On July 31, 2012, Bismarck Company engaged Duval Tooling Company to construct a special-purpose piece of factory machinery. Construction began immediately and was completed on November 1, 2012. To help finance construction, on July 31 Bismarck issued a $628,800, 3-year, 12% note payable at Wellington National Bank, on which interest is payable each July 31. $499,800 of the proceeds of the note was paid to Duval on July 31. The remainder of the proceeds was temporarily invested in short-term marketable securities (debt investments) at 10% until November 1. On November 1, Bismarck made a final $129,000 payment to Duval. Other than the note to Wellington, Bismarck’s only outstanding liability at December 31, 2012, is a $37,800, 8%, 6-year note payable, dated January 1, 2009, on which interest is payable each December 31.

(a) Calculate the interest revenue, weighted-average accumulated expenditures, avoidable interest, and total interest cost to be capitalized during 2012.

Interest revenue

$

Weighted-average accumulated expenditures

$

Avoidable interest

$

Interest capitalized

$

(b) Prepare the journal entries needed on the books of Bismarck Company at each of the following dates. (Credit account titles are automatically indented when amount is entered. Do not indent manually.)

(1) July 31, 2012.

(2) November 1, 2012.

(3) December 31, 2012.

Date

Account Titles and Explanation

Debit

Credit

7/31

(To record the note.)

(To record the payment to Duval.)

11/1

(To record the proceeds from the investment.)

(To record the payment to Duval.)

12/31