

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

[](https://assignbuster.com/)[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