The bond's _______ rate of interest is the rate that borrowers are willing to pay and lenders are willing to accept for a particular bond and its risk level.

- Your answer is correct.
  - market
Market rates help determine the selling price of bonds. Identify which scenarios should be matched together.

- Your answer is correct.
- You matched:
  - Premium
  - Discount
  - Par

- The correct match:
  - Contract rate is greater than the market rate
  - Contract rate is less than the market rate
  - Contract rate is equal to market rate
A company issues $100,000 of 6%, 10-year bonds dated January 1, 2010, that pay interest semiannually on June 30 and December 31 each year. If bonds are sold at par value, the issuer records the first semi-annual interest payment with which of the following entries? (Check all that apply.)

- Your answer is correct.
  - Debit to Interest Expense for $6,000.
  - Credit to Cash for $6,000.
  - Debit to Interest Expense for $3,000.
  - Credit to Cash for $3,000.
The correct answer is shown.

Lyle Co. borrowed $20,000 from First Bank by signing a written promise to pay a definite sum of money on a specific future date. Lyle will record this in the general ledger as a(n) notes payable.
The bond contract rate determines the annual interest paid by multiplying the bond **par** value by the contract rate.
The correct answer is shown.

When the market rate is 8%, a company issues $50,000 of 9%, 10-year bonds dated January 1, 2009, that mature on December 31, 2018, and pay interest semiannually for a selling price of $60,000. When the bonds mature, the issuer records its payment of principal with a (debit/credit) debit to Bonds Payable in the amount of $50,000.

✓ Your answer is correct.
A company borrows $50,000 by signing a $50,000, 6%, 5-year note that requires equal payments of $11,870 at the end of each year. The first payment will record interest expense of:

- $1,500
- $3,000
- $712

Your answer is correct.
A(n) **installment** note is an obligation requiring a series of payments to the lenders.
A company issues $400,000 of 8%, 10-year bonds dated January 1, 2010. The bonds pay interest semiannually on June 30 and December 31 each year. If bonds are sold at par value, the issuer records the sale with a (debit/credit) credit to Bond Payable in the amount of $400,000.
A company borrows $70,000 by signing a $70,000, 8%, 6-year note that requires equal payments of $15,142 at the end of each year. The first payment will record interest expense of $5,600 and will reduce principal by $9,542. The journal entry to record this transaction will include a debit to which of the following accounts and for how much? (Check all that apply.)

- Interest Payable; $5,600
- Notes Payable; $9,542
- Interest Expense $5,600
- Cash; $15,142

Your answer is correct.
A company issues $90,000 of 9%, 10-year bonds dated January 1, 2010, that pay interest semiannually on June 30 and December 31 each year. If bonds are sold at par value, the issuer records the payment of principal at maturity with a (debit/credit) ________ to bond payable in the amount of ________.

Your answer is correct.

- credit; $90,000
- debit; $171,000
- credit; $171,000
- debit; $90,000

OK
Most bonds require (interest/par) par value to be repaid at maturity and (interest/par) interest to be paid semiannually.
The **par** value of a bond, also called the face amount or face value, is paid at a specified future date, known as the bond's maturity date.
Which of the following statements are disadvantages of bond financing? (Check all that apply.)

- Unlike equity financing, bond interest is not tax deductible.
- Large bonds issuances can affect owner control.
- Bonds require payment of interest and par value.
- Bonds can decrease return on equity.
A(n) bond is the issuer's written promise to pay an amount identified as the par value. The par value is paid at a specified future date. Most often, the issuer is required to make semiannual interest payments.

Your answer is correct.
Which of the following statements is not an advantage of bond financing?

- Bonds do not affect owner control. **Your answer is correct.**
- Interest on bonds is tax deductible.
- Bonds require interest payments and payment of par value. **Your answer is correct.**
- Bonds can increase return on equity.

Bonds do not affect owner control. and Bonds require interest payments and payment of par value. are both not advantages of bond financing.
The correct answer is shown.

A(n) discount on bonds payable occurs when a company issues bonds with a contract rate less than the market rate.

Your answer is correct.
A company borrows $60,000 by signing a $60,000, 8%, 6-year note that requires equal payments of $12,979 at the end of each year. The first payment will record interest expense of $4,800 and will reduce principal by $8,179.

Your answer is correct.

$4,800 is the interest expense. The principal is reduced by the $12,979 cash payment minus $4,800 interest expense (or $8,179).
The straight-line bond amortization method allocates an equal portion of the total bond interest expense to each interest period.

Your answer is correct.
When the contract rate of the bonds is higher than the market rate, the bond sells at a higher price than par value. The amount by which the bond price exceeds par value is the premium on bonds.
On September 1, a company sells $100,000 of 5-year, 6% bonds that pay interest semiannually on February 28 and August 31, for cash in the amount of $102,000. On December 31, the company will record an adjustment with a debit to which of the following accounts? (Check all that apply.) Round your intermediate calculations to two decimal places.

- Premium on Bonds Payable; $200
- Interest Expense; $2,800
- Premium on Bonds Payable; $133
  - Premium amortization: $2,000/10 periods = $200 per 6 month period. $200/6 = $33 per month. $33 x 4 = $133.
- Interest Expense; $1,867
  - Premium amortization: $2,000/10 periods = $200 per 6 month period. $200/6 = $33.33 per month. $33.33 x 4 = $133. Interest payment = $100,000 x .06 x 4/12 = $2,000. $2,000 - $133 = $1,867.

Your answer is correct.
The correct answer is shown.

A company issues $50,000 of 5%, 10-year bonds dated January 1, 2010, and pays interest semiannually on June 30 and December 31 each year. The bonds are sold for $48,000. Using the straight-line amortization method, the company will amortize the discount by $100 on each semiannual interest payment.

Discount = ($50,000-$48,000)=$2,000. $2,000/20 interest payments=$100.

Your answer is correct.

OK
A company issues $100,000 of 6%, 10-year bonds dated January 1, 2010, that pay interest semiannually on June 30 and December 31 each year. If the issuer accepts $103,000 for the bonds, the issuer will record the sale with a (debit/credit) ______ to Bond Payable in the amount of _______.

Your answer is correct.

credit; $100,000
debit; $100,000
credit; $103,000
debit; $103,000
A(n) [ ] is a legal agreement that helps to protect a lender if a borrower fails to make required payments on notes or bonds. This agreement gives the lender the right to be paid from the cash proceeds of the sale of the borrower's assets, as identified in the agreement.

Your answer is correct.

- note payable
- collateral agreement
- mortgage

Challenge OK
The correct answer is shown.
The basic present value concept is that cash paid (or received) in the future has less value now than the same amount of cash paid (or received) today.

Your answer is correct.
A company issues $60,000 of 5%, 10-year bonds dated January 1, 2010, that pay interest semiannually on each June 30 and December 31. If the issuer accepts $59,000 for the bonds, the issuer will record the sale with a (debit/credit) debit to Discount on Bonds Payable in the amount of $1000.

Your answer is correct.
The bond carrying value can be determined by which of the following formulas?

- Par value - discount on bonds payable
- Par value + discount on bonds payable
- Market value + discount on bonds payable
- Market value - discount on bonds payable

Your answer is correct.

Read about this
The correct answer is shown.
The legal document that describes the rights and obligations of both the bondholders and the issuer is called the bond indenture.
The correct answer is shown.

A company issues $60,000 of 6%, 5-year bonds dated January 1, 2010, that pay interest semiannually on June 30 and December 31 each year. If the issuer accepts $62,000 for the bonds, the premium on bonds payable will (increase/decrease) decrease total interest expense recognized over the life of the bond by $2000.

Your answer is correct.

Since the bonds were sold at a premium of $2,000, that is the amount of the total decrease in interest expense over the life of the bond.
Bond market values are expressed as a percentage of their par (face) value. For example, a company's bonds might be trading at 103, meaning that they can be bought or sold for ____ of their par value.

Your answer is correct.

- 10.3%
- 100.3%
- 0.103%
- 103%
A bond discount increases ___ at each semi-annual interest payment.

Your answer is correct.

- bonds payable
- interest expense
- interest payable
- discount expense
The correct answer is shown.

The present value of $1 that we must repay at some future date can be computed by using this formula: \( \frac{1}{(1 + i)^n} \). The symbol \( i \) is the interest rate per period and \( n \) is the number of periods until future payments can be made. An alternative to this formula is to use the present value tables.
Milo Company sells $100,000 of its 9% semiannual bonds at par, 30 days after the stated issue date. The journal entry to record this sale will include a debit to ____ in the amount of _______.

- Cash; $100,750
- Interest Payable; $750
- Bonds Payable; $100,000
- Bonds Payable; $100,750
 bonds (and notes) mature at more than one date (often in series) and, thus, are usually repaid over a number of periods.

Your answer is correct.

Serial
Bearer
Secured
Convertible
A(n) **lease** is a contractual agreement between a **lessee** (asset renter or tenant) and a **lessor** (asset owner) that grants the **lessee** the right to use the asset for a period of time in return for cash (rent) payments.

Your answer is correct.
_____ bonds (and notes) can be exchanged for a fixed number of shares of the issuing corporation's common stock.

Your answer is correct.

- Term
- Secured
- Convertible
- Callable
The correct answer is shown.

Holders of convertible bonds have the right to convert their bonds to stock. When conversion occurs, the bonds' carrying value is transferred to equity accounts and no gain or loss is recognized.

Your answer is correct.
The correct answer is shown.

Many bonds are (sinking/secured) **sinking** fund bonds, which reduces the holder's risk by requiring the issuer to set aside assets at specified amounts and dates to repay the bonds.

- Your answer is correct.

[OK]
Which of the following statements is false in recognizing the difference between U.S. GAAP and IFRS?

- Both U.S. GAAP and IFRS allow companies to account for bonds and notes using fair value.
- Both U.S. GAAP and IFRS allow the use of bond premiums and discounts.
- Both U.S. GAAP and IFRS use the same criteria for identifying a lease as a capital lease.

Your answer is correct.

Both U.S. GAAP and IFRS use the same criteria for identifying a lease as a capital lease.
A(n) _______ plan is a contractual agreement between an employer and its employees in which the employer agrees to provide benefits (payments) to employees after they retire.

Your answer is correct.

- pension
- lease
- insurance
- benefit

OK
A company sells a 5-year, 8% bond with a par value of $100,000 when the market is 10% for $96,454. The bond requires semi-annual interest payments of $4,000. Using the effective interest amortization method, the company will recognize $4,823 interest expense on the first semi-annual interest payment.

Your answer is correct.
The correct answer is shown.

When bonds are sold between interest payment dates, the buyers normally pay the issuer the purchase price (plus/less) plus any interest accrued since the prior interest payment date.

Your answer is correct.

Challenge

OK
While the straight-line method of amortizing bond premium or discounts keeps the amortization equal over the life of the bond, the effective interest method keeps the ______ equal over the life of the bond.

- Your answer is correct.
- interest rate
- carrying value
- bond par value

[OK]
When interest during the second period is based on the total of the amount borrowed plus the interest accrued from the first period, this is referred to as _______ interest.
Assume that a company plans to borrow cash and repay $10,000 in three years. How much does the company receive today if the interest rate on this loan is 10%? The present value of 10% for 1 period is 0.9091; for 2 periods is 0.8264; and for 3 periods is 0.7513.

Your answer is correct.

- 9,091
- 7,513
- 8,264

OK
A company issues $100,000 of 6%, 5-year bonds dated January 1, 2010, that pay interest semiannually. The bonds are issued when the market rate is 8%. The present value tables indicate the present value factor of an annuity for 3% at 10 periods is 8.5302; and for 4% at 10 periods is 8.1109. To find the present value of the interest payments, multiply ______ by the present value factor ________. 

Your answer is correct.

- $3,000; 8.5302
- $4,000; 8.1109
- $4,000; 8.5302
- $3,000; 8.1109
The debt-to-equity ratio is computed as:

- total assets/total equity
- total equity/total liabilities
- total liabilities/total equity
- total liabilities/total assets

Your answer is correct.

Read about this.
A company issues $50,000 of 9%, 10-year bonds dated January 1, 2009, that mature on December 31, 2018, and pay interest semiannually of $2,250. On December 31, 2013, when the bond premium is $2,500, the bonds are called for $50,000. The journal entry to record this transaction would record a (debit/credit) debit to Loss on Bond Retirement of $2,500.
Jared's Co. has total assets of $60,000 and total liabilities of $40,000. It's debt-to-equity ratio is

Your answer is correct.

1.5
0.7
2.0
A company enters into a capital lease for a piece of machinery. The company calculates depreciation on the equipment of $2,000 per year. The entry to record depreciation expense the first year will include a debit to:

- Depreciation Expense - Equipment
Which of the following agreements would require depreciation expense?

- Your answer is correct.

- Capital lease
- Serial bond
- Note payable
- Operating lease
A company borrows $50,000 by signing a $50,000, 8% note that requires six equal payments of $10816 (round to the nearest dollar) at the end of each year. (The present value of an annuity of six annual payments, discounted at 8% equals 4.6229.)

Your answer is correct.

$50,000/4.6229
A(n) **capital** lease is a long-term (or noncancelable) lease by which the lessor transfers substantially all risks and rewards of ownership to the lessee.
bonds (and notes), also called debentures, are backed by the issuer's general credit standing.

Your answer is correct.

- Convertible
- Unsecured
- Serial
- Bearer
Winn Co. enters into a 6-year capital lease for a copy machine with an interest rate of 8% (the present value of its $1,298 annual lease payments is $6,000). Winn will recognize how much interest expense on the first year of the lease?

Your answer is correct. $480
A bond certificate may be issued as evidence of the company's debt. This document includes specifics such as the issuer's name, the par value, the contract interest rate, and the maturity date. Many companies reduce cost by not issuing these paper documents to bondholders.

Your answer is correct.

agreement

certificate

article
A(n) ______ lease is a short-term (or cancelable) lease in which the lessor (asset owner) retains the risks and rewards of ownership.

- Your answer is correct.
- operating
- temporary
- functional
- capital

[Read about this]
Bonds payable to whomever holds them are called _____ bonds or unregistered bonds.
The debt-to-equity ratio helps assess the risk of a company's financing structure by dividing total liabilities by total equity.

- debt-to-equity

Your answer is correct.
When a bond is sold at a premium, the carrying value will **decrease** each period that the premium is amortized.
When a bond is sold at a discount, the **carrying** value will increase at each semi-annual interest payment by the amortization of bond discount.
Assume that a company must repay a 6% loan with a $5,000 payment at each year-end for the next three years. This loan amount equals the present value of the three payments discounted at 6%. The present value of an annuity at 6% at 1, 2, and 3 years is 0.9434; 1.8334; and 2.6730, respectively. Determine the present value of the annuity.

Your answer is correct.

- $4,717
- $14,151
- $13,365
- $27,492
- $9,167

Challenge OK
Bonds are securities that can be readily bought and sold. A bond issue consists of a number of bonds, usually in denominations of $1,000 or $5,000 and is sold to many different lenders.

Your answer is correct.

$1,000; $5,000

$100; $1,000

$500; $5,000

$1,000; $10,000
The **effective interest** method allocates total bond interest expense over the bonds' life in a way that yields a constant rate of interest.
A company issues $100,000 of 6%, 5-year bonds dated January 1, 2010, that pay interest semiannually. The bonds are issued when the market rate is 8%. The present value tables indicate that the present value factor for 3% at 5 periods is 0.8626; for 3% at 10 periods is 0.7441; for 4% at 5 periods is 0.8219 and for 4% at 10 periods is 0.6756. The present value of the par value of the bond is:

- $67,560

The 5-year bonds will have 10 interest periods. Use 4% which is half of the market rate.

$100,000 \times 0.6756 = 67,560.
Diego Company sells $100,000 of its 6% semiannual bonds at par, 30 days after the stated issue date. The journal entry to record this sale will include a (debit/credit) _______ to Interest Payable in the amount of _______.

<table>
<thead>
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<th>Option</th>
<th>Amount</th>
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<tr>
<td>debit; $500</td>
<td></td>
</tr>
<tr>
<td>credit; $500</td>
<td></td>
</tr>
<tr>
<td>debit; $3,000</td>
<td></td>
</tr>
<tr>
<td>credit; $3,000</td>
<td></td>
</tr>
</tbody>
</table>

Your answer is correct.

• Read about this
Biles Co. enters into a 6-year lease for a copy machine. The lease transfers all ownership risks and rewards to Biles (the present value of its $1,298 annual lease payments is $6,000). On the date that Biles signs the lease, it should record this transaction with a debit to _____ in the amount of 0.

Your answer is correct.

- Rent Expense; $1,298
- Leased asset - Equipment; $1,298
- Lease Liability; $6,000
- Leased Asset - Equipment; $6,000
A company enters into a short-term operating lease to use construction equipment for $3,000 per month. The journal entry to record one month's rent would include a debit to the ______ account.

- Lease Liability
- Leased Asset - Equipment
- Rental Expense
- Depreciation Expense

Your answer is correct.