

1. D

Convertible bonds -- all proceeds debt. no allocation

2. B

Allocate proceeds between bonds and warrants based on relative market values:

bond value	950
warrant	<u>50</u>
total	1,000

$600,000 * 1.03 = 618,000$     $* .95 = 587,100$

3. C

APB NO. 26: the difference has to be recognized as a gain or loss.

4. B

debt:		\$800,000
+ accrued interest		<u>80,000</u>
carrying of debt		\$880,000
future cash flow:		
Principal	700,000	
interest	<u>80,000</u>	<u>780,000</u>
Gain		100,000
not net of tax.		

5. B

6. D

land fair value	810,000	face value of debt	900,000
land cost	<u>650,000</u>	accrued interest	<u>108,000</u>
gain on disposal	<u>160,000</u>	carrying value of debt	1,008,000
		fair value of land	<u>810,000</u>
		gain on restructuring	<u>198,000</u>

7. C

***Have to use the residual approach as you don't know the market value of the bonds:***

proceeds from bonds and warrants	500,000	1.03	=	515,000
fair value of warrants	500	* 30 = 15000	* 4 =	<u>60,000</u>
amt for the bonds (not asked)				455,000

8. B

\$70,000 times	.7972	=	\$55,804
\$ 5,600 times	.7972	=	\$ 4,464
\$ 5,600 times	.8927	=	<u>\$ 4,999</u>
			\$65,267 value of a 8%, \$70,000 note in a 12% market
			<u>\$112,000</u> carrying value of the note (100,000 + 12,000)
			<u>46,733</u> loss on restructuring of debt.

9. D

\$65,267	value of a 8%, \$70,000 note in a 12% market, at time of restructuring
<u>12%</u>	market rate of interest
<u>7,832</u>	interest expense

10. C

carrying amount of debt:	100,000 + accrued interest 12,000 = 112,000
future cash flows:	
maturity value	70,000
interest for 2003	5,600
interest for 2004	<u>5,600</u>
total cash flow	<u>81,200</u>
gain	30,200