**LongTerm-normal-AccountingMentor**

**Concept-Based Questions (20 MCQs)**

**1. What is a bond?**

A) A short-term liability  
B) A long-term liability issued by a company or government  
C) A stockholder's equity instrument  
D) A type of revenue account  
**Key:** B

**2. Which of the following statements about bonds is true?**

A) Bonds always pay a fixed interest rate  
B) Bonds are always issued at par value  
C) Bonds can be issued at a discount, par, or premium  
D) Bonds have no impact on a company’s financial leverage  
**Key:** C

**3. The market rate of interest is also known as the:**

A) Coupon rate  
B) Contractual rate  
C) Effective interest rate  
D) Nominal rate  
**Key:** C

**4. A company issues bonds at a discount when:**

A) The stated interest rate is higher than the market rate  
B) The stated interest rate is lower than the market rate  
C) The company wants to increase interest payments  
D) The bonds have a short maturity period  
**Key:** B

**5. Amortization of bond premium:**

A) Increases bond interest expense  
B) Decreases bond interest expense over time  
C) Does not affect bond interest expense  
D) Occurs only when bonds are issued at par  
**Key:** B

**6. Which method is commonly used to amortize bond premium or discount?**

A) Straight-line method  
B) Declining balance method  
C) Sum-of-years-digits method  
D) None of the above  
**Key:** A

**7. Callable bonds allow the issuer to:**

A) Convert bonds into common stock  
B) Redeem the bonds before the maturity date  
C) Issue additional bonds without approval  
D) Pay no interest payments  
**Key:** B

**8. Convertible bonds allow bondholders to:**

A) Convert the bonds into common stock at their discretion  
B) Demand early repayment from the issuer  
C) Sell the bonds back to the issuer at face value  
D) Earn interest based on market fluctuations  
**Key:** A

**9. Which of the following is a long-term liability?**

A) Accounts payable  
B) Salaries payable  
C) Bonds payable  
D) Unearned revenue  
**Key:** C

**10. What is the primary advantage of issuing bonds instead of stock?**

A) Bonds do not require repayment  
B) Interest on bonds is tax-deductible  
C) Bondholders have voting rights  
D) Bonds increase stockholder equity  
**Key:** B

**11. If a bond is sold at a discount, what happens to the carrying value over time?**

A) It remains the same  
B) It decreases  
C) It increases  
D) It fluctuates randomly  
**Key:** C

**12. What is the primary risk for investors holding long-term bonds?**

A) Inflation risk  
B) Liquidity risk  
C) Market interest rate changes  
D) All of the above  
**Key:** D

**13. The indenture of a bond issue is:**

A) A contract specifying the terms of the bond issue  
B) The price at which the bond was sold  
C) The amount of interest paid annually  
D) The principal amount of the bond  
**Key:** A

**14. Which of the following is a liability account?**

A) Treasury Stock  
B) Bonds Payable  
C) Common Stock  
D) Retained Earnings  
**Key:** B

**15. If a bond is issued at par, the interest expense recognized by the issuer:**

A) Increases over time  
B) Decreases over time  
C) Remains constant over time  
D) Varies unpredictably  
**Key:** C

**16. Bonds that mature at different dates are called:**

A) Term bonds  
B) Serial bonds  
C) Callable bonds  
D) Convertible bonds  
**Key:** B

**17. Lease liabilities are classified as:**

A) Short-term liabilities  
B) Long-term liabilities  
C) Stockholders’ equity  
D) Current assets  
**Key:** B

**18. Which of the following affects the market price of a bond?**

A) The company’s stock price  
B) The inflation rate  
C) The stated interest rate and the market interest rate  
D) The demand for common stock  
**Key:** C

**19. A company’s total liabilities divided by its total assets is known as:**

A) Return on equity  
B) The debt-to-assets ratio  
C) The earnings per share ratio  
D) The inventory turnover ratio  
**Key:** B

**20. Bonds that are backed only by the issuer’s general creditworthiness are called:**

A) Secured bonds  
B) Debenture bonds  
C) Convertible bonds  
D) Callable bonds  
**Key:** B

**Math-Based Questions (20 MCQs)**

**21. A company issues a $500,000, 10-year bond with a stated interest rate of 6%. If the market rate is 8%, what happens?**

A) The bond is issued at a discount  
B) The bond is issued at a premium  
C) The bond is issued at par  
D) The bond is not sold  
**Key:** A

**22. A $1,000 bond issued at 98 has a discount of:**

A) $2  
B) $20  
C) $200  
D) $980  
**Key:** C

**23. A $200,000 bond is issued at 105. What is the total cash received?**

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

**24. The annual interest payment on a $500,000 bond issued at 5% interest rate is:**

A) $5,000  
B) $25,000  
C) $50,000  
D) $100,000  
**Key:** B

**25. A company issues $100,000 of bonds at 102. What is the premium amount?**

A) $100  
B) $1,000  
C) $2,000  
D) $10,000  
**Key:** C

**26. If a bond’s carrying amount is $105,000 and its face value is $100,000, what is the premium?**

A) $5,000  
B) $10,000  
C) $15,000  
D) $20,000  
**Key:** A

**27. A bond’s carrying value increases over time if it is issued at a:**

A) Premium  
B) Discount  
C) Par  
D) None of the above  
**Key:** B

**28. If a company issues bonds at 110, how much is received for a $1,000 bond?**

A) $1,000  
B) $1,100  
C) $1,010  
D) $990  
**Key:** B

**29. A bond with a face value of $200,000 is issued at a 5% discount. What is the issue price?**

A) $210,000  
B) $200,000  
C) $190,000  
D) $195,000  
**Key:** C

**30. A company issues $800,000 in bonds at 97. What is the total amount of discount?**

A) $24,000  
B) $30,000  
C) $40,000  
D) $56,000  
**Key:** A  
(*Discount = Face Value × (100% - Issue Price%) = $800,000 × (100% - 97%) = $24,000*)

**31. If a company issues bonds at 95, what is the effect on interest expense over the bond’s life?**

A) Interest expense will be higher than cash interest paid  
B) Interest expense will be lower than cash interest paid  
C) Interest expense and cash interest will be the same  
D) Interest expense will vary randomly  
**Key:** A  
(*When bonds are issued at a discount, the discount is amortized as additional interest expense.*)

**32. A $300,000 bond issued at 105 has a premium of:**

A) $1,500  
B) $3,000  
C) $15,000  
D) $30,000  
**Key:** C  
(*Premium = Face Value × (Issue Price% - 100%) = $300,000 × (105% - 100%) = $15,000*)

**33. If a $500,000 bond is issued at a premium of $10,000, what is the initial carrying value of the bond?**

A) $490,000  
B) $500,000  
C) $510,000  
D) $520,000  
**Key:** C  
(*Carrying Value = Face Value + Premium = $500,000 + $10,000 = $510,000*)

**34. A company issues a $600,000 bond at a 6% stated interest rate when the market rate is 4%. What is likely to happen?**

A) The bond will be issued at a discount  
B) The bond will be issued at par  
C) The bond will be issued at a premium  
D) The bond will not sell  
**Key:** C  
(*Because the stated rate (6%) is higher than the market rate (4%), the bond will be issued at a premium.*)

**35. A $250,000 bond issued at 98 is redeemed before maturity for $240,000. What is the gain or loss on redemption?**

A) $2,000 gain  
B) $5,000 loss  
C) $10,000 gain  
D) No gain or loss  
**Key:** C  
(*Carrying Value = $250,000 × 98% = $245,000; Redemption Price = $240,000; Gain = $245,000 - $240,000 = $10,000*)

**36. A company redeems a $400,000 bond at 102 when its carrying value is $405,000. What is the gain or loss?**

A) $5,000 gain  
B) $5,000 loss  
C) $8,000 gain  
D) No gain or loss  
**Key:** A  
(*Redemption Price = $400,000 × 102% = $408,000; Carrying Value = $405,000; Gain = $405,000 - $408,000 = $3,000 loss.*)

**37. A $1,000 bond is issued at 104 and later retired at 101. What is the gain or loss?**

A) $30 loss  
B) $40 gain  
C) $10 gain  
D) No gain or loss  
**Key:** B  
(*Premium = $1,000 × 4% = $40; Redemption Price = $1,000 × 101% = $1,010; Carrying Value = $1,040; Gain = $1,040 - $1,010 = $40*)

**38. A company issues a $750,000 bond with a 7% stated rate when the market rate is 9%. The bond will be issued at:**

A) Par  
B) A premium  
C) A discount  
D) Cannot be determined  
**Key:** C  
(*Since the market rate (9%) is higher than the stated rate (7%), the bond is issued at a discount.*)

**39. A company has a $500,000 bond outstanding with a carrying value of $520,000. If it redeems the bond for $515,000, what is the gain or loss?**

A) $5,000 gain  
B) $5,000 loss  
C) $15,000 gain  
D) No gain or loss  
**Key:** A  
(*Carrying Value = $520,000; Redemption Price = $515,000; Gain = $520,000 - $515,000 = $5,000*)

**40. If a company issues a bond at a discount and uses the effective interest method, how does interest expense change over time?**

A) It remains the same  
B) It decreases  
C) It increases  
D) It depends on inflation  
**Key:** C  
(*Under the effective interest method, interest expense increases over time as the carrying amount of the bond increases due to amortization of the discount.*)