported sales for 2013 of $4,800,000 evenly throughout the year and uses the revenue approach in recording warranty related transactions;
   - The cost to meeting the warranty claims in 2013 was $120,000 including $100,000 parts and $20,000 labour

   For 2013, the amount of warranty revenue and expense to record for Quebec Jetski Corp would be:
   a. revenue $312,000; expense $192,000.
   b. revenue $192,000; expense $120,000.
   c. **revenue $195,000; expense $120,000**.
   d. revenue $195,000; expense $192,000.
   e. revenue $104,000; expense $120,000.

8. Really Really Cheap Vacations Ltd. (RRCV) issued $4,000,000 of 5 year, 4% bonds dated January 1, 2011 with interest payable January 1 and July 1 each year. The proceeds realized from the bond issue was $3,900,000 less $50,000 in bond issue costs. RRCV year end is December 31 and it uses ASPE with straight line amortization of bond premium/discounts, and values bonds at amortized cost on its financial statements.
   At December 31, 2014, what is the amortized cost of the bonds payable on RRCV's balance sheet?
   a. **$3,970,000**.
   b. $4,000,000.
   c. $3,980,000.
   d. $3,900,000.
   e. none of the above but $______________ .

9. Nationair Inc. owes the Bank of Universal Debt [**BUD**], 6% interest, $5,000,000 as at its fiscal year end on December 31, 2013, which is due in annual payments of $1 million over the next 5 years - payment dates are June 30. On March 14, 2014, Nationair Inc. issued $2 million in 5% preferred shares which are not callable or redeemable. It states that some of the proceeds will be used to pay the next debt installment due to the **BUD** and places $1million into an irrevocable bank account for that purpose. How would the $5 million in debt due to **BUD** be classified on the balance sheet at December 31, 2013 assuming the financial statements will be issued on March 31, 2014 and Nationair Inc. uses ASPE versus IFRS?
   a. ASPE and IFRS- $1 million current and $4 million long-term.
   b. ASPE and IFRS- $5 million long-term.
   c. **ASPE- $5 million long-term; IFRS- $1 million current and $4 million long-term.**
   d. ASPE and IFRS- $2 million current and $3 million long-term.
   e. ASPE and IFRS- $3 million current and $2 million long-term.
   f. none of the above but ASPE and IFRS- $___________; and $__________ .

Use the following information to answer Questions 10 and 11.
On January 1, 20X1, Higgins, Inc., reported 52,000 common shares, outstanding, at $1,092,000 plus retained earnings of $250,000. On March 1, it issued 8,000 additional shares in exchange for equipment with a fair market value of $258,000. The shares were being traded on the market at $33.00 each. On April 30, the company declared a 2-for-1 stock split. On October 1, it purchased in the open market, 16,000 shares at $10.50 each and cancelled them. On December 31, it declared a cash dividend of $1.20 per share and reported a net income of $132,000. The company follows IFRS for its accounting.

10. Determine the number of shares outstanding and dollar capital that Higgins will report on its balance sheet dated December 31, 20X1.
    a. 120,000 shares; $1,350,000.
    b. **104,000 shares; $1,170,000.**
    c. 104,000 shares; $1,530,000.
    d. 164,000 shares; $1,230,000.
    e. none of the above, but $___________.

11. Determine the balance of Retained earnings reported by Higgins on its balance sheet dated December 31, 20X1.
    a. $169,200.
    b. $145,200.
    c. $125,200.
    d. $137,200.
    e. **none of the above but $ 157,200 .**

12. Riviere-Rouge Wheels Inc. (RRW) sold $5,000,000 of five year, 6% bonds at par on January 1, 2012 with interest payable January 1 and July 1 each year. The bonds can be called at anytime at 101 plus accrued interest. On April 1, 2013 RRW bought back $1,000,000 of bonds on the open market for $984,736 including accrued interest and retired them. The gain or loss on retirement of these bonds on the retirement date would be:
   a. gain of $15,264.
   b. loss of $15,264.
   c. gain of $25,264.
   d. **gain of $30,264.**
   e. none of the above, but $____________.

13. Zound Box, Inc., uses the revenue approach to account for warranties. During 2012, the company sold a special stereo equipment to the Montreal Art Centre for $500,000 and carrying a two-year warranty (included in the price). It was estimated that 3% of the selling price represented warranty revenues. Further, 60% of this revenue related to 2012, and the balance was allocated to the following year. Assume that Zound Box incurred costs of $4,700 to service the contract in 2012. Determine the warranty revenue, the unearned warranty revenue and the warranty expense reported by Zound Box in its 2012 financial statements.
   a. Warranty Revenue - $15,000; Unearned Warranty Revenue - $15,000; Warranty Expenses - $4,700.
   b. Warranty Revenue - $15,000; Unearned Warranty Revenue - $15,000; Warranty Expenses - $9,400.
   c. Warranty Revenue - $9,000; Unearned Warranty Revenue - $9,000; Warranty Expenses - $9,400.
   d. Warranty Revenue - $9,000; Unearned Warranty Revenue - $15,000; Warranty Expenses - $4,700.
   e. **none of the above, but Warranty Revenue - $ 9,000 ; Unearned Warranty Revenue - $ 6,000 ; Warranty Expenses - $ 4,700 .**

14. Assume that a convertible bond issue with a par value of $350,000 , remaining unamortized premium of $44,900 and a balance of $90,000 in the Contributed Surplus - Conversion account is converted according to the terms of the bond indenture, by issuing 18,000 common shares. The shares, with an average cost of $15, were currently being traded in the market at a price of $21 each. What is the amount of gain or loss to be recorded on this transaction?
   a. **No gain or loss is to be recorded.**
   b. $39,000 gain.
   c. $5,000 gain.
   d. $49,000 loss.
   e. None of the above but $______________ .

15. On October 1, 2011, Souvenirs Company issued $6 million face-value debentures. The bonds have a coupon interest rate of 10% per annum, payable semi-annually on 31 March and 30 September, and mature on 30 September 2021. The bonds were issued at a price to yield 8%. The issue price of the bonds would have been
   a. $2,738,340.
   b. $2,779,140.
   c. $6,805,188.
   d. **$6,815,440.**
   e. None of the above but $______________ .

SOLUTION I - 30 Marks

1. Soln: 240*0.5*24 + 420*0.25*12+ 600*0.166667*36+180*0.5*24+320*0.25*24 = 11,820

2. Soln: total rev= 44,400 less def rev 11,820 = 32,580

3. **Soln: 6MM loss exceeds coverage of 5MM. Thus loss recorded at difference of 1.0 MM. However could be interpreted that the 500K deductible is part of the 5MM coverage, i.e., the insurance pays only 4.5MM. Then the answer could be 1.5 MM. Both answers acceptable.**

4. **Soln: $20,000/1.04 = $19,231, thus interest expense is 20,000-19,231 = 769 and note payable 20,000**

5.

6. Soln: initial issue (dr) CASH 3060k, (CR) PREF 3000K; (CR) CONT SURPL 60k then on conversion of half: (dr) preferred shares 1500k, (cr) cont surplus 30K, (cr) common shares 1530K

7. Soln: revenue = 0.065*4.8mm * 120 actual/192exp cost =195K, expense is actual = 120K.

8. Soln: amortized cost based on proceeds of $3850K, discount = 150K, amortized 30K per year. 2014= 4 years amortization, thus 4*30K + 3850K = 3970K

9.

10.

	52K	$1,092K
	8K	258K
Stk Spl	120K	$1,350K
	(16K)	(180K)
	104K	$1,170K

11. 250 + 132 - 124.8 = 157.2K

12. Soln: accrued interest = 3/12*0.06*1MM = $15,000, and other gain on redemption at lower than issue price of $15,264, thus total gain = $30,264.

13. 0.03 x 500K x 0.6 = **9K**; 0.03 x 500K x 0.4 = **6K**; **4.7K**

14.

15.

PV of Single Amount, $6,000,000 [4%, 20 Periods] [6,000,000 x 0.45639]	$2,738,340
PV Of Ordinary Annuity, 300,000 [4%, 20 Periods] [300,000 x 13.59033]	$4,077,100
Issue Price	**$6,815,440**

QUESTION II - Liability Transactions - 25 Marks

Transaction I - 12 Marks

The following situation sums up a debt restructuring and you are required to help out with the case.

Situation:

On December 31, 2013, KFG owed TRH Bank $4,000,000 on a loan payable. Interest is 5% per annum and had been paid for 2013. TRH Bank agreed to allow KFG to satisfy their entire obligation by repaying the loan in 3 equal instalments of $1,100,000 starting on December 31, 2014 but to pay 8% interest on outstanding amounts. The market rate of interest is 6%.

REQUIRED:

1. Firstly, determine if the revision to the debt on December 31, 2013, should be accounted for as a settlement (major restructure), or as a modification (minor restructure) of the old debt. Show clearly your computations to support your answer.

2. Prepare the journal entry, ***in proper format***, to record the transaction in the books of the debtor, KFG.

3. Similarly, prepare the journal entry, ***in proper format***, to record the transaction in the books of the creditor, TRH Bank.

4. On December 31, 2014, prepare the journal entry to record the debt transaction in the books of
   - KFG
   - TRH Bank

5. For **This Question Only**, assume that your computations, in (1) above, involving the cashflows for the loan, amounted to a present value of $3,782,000. Now determine if the revision to the debt on December 31, 2013, should be accounted for as a settlement (major restructure) or as a modification (minor restructure) of the old debt. Give brief but clear reasons to support your answer.

Transaction II - **13 Marks**

Alumin, Inc., constructed and commenced the operations of a large aluminum smelting factory on land donated by the provincial government on January 1, 2013. The construction and required equipment carried a total cost of $98 million with an expected life of 20 years. The conditions specified by the government required the company to remove all equipment then existing, and thereafter renovate and convert the premises into a museum to house aerospace artifacts. The total costs of such a restoration was expected to be not less than $30 million and which was to be accounted for appropriately. Alumin expected to recover $8 million from the sale of the scrapped equipment at the end of its useful life.

The company was also advised by its construction consultants that it would incur additional restoration costs, for the first three years only, due to production related issues in those years. These additional costs, amounting to $3.1 million annually were to be accrued at the beginning of the year. Further, these will also be paid in total ($9.3 million) when the equipment would be removed. Alumin has settled on an annual discount rate of 3%.

On January 1, 2033, the company commissions Reliance Restorators, Inc., to dismantle and remove the equipment, and clean up the site and makes a total payment of $39 million.

Required:

Prepare all appropriate entries (under IFRS unless specifically mentioned otherwise), to record the following:

a] The costs associated with the asset restoration obligation on January 1, 2013 upon the acquisition of the plant on January 1, 2013.

b] The additional restoration costs during production for the year, ending December 31, 2013.

c] The depreciation expense for 2013 to be recorded on December 31, 2013.

d] The finance costs on the outstanding liability for the period ended December 31, 2013.

e] Now assume PE GAAP. The additional restoration costs during production for the year, ending December 31, 2013.

f] The payment for the dismantling and cleanup contract on January 1, 2033.

SOLUTION: QUESTION II - 25 Marks

Transaction I (12 Marks)

1. Situation A- principal = 1.1MM* PVIF1, 5% + 1.1MM*PVIF2,5%+1.1MM*PVIF3,5%
   =1.1MM *.9524 + 1.1 MM * .9070 + 1.1MM * .8638 = **2.995575MM**
   -interest = 3.3MM * 8% * .9524 +2.2MM * 8% * .9070 + 1.1MM *8%*.8638 = **487.083K**
   -total = **3.482658MM**, thus is more than 10% lower than $4 million, **major debt restructure** and so would be a settlement of the original debt.

2. Loan Payable - Old 4,000K
   Loan Payable - New 3,419,907
   Gain on Restructuring of Debt 580,093

Loan Payable - Old	4,000K	
Loan Payable - New		3,419,907
Gain on Restructuring of Debt		580,093

   New is valued at 6% for the borrower, thus
   principal = 1.1MM* PVIF1, 6% + 1.1MM*PVIF2,6%+1.1MM*PVIF3,6%
   =1.1MM *.9434 + 1.1 MM * .89 + 1MM * .83962 = **$2,940,322**
   \+ **interest** = 3.3MM * 8% * .9434 +2.2MM * 8% * .89 + 1.1MM *8%*.83962 = **479,585**
   = **$3,419,907**

3. Bad Debt Expense / Loan Receivable

Bad Debt Expense	517.35K	
Loan Receivable		517.35K

   [4,000K - 3,482.65K]

4. **KFG**

Interest expense [0.06*3,419,907]	205,194	
Loan Payable	58,806	
Loan Payable	1,100K	
Cash [1.1M +264]		1,364K

   TRH

Cash [.08 x 3.3M]	1,364K	
Interest revenue [0.05 x 3,482,658]		174.133K
Loan Receivable [Balance]		1,189.867K

5. **Given - Total** = 3,782K, is less than 10% lower than $4MM, **thus minor debt restructure and so would be a modification or exchange of the old debt.**

<u>Transaction II</u> - (13 Marks)

a] **To record the costs associated with the asset retirement obligation:**
[The present value of $30 million due in 20 years at 3% per year discount rate]
30,000,000 x 0.55368 = $16,610,400

Equipment	16,610,400	
Asset Retirement Obligations		16,610,400

b] **To record the additional restoration costs related to the production process and the asset retirement obligation at December 31, 2012:**
[Present value of estimated clean up costs of $1,500,000 at 3% per year in 20 periods]
$3,100,000 x 0.55368 = $1,716,408.

Production Overhead Costs	1,716,408	
Asset Retirement Obligations		1,716,408

c] **The depreciation expense for 2012 on the <u>total equipment</u> to be recorded on December 31, 2012.**
[$90M + $16,610,400]/20 Periods = $5,330.520

Depreciation Expense	5,330.520	
Accumulated Depreciation – Equipment		5,330,520

d] **The finance (interest) costs for 2012 on December 31.**

Interest Expense	549,804	
Asset Retirement Obligations		549,804
[0.03 x (16,610,400 + 1,716,408)]		

e] **Now assume PE GAAP. The additional restoration costs during production for the year, ending December 31, 2012.**

Equipment	1,716,408	
Asset Retirement Obligations		1,716,408

g] **The payment for the dismantling and cleanup contract on July 1, 2021.**

Asset Retirement Obligations	39,300,000	
Cash		39,000,000
Gain on Settlement of ARO		300,000

QUESTION III - Shareholders' Equity - 23 Marks

HardVood Corp. is authorized to issue 800,000 no par value common shares. Subscribers, on January 1, 20X1, are allocated to purchase 200,000 common shares at $15 per share and required a 40% down payment. On April 1, the company calls the remaining subscription amount due. Subscribers for 8,000 share subscribers fail to pay on the instalment and the company confiscates their earlier contributions. On May 1, the company issues the shares to the fully paid subscribers.

On June 1, the company issues 8,000 in exchange for land with a fair market value of $160,000. On June 30, it repurchased 50,000 shares at $16.80 and cancelled them. Thereafter, on July 15, it declared a ten percent stock dividend. The market price of the company's shares on that date was $15.40. Share certificates were distributed one month later.

On January 1, 20X1, the company carried an opening balance of $115,000 in its Contributed Surplus-Shares repurchase account. Further, the company had no remaining shares outstanding on that date.

REQUIRED: Prepare the entries to record all of the transactions listed above, as follows:

a. Entry/entries on January 1.

b. Entry on April 1 for the subscriptions received.

c. Entry on April 1 to record the default of the subscribers on their share subscriptions, assuming the company confiscates all prior contributions.

d. Entry on May 1.

e. Entry on June 1 for the land received.

f. Entry on June 30 to record the repurchase and cancellation of the repurchased shares.

g. Entry on July 15, if required, to record the stock dividends declared. If no entry is necessary, clearly state so.

h. Entry on August 15, if required, for the share certificates issued. If no entry is necessary, clearly state so.

SOLUTION III - 23 Marks

	Account	Debit	Credit
(a)	Subscriptions Receivable (15 x 200,000)	3,000,000	
	Common Shares Subscribed		3,000,000
	Cash (0.40 x 3,000,000)	1,200,000	
	Subscriptions Receivable		1,200,000
(b)	Cash (192,000 x $15 x 0.6)	1,728,000	
	Subscriptions Receivable		1,728,000
(c)	Common Shares Subscribed (15 x 8,000)	120,000	
	Subscriptions Receivable (0.6 x 15 x 8,000)		72,000
	Contributed Surplus - Forfeited Subscriptions		48,000
(d)	Common Shares Subscribed	2,880,000	
	Common Shares (15 x 192,000)		2,880,000
(e)	Land	160,000	
	Common Shares		160,000
(f)	Common Shares [*15.20 x 50,000]	760,000	
	Contributed Surplus- Shares repurchase	80,000	
	Cash [16.80 x 50,000]		840,000
	*[(3,040K/200K)]		
(g)	Retained Earnings [0.1 x 150,000 x 15.40]	231,000	
	Common stock Dividends Distributable		231,000
(h)	Common stock Dividends Distributable	231,000	
	Common Shares		231,000
	[FMV of Common Shares is $15.40 each]		

QUESTION IV - Complex Financial Instruments - 22 Marks

Tweaker, Inc., is a social media corporation and has opted to follow IFRS. It issued 25-year 8% bonds with a maturity value of $300,000 on 1/1/X0. 3 warrants were attached to each $1,000 bond. Each warrant entitled its holder to purchase one common share in Tweaker at $130 each. Based on a market based expected yield of 10%, the company priced the bonds only at $253,884. The market value of the warrants on the date of the issue was $27 each.

On March 31, 20X5, when the market price of Tweaker's shares reached $180, 70% of the warrant holders exercised their options to purchase shares in the company. Thereafter on December 31, 20X8, when the market conditions seemed favourable, the company called in 30% of the outstanding bonds at 105 and cancelled them.

The recorded balance of the bond discount on June 30, 20X8 was $28,182. Similarly on December 31, 20X8, the balance was $26,589 and $24,918 on June 30, 20X9.

REQUIRED:

1. Prepare the appropriate journal entry, ***in proper format***, to record the issue of the bonds on January 1, 20X0. **(4 marks)**

2. Prepare the appropriate journal entry on June 30, 20X0, ***in proper format***, to record all effects pertinent to the bonds. **(4 marks)**

3. Determine the interest expense recorded for the year 20X0. **(4 Marks)**

4. Prepare the appropriate journal entry, ***in proper format***, to record the exercising of the warrants on March 31, 20X5. **(5 marks)**

5. Prepare the appropriate journal entry, ***in proper format***, to record the retirement of the bonds on December 31, 20X8. **(5 marks)**

SOLUTION IV - 22 Marks

		Debit	Credit
1.	Cash	278,184	
	Bonds Payable		253,884
	Contributed Surplus - Warrants		24,300
	[300 x 27 x 3]		
2.	Interest Xp [253,884 x.05]	12,694	
	Cash [.04 x 300,000]		12,000
	Bonds Payable		694
3.	12,694 (as above) + (.05 x(253,884 + 694))		
	12,694 + 12,729 = **25,423**		
4.	Cash [3 x 100 x 130 x 0.7]	81,900	
	Contributed Surplus Warrants	17,010	
	[0.7 x 24,300]		
	Common shares		98,910
5.	Bonds Payable	82,023	
	[(300,000 - 26,589) x 0.3]		
	Loss on Retirement of Bonds	12,477	
	Cash (300,000 x 0.3 x 1.05]		94,500