

Accounting questions

Finance



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Accounting questions Question Since the is noninterest bearing, the face value is got by dividing the amount borrowed by the present value interest factor. Future Value face valuePV of \$1, n= 6, i= 7% 0. 66634Present value 100, 000Face value= 100, 000/0. 66634The interest to be paid at the end of the accounting period is got by getting 7% of the carrying value above. Amount of interest expense= 7% of the carrying value= 7%*100, 000=\$7000Since Strong is an industry, cash flows are going to be received from the trade. The cash inflows that are likely to be planned for include cash received from dividend and interest from investment and cash received from customers or consumers from the sale of goods or services. On the other hand, the firm is likely to make payments that may include cash paid for income taxes, interest expense on the note, cash paid for the purchase of inventory and cash paid in the form of wages, salaries and other operating expenses. Question 2: In order to get the amount of cash paid quarterly and the proportion of first payment which is interest expense and the proportion which is interest, we are going to amortize the loan by preparing the loan amortization schedule for the first payment. Payment= loan/PVIFA (present value interest factor annuity)PVIFA= $\{1-[(1+i)^{-n}]/i\}$, where I is the interest rate and n is the number of periods. I= 10%/4= 2. 5% (0. 025) and n= 2*4= 8PVIFA= $\{1-[1+0. 025]^{-8}\}/0. 025= 7. 1701$ Payment= 12000/7. 1701=\$1673. 62AmortizationyearBeginning balancepaymentinterestPrincipal repaymentEnding balance1120001673. 623001373. 6210626. 38210626. 38Of the \$1673. 62 paid back. \$ 300 is the interest expense and \$1373. 62 is the principal repaid. Question 3: Since the market rate of interest for the note is less than the face rate of interest, the note will be issued at a premium. The notes issue price is computed as <https://assignbuster.com/accounting-questions/>

follows: Present value of principal: Face value 100,000 PV of 1, $n=16$, $i=3\%$
 $(6/2) 0.62317$ PV of principal 62317 Present value of interest: Face value 100,000
 Stated interest 3.5% $(7/2)$ Interest payments 3500 PVOA, $n=16$, $i=3\%$
 12.56110 PV of interest payments 43963.85 Issue price of note 106280.85
 period Cash paid (a) Interest expense (b) Amortization of premium (b-a)
 Carrying charge (b-a) + c 106280.85 1st 3500 3188.43-311.57 105969.28
 Question 4: Since the market rate of interest for the note is greater than the face rate of interest, the note will be issued at a discount. The notes issue price is computed as follows: Present value of principal: Face value 100,000
 PV of 1, $n=16$, $i=4\%$ 0.53391 PV of principal 53,391 Present value of interest: Face value 100,000
 Stated interest 3.5% $(7/2)$ Interest payments 3500 PVOA, $n=16$, $i=4\%$ 11.65230
 PV of interest payments 40783.05 Issue price of note 94174.05 Period Cash paid (a) Interest expense (b) Amortization of discount (b-a) Carrying value (c) (b-a) + c 1st 94174.05 3500 3766.96 266.96 94441.01
 Work cited Porter, G. and Norton, C. Financial accounting: the impact on decision makers. Australia ; Mason, OH : South-Western Cengage Learning, 2011.