

# [Hay corporation's](https://assignbuster.com/hay-corporations/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Part 1. What type of lease is this from Hay Corporations viewpoint? Please be specific. Capital lease2. From the viewpoint of Marly Rentals Co, what type of lease agreement exists? Please be specific.
Operating Lease
3. Record the journal entries for 20X8 and 20X9 for Marty Rentals Co pertaining to the lease.
Operating Lease Accounting – to record rental payments
Account
Debit
Credit
Rental expense
400000
Cash
400000
Total
400000
40000
4. Record the journal entries for 20X8 and 20X9 for Hay Corporation pertaining to the lease.
Capital lease journal entry for Hay Corporation for 2008
Account Names
Debits
Credits
Lease receivable
465, 639

Unearned interest revenue

65, 639
Machine

400, 000
Depreciation account

Account Names
Debits
Credits
Depreciation expense account
40, 000

Accumulated depreciation

40, 000
For 2009
Account Names
Debits
Credits

Cash
155, 213

Lease receivable

155, 213

Unearned interest revenue
32, 000

Interest revenue

32, 000
5. What if Immediately after signing the lease, Marly finds out that Hay Corp. is the defendant in a suit which is sufficiently material to make collectibility of future lease payments doubtful. Does this affect the accounting treatment by Mary for this lease? If so, give the journal entries for the 20X8 only. If no change, please indicate no change.
This will not affect the accounting treatment by Mary. No change.
Part II
Peter Co. borrowed $200, 000 on January 1, 20X4, and signed a two-year note due January 1, 20X6, bearing interest at 12%. Interest is payable in full at maturity along with the principal.
Required:
a. What if note was a non-interest bearing note? Record the journal entries for 20X4, 20X5, and 20X6 pertaining to this note.
For 2004
The business will receive cash $200, 000 in return for having to pay back the lender a sum of Future Value:
FV = PV(1 + i)n
= 200000(1+0. 12)2 = 250880
Non interest bearing note – issued at a discount
Account
Debit
Credit
Cash
200, 000
Discount on notes payable
50880
Notes payable
250880
Total
25080
25080
For 2005,
At this point, the non interest bearing note is recorded. The discount on the notes payable is amortized as interest expense. The amount would be
50880/2 = 25440 per year
Non interest bearing note payable – discount amortized
Account
Debit
Credit
Interest expense
25440
Discount on notes payable
25440
Total
25440
25440
For 2006,
This represents the end of the term, whereby all the discounts has been amortized and recognized as an expense in the income statement. Hence the balance on notes payable account will become zero:
Non interest bearing note – Payment at the end of the term
Account
Debit
Credit
Notes payable
250880
Cash
25, 0880
Total
25, 080
25080