

HOMEWORK PROBLEM 6-1

In March, 20x1, the Education Assistance Corp. began production of a new machine used by colleges and universities to assist students in learning various course material. The company sold 700 units in 20x1 at \$4,000 each. Each machine was under warranty for one year and the company has estimated, from past experience with a similar machine, that the warranty cost would probably average \$80 per unit. Further assume that, as a result of parts replacements and services rendered in compliance with machine warranties, the company incurred \$45,000 in warranty costs in 20x1. Record journal entries for the following transactions:

1. Sale of the 700 machines, all for cash, in 20x1.
2. Incurrence of \$45,000 of warranty costs in 20x1.
3. The necessary adjusting entry at the end of the company's fiscal year, December 31, 20x1.

HOMEWORK PROBLEM 6-2

The 20x5 annual report of NuPont revealed the following information concerning its debt (in millions):

15 - Long-Term Borrowings	December 31	
	20x5	20x4
U.S. Dollar		
Industrial development bonds due 20x6-20x42	\$ 228	\$ 259
14.50% notes due 20x8	--	375
14.13% notes due 20x9	200	200
13.25% notes due 20x9	180	17
Zero coupon notes due 20x10 (\$300 face value, 13.99% yield to maturity)	172	150
12.88% notes due 20x12	150	150
11.25% notes due 20x15	150	150
13.75% retractable notes due 20x17	189	189
8.70% notes due 20x18	200	217
8.00% notes due 20x18	60	63
9.13% debentures due 20x19	132	139
7.50% debentures due 20x19	68	72
8.88% debentures due 20x21	200	200
6.00% debentures due 20x21 (\$660 face value, 13.95% yield to maturity)	327	322
8.25% notes due 20x22	80	80
8.45% debentures due 20x24	198	198
8.50% debentures due 20x26	182	182
9.38% debentures due 20x29	200	200
13.25% debentures due 20x31	300	300
Other loans (various currencies) due 20x6-20x33	238	241
Unamortized discount	<u>(263)</u>	<u>(283)</u>
	\$ 3,191	\$ 3,431

The footnote refers to 6.00% debentures due 20x21.

- What are debentures?
- How can 6.00% debentures yield 13.95%?
- If the debentures have a \$660 million face value, why are they shown at only \$327 million?