**Concept Based**

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

2. Bonds payable are typically classified as:

A) Current liabilities

B) Long-term liabilities

C) Owner’s equity

D) Contingent liabilities

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

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

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

A) Depreciation

B) Amortization

C) Accretion

D) Impairment

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

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

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

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

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

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

12. A debenture bond is:

A) Secured by collateral

B) Unsecured

C) Convertible into stock

D) Issued only by governments

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

14. Zero-coupon bonds are issued at:

A) Par value

B) A premium

C) A discount

D) Face value

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

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

17. The debt-to-equity ratio measures:

A) Profitability

B) Liquidity

C) Solvency

D) Efficiency

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

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

A) Market value

B) Principal amount

C) Carrying value

D) Yield value

20. Which of the following reduces bondholder risk?

A) Higher coupon rate

B) Subordination clause

C) Sinking fund provision

D) Callable feature

**Math Based**

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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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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

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