Question #1 of 57

Question ID: 1457883

When a lessee recognizes a balance sheet asset and liability for a new lease:

A) the liability is typically greater than the asset.

B) the asset is typically greater than the liability.

C) the asset and liability are equal.

Question #2 of 57

Question ID: 1457850

A $1,000 bond is issued with an 8% semiannual coupon rate and 5 years to maturity when market interest rates are 10%. What is the initial liability?

A) 1023.

B) 923.

C) 855.

Question #3 of 57

Question ID: 1457848

A firm issues a $5 million zero coupon bond with a maturity of four years when market rates are 8%. Assume semi-annual compounding.

What is the firm's initial liability and the value of the liability in six months?

	Initial Liability	Liability in 6 months
A)	$3,653,451	$3,799,589
B)	$5,000,000	$5,000,000
C)	$3,675,149	$3,675,149

Question #4 of 57

Question ID: 1457881

Compared to purchasing an asset with borrowing, leasing the asset *most likely*:

A) reduces the risk of obsolescence.

B) is a more expensive method of financing.

C) requires a larger initial cash outflow.

Question #5 of 57

Question ID: 1457862

Which of the following statements for a bond issued with a coupon rate above the market rate of interest is *least accurate*?

A) The associated interest expense will be lower than that implied by the coupon rate.

B) The bond will be shown on the balance sheet at the premium value.

C) The value of the bond will be amortized toward zero over the life of the bond.

Question #6 of 57

Question ID: 1457880

A firm is *most likely* to lease an asset rather than purchasing it if the asset:

A) has a high salvage value relative to its cost.

B) may be made obsolete by rapid technological advances.

C) is costly to move from place to place.

Question #7 of 57

Question ID: 1457899

Other things equal, and ignoring issuance costs, a firm that raises cash by issuing a new bond is *most likely* to:

A) increase its leverage ratios and increase its coverage ratios.

B) decrease its leverage ratios and increase its coverage ratios.

C) increase its leverage ratios and decrease its coverage ratios.

Question #8 of 57

Question ID: 1457884

For a long-term lease, the amount recorded initially by the lessee as a liability is:

A) the total of the lease payments.

B) the fair value of the leased asset.

C) the present value of the lease payments.

Question #9 of 57

Question ID: 1457845

Proceeds from issuing a bond are recorded on the statement of cash flows as an inflow from:

A) investing.

B) operations.

C) financing.

Question #10 of 57

Question ID: 1457854

Interest expense is reported on the income statement as a function of:

A) the market rate.

B) the coupon payment.

C) the unamortized bond discount.

Question #11 of 57

Question ID: 1457849

Which of the following statements regarding zero-coupon bonds is *most accurate*?

A) A company should initially record zero-coupon bonds at their discounted present value.

B) Interest expense is a combination of operating and financing cash flows.

C) The interest expense in each period is found by applying the discount rate to the book value of debt at the end of the period.

Question #12 of 57

Question ID: 1457886

For a lessee, the portion of a lease payment that represents repayment of principal is a cash flow from:

A) investing.

B) operations.

C) financing.

Question #13 of 57

Question ID: 1457870

A firm can recognize a gain or loss on derecognition of a bond the firm has issued:

A) at maturity, but not before maturity.

B) before maturity, but not at maturity.

C) either before maturity or at maturity.

Question #14 of 57

Question ID: 1457859

Which of the following statements is *least accurate*? When a bond is issued at a discount:

A) cash flows from financing will be increased by the par value of the bond issue.

B) the interest expense will be equal to the coupon payment plus the amortization of the discount.

C) the interest expense will increase over time.

Question #15 of 57

Question ID: 1457898

A firm is more solvent if it has:

A) low leverage and coverage ratios.

B) high leverage and coverage ratios.

C) low leverage ratios and high coverage ratios.

Question #16 of 57

Question ID: 1457891

Which of the following is *most accurate* regarding financial reporting of an operating lease from a lessor's perspective?

A) The lessor recognizes the lease payments as income.

B) At lease inception, the lessor removes the asset from the balance sheet.

C) The lessor does not record the depreciation expense.

Question #17 of 57

Question ID: 1457882

An airline leases a new airplane from its manufacturer for 10 years. For financial reporting, the airline must record an asset and a liability on its balance sheet:

A) regardless of whether the lease is a finance or operating lease.

B) only if the lease is a finance lease.

C) only if the lease is an operating lease.

Question #18 of 57

Question ID: 1457846

Over time, the reported amount of the annual interest expense on a long-term bond issued at a discount will:

A) increase.

B) decrease.

C) remain constant.

Question #19 of 57

Question ID: 1457873

Larry Purcell, an entry-level fixed income analyst at Knowlton & Smeades LLC, was discussing debt covenants with his supervisor, Andy Holzman. During the meeting Purcell made the following statements regarding bond covenants:

Statement 1: If a firm violates any of its debt covenants, the company will immediately go into bankruptcy and the creditors of the firm will take over the liquidation of its assets.

Statement 2: Debt covenants are important in evaluating a firm's credit risk and to better understand how the restrictions of the covenants can affect the firm's growth prospects and choice of accounting policies.

With respect to these statements:

A) both are incorrect.

B) both are correct.

C) only one is correct.

Question #20 of 57

Question ID: 1457875

A debt covenant is *most likely* to restrict a firm from:

A) decreasing its common dividends.

B) issuing new common shares.

C) repurchasing common shares.

Question #21 of 57

Question ID: 1457896

An employer offers a defined benefit pension plan and a defined contribution pension plan. The employer's balance sheet is *most likely* to present an asset or liability related to:

A) the defined contribution plan.

B) both of these pension plans.

C) the defined benefit plan.

Question #22 of 57

Question ID: 1457887

The *least likely* reason for a corporation to lease rather than buy a fixed asset is to:

A) benefit from appreciation in the asset's value.

B) conserve cash at lease inception.

C) decrease its financing costs.

Question #23 of 57

Question ID: 1457844

Assuming all else equal, if the coupon rate offered on a bond is less than the corresponding market rate of interest, the bond will be issued at:

A) a discount.

B) a premium.

C) par.

Question #24 of 57

Question ID: 1482637

A company issues an annual-pay bond with a face value of $135,662, maturity of 4 years, and 7% coupon, while market interest rates for its bonds are 8%. What is the unamortized discount at the end of the first year?

A) $538.

B) $1,209.

C) $3,495.

Question #25 of 57

Question ID: 1457893

For an operating lease, the leased physical asset appears on the balance sheet of:

A) the lessor.

B) the lessee.

C) neither the lessor nor the lessee.

Question #26 of 57

Question ID: 1457878

Which of the following is *least likely* to be disclosed in the financial statements of a bond issuer?

A) Collateral pledged as security in the event of default.

B) The amount of debt that matures in each of the next five years.

C) The market rate of interest on the balance sheet date.

Question #27 of 57

Question ID: 1457890

ABC Company leases manufacturing equipment for five years with annual payments of $20,000. The company will return the equipment to the lessor at the end of the lease. The term of the lease is equal to the equipment's useful life. Under U.S. GAAP, the company will:

A) report the lease as an operating lease.

B) recognize an amortization expense equal to the principal repayment each period.

C) record a right-of-use asset on the balance sheet.

Question #28 of 57

Question ID: 1457894

A lessor will remove the leased asset from its balance sheet and record interest income from the lease only if the lease is classified as:

A) an operating lease.

B) a finance lease.

C) a sales-type lease.

Question #29 of 57

Question ID: 1457860

A firm issues a $5 million zero coupon bond with a maturity of four years when market rates are 8%. Assuming semiannual compounding periods, the total interest on this bond is:

A) $1,200,000.

B) $1,600,000.

C) $1,346,549.

Question #30 of 57

Question ID: 1457871

A company redeems $10,000,000 of bonds that it issued at par value for 101% of par or $10,100,000. In its statement of cash flows, the company will report this transaction as a:

A) $10,000,000 CFF outflow and $100,000 CFO outflow.

B) 10,100,000 CFF outflow.

C) $10,100,000 CFO outflow.

Question #31 of 57

Question ID: 1457858

A bond is issued at the end of the year 20X0 with an 8% semiannual coupon rate, 5 years to maturity, and a par value of $1,000. The bond's yield at issuance is 10%. Using the effective interest method, if the yield has decreased to 9% at the end of the year 20X1, the balance sheet liability for the bond is *closest to*:

A) $923.

B) $935.

C) $967.

Question #32 of 57

Question ID: 1457865

At the beginning of 20X3, Creston Company issues $10 million face amount of 6% coupon bonds when the market rate of interest is 7%. The bonds mature in four years and pay interest annually. Assuming the effective interest rate method, what is the bond liability Creston will report at the end of 20X3?

A) $9,661,279.

B) $9,737,568.

C) $10,346,511.

Question #33 of 57

Question ID: 1457857

A bond is issued with the following data:

- $10 million face value.
- 9% coupon rate.
- 8% market rate.
- 3-year bond with semiannual payments.

Assuming market rates do not change, what will the bond's market value be one year from now and what is the total interest expense over the life of the bond?

	Value in 1-Year	Total Interest Expense
A)	10,181,495	2,962,107
B)	11,099,495	2,437,893
C)	10,181,495	2,437,893

Question #34 of 57

Question ID: 1457895

A lessor who enters into a finance lease is *least likely* to:

A) add an asset to her balance sheet.

B) amortize a receivable.

C) record a profit.

Question #35 of 57

Question ID: 1457856

Assume a city issues a $5 million semiannual-pay bond to build a new arena. The bond has a coupon rate of 8% and will mature in 10 years. When the bond is issued its yield to maturity is 9%. Interest expense in the second semiannual period is *closest to:*

A) $200,000.

B) $210,336.

C) $210,833.

Question #36 of 57

Question ID: 1457897

The difference between the fair value of a defined benefit pension plan's assets and its estimated benefit obligation is recognized:

A) as an actuarial adjustment in other comprehensive income.

B) on the balance sheet as a net pension asset or liability.

C) on the income statement as pension expense.

Question #37 of 57

Question ID: 1457877

In analyzing disclosures related to the financing liabilities of a company, which of the following disclosures would be *least* helpful to the analyst?

A) Filings with the Securities and Exchange Commission (SEC) that disclose all outstanding securities and their features.

B) The interest expense for the period as provided on the income statement or in a footnote.

C) The present value of the future bond payments discounted at the coupon rate of the bonds.

Question #38 of 57

Question ID: 1462854

A firm issues a 4-year semiannual-pay bond with a face value of $10 million and a coupon rate of 10%. The market interest rate is 11% when the bond is issued. The balance sheet liability at the end of the first semiannual period is *closest* to:

A) $9,715,850.

B) $9,683,250.

C) $9,650,700.

Question #39 of 57

Question ID: 1457892

A lessor retains the leased asset on its balance sheet for:

A) finance leases, but not operating leases.

B) neither finance leases not operating leases.

C) operating leases, but not finance leases.

Question #40 of 57

Question ID: 1457866

A company issues an annual-pay bond with the following characteristics:

Face value	$67,831
Maturity	4 years
Coupon	7%
Market interest rates	8%

What is the unamortized discount at the end of the first year?

A) $499.

B) $1,209.

C) $1,750.

Question #41 of 57

Question ID: 1457855

On December 31, 2004, Newberg, Inc. issued 5,000 $1,000 face value seven percent bonds to yield six percent. The bonds pay interest semi-annually and are due December 31, 2011. On its December 31, 2005, income statement, Newburg should report interest expense of:

A) $316,448.

B) $350,000.

C) $300,000.

Question #42 of 57

Question ID: 1457864

On December 31, 20X3 Okay Company issued 10,000 $1000 face value 10-year, 9% bonds to yield 7%. The bonds pay interest semi-annually. On its financial statements (prepared under U.S. GAAP) for the year ended December 31, 20X4, the effect of this bond on Okay's cash flow from operations is:

A) -$755,735.

B) -$700,000.

C) -$900,000.

Question #43 of 57

Question ID: 1457874

Which of the following provisions would *least likely* be included in the bond covenants? The borrower must:

A) maintain insurance on the collateral that secures the bond.

B) maintain a debt-to-equity ratio of no less than 2:1.

C) not increase dividends to common shareholders while the bonds are outstanding.

Question #44 of 57

Question ID: 1457861

When bonds are issued at a premium:

A) coupon interest paid decreases each period as bond premium is amortized.

B) earnings of the firm decrease over the life of the bond as the bond premium is amortized.

C) earnings of the firm increase over the life of the bond as the bond premium is amortized.

Question #45 of 57

Question ID: 1457879

A company has issued new 3-year bonds at par in each of the last five years. On the company's balance sheet, principal due on its bonds will appear as:

A) current liabilities only.

B) both current and long-term liabilities.

C) long-term liabilities only.

Question #46 of 57

Question ID: 1457853

A firm is issuing a bond with the following characteristics:

- Face value = $10.0 million
- Annual coupon = 5.6%
- Market yield at issuance = 6.5%
- 5 year maturity

Ignoring flotation costs, at issuance the bond will increase:

A) assets by $9.626 million.

B) cash flow from investing by $9.626 million.

C) liabilities by $10.0 million.

Question #47 of 57

Question ID: 1457872

Ivo Company has a $10 million face value bond issue outstanding. These bonds include a call option that permits Ivo to redeem the bonds at any time for 101% of par. These bonds were issued at a premium and have a carrying value of $10,200,000. If Ivo calls the bonds, its income statement will reflect:

A) neither a gain nor a loss on redemption.

B) a loss on redemption.

C) a gain on redemption.

Question #48 of 57

Question ID: 1457900

Compared to issuing a bond at par value, and holding all else equal, when a company issues a bond at a premium, its effect on the debt/equity ratio will be:

A) an increasing trend in the ratio over the life of the bond.

B) a decreasing trend in the ratio over the life of the bond.

C) no effect on the ratio over the life of the bond.

Question #49 of 57

Question ID: 1457867

A company issues $10,000,000 face value of 5% annual coupon, 3-year bonds on January 1, 20X1, raising $8,000,000 in cash proceeds. Using the effective interest method, and ignoring issuance costs, interest expense for the year ending December 31, 20X2 is *closest* to:

A) $1,163,000.

B) $1,084,000.

C) $500,000.

Question #50 of 57

Question ID: 1457863

For a firm financed with common stock and long-term fixed-rate debt, an analyst should *most appropriately* adjust which of the following items for a change in market interest rates?

A) Cash flow from financing.

B) Debt-to-equity ratio.

C) Interest paid.

Question #51 of 57

Question ID: 1457888

When the risks of ownership of an asset are not substantially transferred to the lessee, a lease is *most likely* to be reported as:

A) an investing lease.

B) a finance lease.

C) an operating lease.

Question #52 of 57

Question ID: 1457847

A company issues $50 million face value of bonds with a 4.0% coupon rate, when the market interest rate on the bonds is 4.5%. Proceeds raised from these bonds will be:

A) greater than $50 million.

B) less than $50 million.

C) equal to $50 million.

Question #53 of 57

Question ID: 1457885

A lessee is *most likely* to be required to classify a lease as a finance lease if:

A) the lease is long term.

B) the sum of the lease payments is equal to the value of the leased asset.

C) the lessor has no other use for the asset.

Question #54 of 57

Question ID: 1462855

Robbins, Inc., reports under IFRS and uses the effective interest rate method for valuing its bond liabilities. Robbins sells a 10-year, $100 million, 5% annual coupon bond issue for $98 million and paid $500,000 in issuance costs. Two years later, the bond liability Robbins will report on its balance sheet for this debt is *closest* to:

A) $97.9 million.

B) $98.0 million.

C) $98.1 million.

Question #55 of 57

Question ID: 1457876

The primary purpose of bond covenants is to:

A) clearly define the responsibilities of the borrower and the lender.

B) define bond characteristics.

C) protect bondholders from the actions of equity owners.

Question #56 of 57

Question ID: 1457889

A lease is *most likely* to be reported as a finance lease when:

A) ownership of the leased asset transfers to the lessee.

B) the present value of the lease payments is less than the asset's fair value.

C) the lessor would otherwise operate the asset in its normal course of business.

Question #57 of 57

Question ID: 1457851

A company issued a bond with a face value of $67,831, maturity of 4 years, and 7% annual-pay coupon, while the market interest rates are 8%.

What is the unamortized discount when the bonds are issued?

A) $2,246.65.

B) $1,748.07.

C) $498.58.