5.08 Topics in Long-Term Liabilities and Equity

Question 1
Which of the following items is *most likely* to appear on a company's balance sheet?
A. Weighted average coupon rate for long-term debt
B. Specific details for leases treated as finance leases
C. Separate carrying values for short- and long-term debt

Question 2
Which of the following is most likely a reason for a company to lease, rather than purchase, an asset? The company does not have to:
A. report a lease liability on the balance sheet.
B. report a leased asset on the balance sheet.
C. risk disposing of the asset at a below-market residual value.

Question 3
Under IFRS, at the inception of a lease, a lessee would *most appropriately* record a(n):
A. expense equal to the average periodic lease payment.
B. long-term asset equal to the present value of lease payments.
C. long-term liability equal to the total amount of future lease payments.

Question 4
A company maintains a defined benefit plan for its employees. It recently determined that its employees' life expectancy has increased, which will increase the company's pension liability. The amount of the increased liability can only be estimated. Under US GAAP, the company *most appropriately* reports the increased liability on its financial statements:
A. in the footnotes only, since it cannot determine the amount of increase.
B. as part of other comprehensive income and amortizes the increase over time.
C. as part of other comprehensive income but does not amortize the increase over time.

Question 5
The impact on a lessor's financial statements in the first year of a lease that was newly classified as a sales-type lease rather than a direct-financing lease is *most likely* higher:
A. leverage.
B. return on equity.
C. depreciation expense.

Question 6
IFRS *most likely* permit lessees to report the:
A. entire lease payment as a cash outflow under operating activities.
B. reduction of lease liabilities as a cash outflow under investing activities.
C. interest portion of the lease payment as cash outflow under financing activities.

Question 7
.A company reporting under US GAAP leases a factory building under a long-term operating lease contract. On the income statement, the ongoing expenses pertaining to the lease should *most appropriately* be reported:
A. in equal amounts each period, under a single line item.
B. in different amounts each period, under a single line item.
C. in different amounts each period, under depreciation expense and interest expense.

Question 8
A manufacturing company maintains a defined benefit plan for its employees who are directly involved in the manufacturing process. The company *most appropriately* recognizes contributions made for those employees:
A. immediately as a separate operating expense.
B. as a separate operating expense only when the employees retire.
C. as cost of goods sold when it sells goods that those employees made.

Question 9
Under US GAAP, a lessee reports periodic payments for the second year of a finance lease. Compared to using an operating lease, the lessee will *most likely* report:
A. less cash flow from financing activities.
B. less cash flow from operating activities.
C. more cash flow from investing activities.

Question 10
A company issued coupon-paying bonds with a face value of £5 million. It used the proceeds to purchase one of its suppliers. The company uses IFRS for financial reporting. In its statement of cash flows, it can report its coupon payments on the bonds as:
A. cash from financing (CFF) or cash from investing (CFI).
B. cash from investing (CFI) or cash from operations (CFO).
C. cash from financing (CFF) or cash from operations (CFO).

Question 11
A company has a defined contribution pension plan and reports under IFRS. Which of the following items relating to the plan's participant accounts are *most likely* to be disclosed on the company's income statement?
A. Gains or losses on plan investments
B. Company contributions made to participants' accounts
C. Interest and dividends earned and paid on plan investments

Question 12
After entering a finance lease agreement, the lessor *most appropriately* records periodic:
A. lease income.
B. interest revenue.
C. depreciation expense.