**LongTerm-Normal-Wolfram**

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

1. **Which of the following best describes a long-term liability?**  
   A. An obligation due within one year.  
   B. A debt that a company expects to pay in more than one year.  
   C. A short-term obligation expected to be refinanced.  
   D. An account payable owed to suppliers.  
   **Key:** B
2. **Which of the following is an example of a long-term liability?**  
   A. Salaries payable  
   B. Unearned revenue  
   C. Bonds payable  
   D. Accounts payable  
   **Key:** C
3. **A bond is issued at a premium when:**  
   A. The stated interest rate is less than the market interest rate.  
   B. The stated interest rate is equal to the market interest rate.  
   C. The stated interest rate is greater than the market interest rate.  
   D. The bond is expected to be repaid before maturity.  
   **Key:** C
4. **The carrying value of bonds issued at a discount is calculated as:**  
   A. Face value minus unamortized discount.  
   B. Face value plus unamortized discount.  
   C. Face value plus unamortized premium.  
   D. Market value of the bond.  
   **Key:** A
5. **Which of the following is true about amortizing bond discounts and premiums?**  
   A. The straight-line method results in a constant interest expense each period.  
   B. The effective-interest method ignores the bond’s carrying value.  
   C. The straight-line method is the only acceptable method under GAAP.  
   D. The effective-interest method results in equal amounts of amortization each period.  
   **Key:** A
6. **Which of the following is NOT a long-term liability?**  
   A. Mortgage payable  
   B. Bonds payable  
   C. Notes payable (due in 3 years)  
   D. Accounts payable  
   **Key:** D
7. **A callable bond allows the:**  
   A. Bondholder to convert bonds into common stock.  
   B. Issuer to repurchase the bond before maturity.  
   C. Investor to demand early repayment.  
   D. Issuer to refuse interest payments.  
   **Key:** B
8. **What type of bond is backed by specific assets of the issuing company?**  
   A. Convertible bonds  
   B. Secured bonds  
   C. Unsecured bonds  
   D. Serial bonds  
   **Key:** B
9. **When a company retires bonds before maturity, it may recognize:**  
   A. A gain or loss on bond redemption.  
   B. No impact on net income.  
   C. An increase in liabilities.  
   D. A decrease in stockholders' equity.  
   **Key:** A
10. **The market rate of interest is also known as the:**  
    A. Coupon rate  
    B. Stated rate  
    C. Effective rate  
    D. Par rate  
    **Key:** C
11. **Which of the following accounts is credited when bonds are issued at a discount?**  
    A. Bonds Payable  
    B. Discount on Bonds Payable  
    C. Interest Expense  
    D. Cash  
    **Key:** A
12. **What happens to interest expense when bonds are issued at a premium?**  
    A. It increases over time.  
    B. It remains the same.  
    C. It decreases over time.  
    D. It is ignored.  
    **Key:** C
13. **Which of the following is a characteristic of a mortgage note payable?**  
    A. It is secured by real estate.  
    B. It is an unsecured obligation.  
    C. It must be repaid in a lump sum.  
    D. It cannot be paid off early.  
    **Key:** A
14. **A company should classify a portion of long-term debt as a current liability when:**  
    A. It intends to refinance the debt.  
    B. The debt is due within one year.  
    C. The debt is callable by the lender.  
    D. The company has a high credit rating.  
    **Key:** B
15. **What effect does issuing bonds at a discount have on total interest expense?**  
    A. It increases interest expense.  
    B. It decreases interest expense.  
    C. It has no impact on interest expense.  
    D. It eliminates interest expense.  
    **Key:** A
16. **Bonds payable appear on the balance sheet under:**  
    A. Current liabilities  
    B. Stockholders’ equity  
    C. Long-term liabilities  
    D. Revenue  
    **Key:** C
17. **Convertible bonds give bondholders the option to:**  
    A. Convert bonds into other bonds.  
    B. Exchange bonds for common stock.  
    C. Sell bonds back to the issuer at a premium.  
    D. Demand early repayment.  
    **Key:** B
18. **A sinking fund is used to:**  
    A. Pay interest on bonds.  
    B. Accumulate funds for bond redemption.  
    C. Reduce tax liabilities.  
    D. Pay dividends.  
    **Key:** B
19. **The issuance of bonds at a premium results in:**  
    A. A lower cost of borrowing.  
    B. A higher interest expense.  
    C. A loss to the bondholders.  
    D. No change in interest expense.  
    **Key:** A
20. **Which of the following statements is true about the effective-interest method?**  
    A. It results in a constant interest expense.  
    B. It applies a constant percentage to the carrying amount.  
    C. It ignores bond discounts and premiums.  
    D. It is identical to the straight-line method.  
    **Key:** B

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

(These questions will involve calculations such as interest expense, bond issuance prices, amortization schedules, etc.)

1. **A $100,000 bond with a stated interest rate of 6% is issued when the market rate is 8%. The bond will sell at:**  
   A. Par value  
   B. A discount  
   C. A premium  
   D. Face value  
   **Key:** B
2. **A company issues $500,000 of bonds at 102. The premium on bonds payable is:**  
   A. $10,000  
   B. $20,000  
   C. $50,000  
   D. $5,000  
   **Key:** B
3. **A $200,000 bond is issued at 95. What is the total discount on bonds payable?**  
   A. $10,000  
   B. $5,000  
   C. $15,000  
   D. $20,000  
   **Key:** D (Since 95% of $200,000 = $190,000, the discount is $200,000 - $190,000 = $10,000.)
4. **A $1,000 bond with a stated interest rate of 5% and a market rate of 6% will sell:**  
   A. At par  
   B. At a discount  
   C. At a premium  
   D. At face value  
   **Key:** B
5. **A company issued a $500,000, 10-year bond with a 7% annual coupon rate when the market rate was 8%. How much annual interest will the company pay in cash?**  
   A. $35,000  
   B. $40,000  
   C. $50,000  
   D. $70,000  
   **Key:** C (Since annual interest payment = $500,000 × 7% = $35,000.)
6. **A company issued $300,000 in bonds at 103. What was the cash received from the bond issuance?**  
   A. $300,000  
   B. $309,000  
   C. $303,000  
   D. $330,000  
   **Key:** B (103% of $300,000 = $309,000.)
7. **If a $100,000 bond is issued at 97, how much is recorded in the Bonds Payable account?**  
   A. $97,000  
   B. $100,000  
   C. $103,000  
   D. $97,500  
   **Key:** B (Bonds Payable is always recorded at face value, while the discount is recorded separately.)
8. **A company issues $200,000 of 5-year bonds at 110. What is the premium on bonds payable?**  
   A. $20,000  
   B. $10,000  
   C. $5,000  
   D. $15,000  
   **Key:** A (110% of $200,000 = $220,000, so premium = $220,000 - $200,000 = $20,000.)
9. **A bond is issued at 102 and has a face value of $50,000. What is the total amount of cash received?**  
   A. $49,000  
   B. $51,000  
   C. $50,000  
   D. $51,500  
   **Key:** B (102% of $50,000 = $51,000.)
10. **A company issued a $1,000 bond at 96. The discount on bonds payable per bond is:**  
    A. $4  
    B. $40  
    C. $60  
    D. $6  
    **Key:** C (100 - 96 = 4% discount; 4% of $1,000 = $40.)
11. **A $600,000 bond with a 6% annual interest rate is issued at par. What is the total interest paid over 5 years?**  
    A. $180,000  
    B. $150,000  
    C. $120,000  
    D. $90,000  
    **Key:** A (Annual interest = $600,000 × 6% = $36,000. Over 5 years: $36,000 × 5 = $180,000.)
12. **A company issues a 5-year, $200,000 bond at 6% annual interest. The present value of the bond is $188,000. How much is the total discount on bonds payable?**  
    A. $12,000  
    B. $10,000  
    C. $8,000  
    D. $5,000  
    **Key:** A ($200,000 - $188,000 = $12,000.)
13. **A company amortizes a $5,000 bond discount using the straight-line method over 10 years. What is the annual amortization amount?**  
    A. $50  
    B. $500  
    C. $5,000  
    D. $1,000  
    **Key:** B ($5,000 ÷ 10 years = $500 per year.)
14. **If a $250,000 bond is issued at 106, what is the bond’s carrying value upon issuance?**  
    A. $250,000  
    B. $265,000  
    C. $256,000  
    D. $270,000  
    **Key:** B ($250,000 × 106% = $265,000.)
15. **A company issued $800,000 of bonds at 101.5. How much is the premium on bonds payable?**  
    A. $1,200  
    B. $8,000  
    C. $12,000  
    D. $15,000  
    **Key:** C ($800,000 × 1.5% = $12,000.)
16. **If a company issues bonds at a discount, how does this affect interest expense?**  
    A. It decreases interest expense.  
    B. It has no effect on interest expense.  
    C. It increases interest expense.  
    D. It eliminates interest expense.  
    **Key:** C (The total interest expense includes both cash interest payments and amortized discount.)
17. **A company redeems a $100,000 bond at 105 when its carrying value is $97,000. What is the gain or loss on redemption?**  
    A. $8,000 gain  
    B. $8,000 loss  
    C. $5,000 loss  
    D. $5,000 gain  
    **Key:** B (Redemption price = $100,000 × 105% = $105,000. Loss = $105,000 - $97,000 = $8,000.)
18. **A $500,000 bond with a stated rate of 4% and a market rate of 5% will sell at:**  
    A. A premium  
    B. A discount  
    C. Par  
    D. Above par  
    **Key:** B (Since market rate > stated rate, the bond is sold at a discount.)
19. **If a $1,000 bond is issued at a premium of $50, what is the bond's carrying value?**  
    A. $950  
    B. $1,000  
    C. $1,050  
    D. $1,100  
    **Key:** C ($1,000 + $50 = $1,050.)
20. **A $500,000 bond is issued at 102 and later retired at 98. What is the gain or loss on bond retirement?**  
    A. $20,000 gain  
    B. $20,000 loss  
    C. $10,000 gain  
    D. $10,000 loss  
    **Key:** A (Issued at 102% → carrying value = $510,000. Retired at 98% → redemption price = $490,000. Gain = $510,000 - $490,000 = $20,000.)