

# Hay corporation's

Finance



Part 1. What type of lease is this from Hay Corporations viewpoint? Please be specific. Capital lease  
 2. 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.

<https://assignbuster.com/hay-corporations/>

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

$$50880/2 = 25440 \text{ per year}$$

Non interest bearing note payable - discount amortized

Account

Debit

Credit

<https://assignbuster.com/hay-corporations/>

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