**Liabilities\_Hard\_AccountingMentor**

**Concept-Based Questions (10)**

**1. Which of the following is a key characteristic of bonds issued at a premium?**

A) The stated interest rate is lower than the market interest rate.  
B) The stated interest rate is higher than the market interest rate.  
C) The bond sells at a discount because investors demand a higher yield.  
D) The bondholder pays less than the face value to acquire the bond.

**2. How does the effective-interest method differ from the straight-line method for amortizing bond premiums and discounts?**

A) The effective-interest method results in equal interest expense over time.  
B) The effective-interest method recognizes a decreasing amount of interest expense over time.  
C) The straight-line method results in varying interest expense calculations.  
D) The effective-interest method matches interest expense with the book value of the bond.

**3. Which of the following is true about convertible bonds?**

A) They always pay a higher interest rate than nonconvertible bonds.  
B) They can be exchanged for common stock at the bondholder’s option.  
C) They are classified as current liabilities when issued.  
D) They result in an obligation to repay the principal in cash.

**4. A company issues callable bonds. What is the primary advantage for the issuer?**

A) The ability to pay bondholders early when market rates drop.  
B) The bondholder has the option to demand early repayment.  
C) Interest expense increases when the bonds are called.  
D) The market price of the bond remains constant.

**5. How do zero-coupon bonds differ from traditional interest-bearing bonds?**

A) They pay periodic interest in cash.  
B) They are sold at a discount and do not make interest payments.  
C) They have no stated maturity date.  
D) They are repaid in installments rather than in a lump sum.

**6. If a company’s debt-to-equity ratio is increasing, what does this indicate?**

A) The company is becoming more financially stable.  
B) The company is relying more on equity financing.  
C) The company has increasing financial leverage.  
D) The company is decreasing its liabilities.

**7. What impact does a bond discount have on interest expense over the life of the bond?**

A) It decreases the total interest expense reported.  
B) It increases the total interest expense reported.  
C) It has no impact on interest expense.  
D) It results in lower cash interest payments.

**8. What is the primary risk of long-term liabilities for a company?**

A) They do not impact financial leverage.  
B) They result in decreased financial flexibility.  
C) They increase a company’s profitability.  
D) They reduce the need for equity financing.

**9. Which of the following best describes off-balance-sheet financing?**

A) It refers to the full disclosure of all liabilities in financial statements.  
B) It involves recording all lease obligations as liabilities.  
C) It includes financial obligations not recorded as liabilities.  
D) It is prohibited under generally accepted accounting principles (GAAP).

**10. Which of the following would be classified as a long-term liability?**

A) Accounts Payable  
B) Unearned Revenue  
C) Mortgage Payable (due in 20 years)  
D) Interest Payable

**Math-Based Questions (10)**

**11. A company issues a $100,000 bond at 105. What is the total cash received from the bond issuance?**

A) $95,000  
B) $100,000  
C) $105,000  
D) $110,000

**12. A company issues $200,000 of bonds at a 5% premium. What amount is credited to Bonds Payable?**

A) $200,000  
B) $210,000  
C) $190,000  
D) $205,000

**13. A bond with a face value of $500,000 is issued at 98. How much cash does the company receive?**

A) $490,000  
B) $500,000  
C) $510,000  
D) $480,000

**14. A $1,000,000 bond issued at 6% has an effective interest rate of 7%. If interest is paid annually, what is the first year’s interest expense using the effective-interest method?**

A) $60,000  
B) $70,000  
C) $65,000  
D) $75,000

**15. A company issues bonds with a stated interest rate of 8% when the market interest rate is 10%. What is the expected selling price of the bonds?**

A) At par value  
B) At a discount  
C) At a premium  
D) At book value

**16. A $600,000 bond is issued at 104 and is amortized using the straight-line method over 10 years. What is the annual amortization amount?**

A) $4,000  
B) $2,400  
C) $6,000  
D) $8,000

**17. A company issues a 10-year, 5% bond for $1,000,000 at a premium of $50,000. What is the carrying value of the bond at issuance?**

A) $950,000  
B) $1,050,000  
C) $1,000,000  
D) $1,100,000

**18. If a $500,000 bond is issued at 95 and is retired early at 98, what is the loss or gain on redemption?**

A) $15,000 loss  
B) $15,000 gain  
C) $10,000 loss  
D) No gain or loss

**19. A company issues a $750,000 bond at 103. The bond has a stated interest rate of 6% with semiannual payments. How much is the semiannual interest payment?**

A) $22,500  
B) $45,000  
C) $30,900  
D) $46,350

**20. A $900,000 bond with a 10-year term is issued at a 5% discount. If the bond is amortized using the straight-line method, what is the annual amortization amount?**

A) $4,500  
B) $9,000  
C) $10,000  
D) $5,000