

STUDY GUIDE QUESTIONS**PART 1 True/False**

For each of the following statements, circle T if the statement is true and F if the statement is false.

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| T | F | 1. The amortization of a bond discount decreases bond interest expense. |
| T | F | 2. When a corporation buys back its own bonds, it is said to redeem the bonds. |
| T | F | 3. The account Discount on Bonds Payable is classified as a contra-liability account. |
| T | F | 4. The account Premium on Bonds Payable appears on a balance sheet in the Long-Term Liabilities section. |
| T | F | 5. Leverage is profitable to a corporation if the cash it raises by selling 8 percent bonds earns 10 percent after income taxes. |
| T | F | 6. An unsecured bond is called an indenture. |
| T | F | 7. A premium on bonds payable is amortized over the period from the date of issue until the maturity date. |
| T | F. | 8. If the market rate of interest is higher than the rate stated on the bonds, the bonds will sell at a premium. |
| T | F | 9. When an investor buys a bond at a premium, the investor is willing to earn less than the rate of interest stated on the bond. |
| T | F | 10. The interest on a registered bond is paid by check, at regular intervals, to each registered owner. |

PART 2 Completion—Language of Business

Complete each of the following statements by writing the appropriate word(s) in the spaces provided.

- The _____ is the excess between the price received and the face value of a bond.
- The systematic writing off of a bond premium or discount over the remaining life of the bond is called _____.
- When a bond is sold at less than its face value, it is said to be sold at a(n) _____.

4. _____ are significant transactions that appear at the bottom of an income statement (net of any related income tax effect) because they are unusual in nature and do not recur with any regularity.
5. Bonds that give the corporation the right to redeem or buy back the bonds at a specified figure are known as _____ bonds.
6. Bonds of a particular issue that have a series of maturity dates are called _____ bonds.
7. _____ bonds are those covered or backed up by mortgages on real estate or by titles to personal property that may be claimed by the bond-holders in the event that the issuing corporation defaults on its payment of principal or interest.
8. A bond agreement between the corporation and its bondholders is called a(n) _____.
9. Bonds of a particular issue, all having the same maturity date, are called _____ bonds.
10. An account such as Discount on Bonds Payable, which represents a deduction from a liability, is a(n) _____ account.

PART 3 Matching

For each numbered item, choose the matching term and write in the identifying letter in the answer column.

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| A. Registered bonds | E. Unsecured bonds |
| B. Term bonds | F. Callable bonds |
| C. Sinking fund | G. Coupon bonds |
| D. Serial bonds | H. Secured bonds |

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| _____ | 1. Bonds whose maturities are spread over several dates |
| _____ | 2. Debentures issued on the basis of the general credit standing of the corporation |
| _____ | 3. Bonds having coupons attached for interest payments |
| _____ | 4. Bonds whose ownership is recorded on the books of the corporation |
| _____ | 5. A fund that is accumulated over the life of a bond issue and kept separate from other assets, to provide for payment of the bonds at maturity |
| _____ | 6. Bonds that mature on the same date as all the other bonds in the issue |
| _____ | 7. Bonds that the issuing corporation reserves the right to redeem before maturity |