**Concept Based**

Here are 20 concept-based multiple-choice questions (MCQs) on Chapter 15: Long-Term Liabilities from Accounting Principles, 12th Edition. These questions test theoretical understanding, critical thinking, and practical application.

1. What is the primary characteristic of long-term liabilities?

A) Expected to be settled within one year

B) Obligations due beyond one year or the operating cycle

C) Arise only from bank loans

D) Always secured by collateral

Key: B

Distractors: A (describes current liabilities), C (too restrictive), D (not always true).

2. Bonds payable are typically classified as:

A) Current liabilities

B) Long-term liabilities

C) Owner’s equity

D) Contingent liabilities

Key: B

Distractors: A (only if due within a year), C (incorrect classification), D (refers to potential obligations).

3. The contractual interest rate on a bond is also known as the:

A) Market rate

B) Stated rate

C) Effective rate

D) Yield rate

Key: B

Distractors: A & D (market-determined rates), C (actual interest expense rate).

4. When bonds are issued at a premium, the carrying value:

A) Decreases over time

B) Remains constant

C) Increases over time

D) Is always equal to face value

Key: A (amortization reduces premium)

Distractors: B (ignores amortization), C (opposite of premium bonds), D (only true at maturity).

5. The process of systematically reducing bond premium or discount is called:

A) Depreciation

B) Amortization

C) Accretion

D) Impairment

Key: B

Distractors: A (for tangible assets), C (for discount accretion), D (asset value reduction).

6. If the market interest rate is higher than the stated rate, bonds will likely be issued at:

A) A premium

B) Face value

C) A discount

D) Par value

Key: C

Distractors: A (if market rate < stated rate), B & D (if market rate = stated rate).

7. A bond’s yield to maturity reflects:

A) The stated interest rate

B) The market rate at issuance

C) Only the coupon payments

D) The issuer’s credit rating

Key: B

Distractors: A (contractual rate), C (ignores discount/premium), D (affects rate but not definition).

8. Which of the following is NOT a type of long-term liability?

A) Mortgage payable

B) Lease obligations

C) Accounts payable

D) Debenture bonds

Key: C (short-term liability)

Distractors: A, B, D (all long-term).

9. The primary purpose of a bond sinking fund is to:

A) Pay periodic interest

B) Repay bondholders at maturity

C) Reduce tax liability

D) Increase reported earnings

Key: B

Distractors: A (interest is paid separately), C & D (not primary purposes).

10. Convertible bonds are attractive to investors because they:

A) Offer fixed interest payments

B) Can be exchanged for equity

C) Have no maturity date

D) Are always issued at par

Key: B

Distractors: A (true but not unique), C (bonds have maturity), D (not always).

11. Under IFRS, how are bond issuance costs treated?

A) Expensed immediately

B) Deducted from bond liability

C) Capitalized as an asset

D) Added to equity

Key: B

Distractors: A (U.S. GAAP before 2015), C (incorrect), D (never).

12. A debenture bond is:

A) Secured by collateral

B) Unsecured

C) Convertible into stock

D) Issued only by governments

Key: B

Distractors: A (describes secured bonds), C (convertible bonds), D (no restriction).

13. The carrying value of bonds equals:

A) Face value + Unamortized premium

B) Face value – Unamortized discount

C) Maturity value

D) Both A and B

Key: D

Distractors: A & B (partial answers), C (only at maturity).

14. Zero-coupon bonds are issued at:

A) Par value

B) A premium

C) A discount

D) Face value

Key: C (no interest payments, so deep discount)

Distractors: A, B, D (contradict zero-coupon structure).

15. Which statement about lease liabilities is true?

A) Operating leases are recorded on the balance sheet

B) Finance leases transfer ownership risks/rewards

C) All leases are treated as operating under IFRS

D) Lease liabilities are always current

Key: B

Distractors: A (finance leases are), C (IFRS distinguishes), D (long-term leases exist).

16. A bond’s call feature allows the issuer to:

A) Extend maturity

B) Repay early at a set price

C) Skip interest payments

D) Convert to equity

Key: B

Distractors: A (renewal is different), C (default risk), D (convertible feature).

17. The debt-to-equity ratio measures:

A) Profitability

B) Liquidity

C) Solvency

D) Efficiency

Key: C (long-term financial stability)

Distractors: A (ROE), B (current ratio), D (asset turnover).

18. Under U.S. GAAP, bond discounts are amortized using:

A) Straight-line method only

B) Effective-interest method only

C) Either straight-line or effective-interest

D) Double-declining method

Key: C (both allowed, but effective-interest preferred)

Distractors: A & B (too restrictive), D (for depreciation).

19. A bond’s face value is also called its:

A) Market value

B) Principal amount

C) Carrying value

D) Yield value

Key: B

Distractors: A (changes over time), C (includes premium/discount), D (rate-related).

20. Which of the following reduces bondholder risk?

A) Higher coupon rate

B) Subordination clause

C) Sinking fund provision

D) Callable feature

Key: C (ensures repayment)

Distractors: A (affects return, not risk), B (increases risk), D (benefits issuer).

These MCQs cover key concepts like bond pricing, amortization, lease accounting, and debt classification, ensuring a comprehensive assessment of student understanding. Let me know if you'd like any refinements!

**Math Based**

Here are \*\*20 math-based MCQs\*\* on \*\*Chapter 15: Long-Term Liabilities\*\* (\*Accounting Principles, 12th Edition\*), focusing on numerical problem-solving related to bonds, amortization, leases, and debt valuation.

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### \*\*1. A company issues $100,000 of 5-year, 6% bonds at face value. The total interest expense over the bond term is:\*\*

\*\*A)\*\* $6,000

\*\*B)\*\* $30,000

\*\*C)\*\* $100,000

\*\*D)\*\* $106,000

\*\*Key:\*\* B ($100,000 × 6% × 5 years = $30,000)

\*\*Distractors:\*\* A (annual interest), C (principal), D (principal + total interest).

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### \*\*2. A $50,000, 5-year bond is issued at 98. The cash received at issuance is:\*\*

\*\*A)\*\* $49,000

\*\*B)\*\* $50,000

\*\*C)\*\* $51,000

\*\*D)\*\* $52,000

\*\*Key:\*\* A ($50,000 × 0.98 = $49,000)

\*\*Distractors:\*\* B (face value), C (premium), D (irrelevant).

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### \*\*3. A $200,000, 10-year, 8% bond is issued at 103. The annual interest payment is:\*\*

\*\*A)\*\* $16,000

\*\*B)\*\* $16,480

\*\*C)\*\* $20,600

\*\*D)\*\* $200,000

\*\*Key:\*\* A ($200,000 × 8% = $16,000; issue price doesn’t affect interest payments).

\*\*Distractors:\*\* B (includes premium amortization), C (incorrect calculation), D (principal).

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### \*\*4. A $1,000,000, 5-year bond is issued at 95. The total discount is:\*\*

\*\*A)\*\* $5,000

\*\*B)\*\* $50,000

\*\*C)\*\* $95,000

\*\*D)\*\* $1,000,000

\*\*Key:\*\* B ($1,000,000 × (1 – 0.95) = $50,000)

\*\*Distractors:\*\* A (1-year discount), C (issue price), D (face value).

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### \*\*5. A bond with a face value of $500,000 and a 10% coupon rate pays interest semiannually. Each interest payment is:\*\*

\*\*A)\*\* $25,000

\*\*B)\*\* $50,000

\*\*C)\*\* $5,000

\*\*D)\*\* $10,000

\*\*Key:\*\* A ($500,000 × 10% × 6/12 = $25,000)

\*\*Distractors:\*\* B (annual payment), C/D (incorrect fractions).

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### \*\*6. A company issues $2,000,000 of 8%, 10-year bonds at 97. The carrying value at issuance is:\*\*

\*\*A)\*\* $1,940,000

\*\*B)\*\* $2,000,000

\*\*C)\*\* $2,060,000

\*\*D)\*\* $2,100,000

\*\*Key:\*\* A ($2,000,000 × 0.97 = $1,940,000)

\*\*Distractors:\*\* B (face value), C (premium), D (irrelevant).

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### \*\*7. A $100,000, 5-year bond with a 6% stated rate is issued when the market rate is 8%. The bond will likely be issued at:\*\*

\*\*A)\*\* Par value

\*\*B)\*\* A premium

\*\*C)\*\* A discount

\*\*D)\*\* Face value

\*\*Key:\*\* C (market rate > stated rate → discount)

\*\*Distractors:\*\* A/B (market rate ≤ stated rate), D (same as A).

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### \*\*8. A bond with a face value of $1,000,000 is issued at 102. The premium is:\*\*

\*\*A)\*\* $20,000

\*\*B)\*\* $1,020,000

\*\*C)\*\* $10,000

\*\*D)\*\* $1,000,000

\*\*Key:\*\* A ($1,000,000 × (1.02 – 1) = $20,000)

\*\*Distractors:\*\* B (issue price), C (incorrect calculation), D (face value).

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### \*\*9. A company amortizes a $10,000 bond discount over 5 years using straight-line method. Annual amortization is:\*\*

\*\*A)\*\* $500

\*\*B)\*\* $1,000

\*\*C)\*\* $2,000

\*\*D)\*\* $10,000

\*\*Key:\*\* C ($10,000 ÷ 5 = $2,000/year)

\*\*Distractors:\*\* A (under-amortized), B (half-correct), D (total discount).

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### \*\*10. A $500,000, 10-year bond with a 7% coupon rate is issued at 104. The annual interest expense (straight-line amortization) is:\*\*

\*\*A)\*\* $35,000

\*\*B)\*\* $33,000

\*\*C)\*\* $37,000

\*\*D)\*\* $50,000

\*\*Key:\*\* B

\*\*Calculation:\*\*

- Annual interest payment = $500,000 × 7% = \*\*$35,000\*\*

- Premium = $500,000 × 4% = \*\*$20,000\*\*

- Annual premium amortization = $20,000 ÷ 10 = \*\*$2,000\*\*

- Interest expense = $35,000 – $2,000 = \*\*$33,000\*\*

\*\*Distractors:\*\* A (ignores amortization), C (adds amortization), D (incorrect).

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### \*\*11. A bond’s issue price is $108,000, and its face value is $100,000. The unamortized premium after 2 years (10-year term) using straight-line amortization is:\*\*

\*\*A)\*\* $8,000

\*\*B)\*\* $6,400

\*\*C)\*\* $1,600

\*\*D)\*\* $10,000

\*\*Key:\*\* B

\*\*Calculation:\*\*

- Total premium = $8,000

- Annual amortization = $8,000 ÷ 10 = $800

- Unamortized premium = $8,000 – ($800 × 2) = \*\*$6,400\*\*

\*\*Distractors:\*\* A (initial premium), C (incorrect residual), D (face value).

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### \*\*12. A company leases equipment with annual payments of $20,000 for 5 years. The present value of lease payments (market rate = 6%) is:\*\*

\*(PV annuity factor for 5 years, 6% = 4.21236)\*

\*\*A)\*\* $84,247

\*\*B)\*\* $100,000

\*\*C)\*\* $20,000

\*\*D)\*\* $106,000

\*\*Key:\*\* A ($20,000 × 4.21236 = $84,247)

\*\*Distractors:\*\* B (sum of payments), C (annual payment), D (incorrect).

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### \*\*13. A bond’s carrying value after 3 years (issued at $950,000, face value = $1,000,000, 10-year term) using straight-line amortization is:\*\*

\*\*A)\*\* $950,000

\*\*B)\*\* $965,000

\*\*C)\*\* $985,000

\*\*D)\*\* $1,000,000

\*\*Key:\*\* B

\*\*Calculation:\*\*

- Annual amortization = ($50,000 ÷ 10) = $5,000

- Carrying value = $950,000 + ($5,000 × 3) = \*\*$965,000\*\*

\*\*Distractors:\*\* A (initial value), C (over-amortized), D (face value).

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### \*\*14. A company redeems $200,000 of bonds at 102. The redemption cost is:\*\*

\*\*A)\*\* $200,000

\*\*B)\*\* $204,000

\*\*C)\*\* $196,000

\*\*D)\*\* $202,000

\*\*Key:\*\* B ($200,000 × 1.02 = $204,000)

\*\*Distractors:\*\* A (face value), C (98% redemption), D (101% redemption).

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### \*\*15. A bond’s yield to maturity is 7%, and its coupon rate is 6%. The bond is trading at:\*\*

\*\*A)\*\* Par

\*\*B)\*\* A premium

\*\*C)\*\* A discount

\*\*D)\*\* Face value

\*\*Key:\*\* C (YTM > coupon rate → discount)

\*\*Distractors:\*\* A (YTM = coupon rate), B (YTM < coupon rate).

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### \*\*16. A company issues $1,000,000 of 5-year, 5% bonds at 97. The total interest expense over the bond term is:\*\*

\*\*A)\*\* $250,000

\*\*B)\*\* $280,000

\*\*C)\*\* $1,000,000

\*\*D)\*\* $1,030,000

\*\*Key:\*\* B

\*\*Calculation:\*\*

- Annual interest = $1,000,000 × 5% = $50,000

- Total interest = $50,000 × 5 = $250,000

- Discount = $30,000 → Total interest expense = $250,000 + $30,000 = \*\*$280,000\*\*

\*\*Distractors:\*\* A (ignores discount), C (principal), D (incorrect).

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### \*\*17. A bond’s issue price is $1,040,000 (face value = $1,000,000). If the premium is amortized at $4,000 annually, the carrying value after 3 years is:\*\*

\*\*A)\*\* $1,040,000

\*\*B)\*\* $1,028,000

\*\*C)\*\* $1,000,000

\*\*D)\*\* $1,012,000

\*\*Key:\*\* B ($1,040,000 – ($4,000 × 3) = $1,028,000)

\*\*Distractors:\*\* A (initial value), C (face value), D (under-amortized).

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### \*\*18. A zero-coupon bond with a face value of $500,000 matures in 5 years. If the market rate is 6%, the issue price is:\*\*

\*(PV factor for 5 years, 6% = 0.74726)\*

\*\*A)\*\* $373,630

\*\*B)\*\* $500,000

\*\*C)\*\* $530,000

\*\*D)\*\* $470,000

\*\*Key:\*\* A ($500,000 × 0.74726 = $373,630)

\*\*Distractors:\*\* B (face value), C/D (incorrect).

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### \*\*19. A company’s debt-to-equity ratio is 0.8. If total liabilities are $400,000, equity is:\*\*

\*\*A)\*\* $320,000

\*\*B)\*\* $500,000

\*\*C)\*\* $400,000

\*\*D)\*\* $480,000

\*\*Key:\*\* B ($400,000 ÷ 0.8 = $500,000)

\*\*Distractors:\*\* A (0.8 × liabilities), C (liabilities), D (incorrect).

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### \*\*20. A bond’s carrying value is $980,000 (face value = $1,000,000). The unamortized discount is:\*\*

\*\*A)\*\* $20,000

\*\*B)\*\* $980,000

\*\*C)\*\* $1,000,000

\*\*D)\*\* $0

\*\*Key:\*\* A ($1,000,000 – $980,000 = $20,000)

\*\*Distractors:\*\* B (carrying value), C (face value), D (no discount).

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These questions cover bond pricing, amortization, lease calculations, and debt ratios, ensuring students apply numerical skills to key concepts. Let me know if you'd like adjustments!