1. Vargas Company issued a $20,000, 10-year term note to Central Bank on January 1, 2015. The note called for equal annual payments of principal and interest each December 31. How would the issuance of the note affect Vargas’s financial statements?

A. Long-term assets increase

B. Long-term liabilities increase

C. Cash inflows for investing activities increase

D. All of the above are true.

2. Vargas Company issued a $20,000, 10-year term note to Central Bank on January 1, 2015. The note called for equal annual payments of principal and interest each December 31. How would the December 31, 2015 payment affect Vargas’s financial statements?

A. Current assets decrease

B. Cash outflows for financing activities increase

C. Cash outflows for operating activities increase

D. All of the above are true.

3. Which of the following events would cause long term liabilities to decrease?

A. Making a payment on a long-term serial note.

B. Paying an account payable.

C. Repaying a bond.

D. Both A and C.

4. Bates Company issued a $50,000, 6% 5-year term note to People’s Bank on January 1, 2015. The note called for equal annual payments of $11,870. How much interest expense would Bates report on its 2016 income statement?

A. $3,000.00

B. $11,870.00

C. $2,467.80

D. $2,820.00

5. Bates Company issued a $50,000, 6% 5-year term note to People’s Bank on January 1, 2015. The note called for equal annual payments of $11,870. What is the carrying value of the note after the December 31, 2016 payment?

A. $41,130.00

B. $31,727.80

C. $38,130.00

D. $26,260.00

6. Curry Company issued $100,000 of bonds at face value. The bonds carried a 5% stated rate of interest and a 20-year term to maturity. Which of the following is a true statement?

A. Interest expense on the bonds will decrease over the life of the bonds.

B. The carrying value of the bonds will decrease over time.

C. Like long-term notes, the bonds will be paid off with the last annual payment.

D. None of the above is true.

7. Galveston Company issued $200,000 of bonds at face value on January 1, 2015. The bonds carried a 5% stated rate of interest and a 10-year term to maturity. Payments are made annually on December 31. What effect will the issuance of the bonds have on Galveston’s financial statements?

A. Long-term assets will increase.

B. Cash flows from operating activities will increase.

C. Long-term liabilities will increase.

D. Expenses will increase.

8. Galveston Company issued $200,000 of bonds at face value on January 1, 2015. The bonds carried a 5% stated rate of interest and a 10-year term to maturity. Payments are made annually on December 31. What effect will the December 31, 2015 payment have on Galveston’s financial statements?

A. Cash flows from operating activities will decrease.

B. Cash flows from financing activities will decrease.

C. Cash flows from investing activities will decrease.

D. Both A and B.

9. Which of the following would cause a company to issue bonds at a discount?

A. The market rate of interest is higher than the stated rate on the bonds.

B. The market rate of interest is lower than the stated rate on the bonds.

C. The bonds have a longer than average term to maturity.

D. Both B and C.

10. If a company issues bonds at a discount,

A. the carrying value of the bonds will decrease over time.

B. the carrying value of the bonds will increase over time.

C. the carrying value of the bonds will remain constant over time.

D. interest expense will be lower than the interest payment.

11. If a company issues bonds at a premium,

A. the market rate of interest must be lower than the stated rate.

B. the carrying value of the bonds will decrease over time.

C. interest expense will be lower than the interest payment.

D. All of the above.

12. Li Company issued $200,000 of 6%, 10-year bonds for 102. From this information, we can assume

A. the bonds sold for $204,000.

B. the market rate of interest is greater than 6%

C. the bonds sold for $196,078.

D. None of the above.

13. If a bond discount is amortized using the effective interest method,

A. interest expense will decrease from year to year.

B. interest expense will increase from year to year.

C. interest expense will remain constant from year to year.

D. interest expense may increase or decrease from year to year.

14. If a bond is issued at 104,

A. the bond is being sold at a premium.

B. the stated rate on the bond exceeds the market rate of interest.

C. interest expense will be lower than the interest payment each year.

D. All of the above.

15. If a bond is considered callable,

A. the bond may be converted to common stock at the option of the bondholder.

B. the bond may be redeemed early at the option of the bondholder.

C. the bond may be redeemed early at the option of the bond issuer.

D. the bond cannot be redeemed early.

16. Joseph Company calls $100,000 of bonds that were issued at face value for a call price of 102. What effect will the event have on Joseph’s financial statements?

A. Assets will decrease by $100,000.

B. Long-term liabilities will decrease by $102,000.

C. Net income will decrease by $2,000.

D. All of the above.

17. Amortization of a bond discount will do which of the following to the issuer’s financial statements?

A. Decrease cash flows from financing activities.

B. Increase long-term liabilities.

C. Increase expenses.

D. Both B and C.

18. Callahan Company recorded an event in which current assets decreased, long-term liabilities decreased, and cash flows from financing activities decreased. There were no other changes. Which of the following could have caused this?

A. Callahan redeemed a bond issued at face value on its maturity date.

B. Callahan called a bond issued at face value at a call price of 102.

C. Callahan made a payment on an installment note.

D. Any of the above.

19. When a company amortizes a bond premium,

A. the bonds payable account decreases.

B. the carrying value of the bond decreases.

C. the carrying value of the bond increases.

D. Both A and B.

20. Wheaton Company issues $200,000 of 10-year, 6% bonds for 98. Which of the following is true?

A. Wheaton will recognize $120,000 of interest expense over the life of the bonds.

B. Wheaton will recognize $124,000 of interest expense over the life of the bonds.

C. Wheaton will recognize $116,000 of interest expense over the life of the bonds.

D. Wheaton will recognize $118,000 of interest expense over the life of the bonds.