1. Callable bonds are bonds that can be converted into common stock at the creditor's request.

Answer : False

Explanation : Callable bonds are bonds that can be called back and paid earlier with a stated amount at debtor's request.

2.  Bondholders have voting rights from the bonds that they purchase.

Answer : False

Explanation : Bonds have no voting rights, but bonds have higher precedence than stock during bankruptcy.

3.  It is a premium bond if you pay more than 100% of the par value to purchase.

Answer : True

Explanation : Bonds at a price above 100% of par are premium bonds; bonds at 100% of par are at par; bonds at a price below 100% of par are discount bonds.

4. When using 30/360 day count, full years have 366 days.

Answer : False

Explanation : For 30/360 day count, a full year is always 360 days.

5. How many days are there between Aug 23th and December 30th using a 30/360 day count?

a) 130 b) 127 c) 120 d) 129

Answer : B

Explanation : In terms of 30/360 : 4 full months + (30-23 = 7 days) = 4 x 30 + 7 = 127 days

6. Par Value = $100, Bond Price = $95. Which of the following amounts will be in the journal entry to issue the bond?

a) Cash = $100  b) Bond Payable = $95 c) Discount on Bond Payable = $5 d) Premium on Bond Payable = $5

Answer : C

Explanation :

a) Cash value should be $95.

b) Bond Payable should be $100.

c) Correct!

d) It is a discount bond.

7.  Par Value = $100, Bond Price = $105. Which of the following amounts will be in the journal entry to issue the bond?

a) Cash = $100  b) Bond Payable = $105 c) Discount on Bond Payable = $5 d) Premium on Bond Payable = $5

Answer : D

Explanation :

a) Cash value should be $105.

b) Bond Payable should be $100.

c) It is a premium bond. No discount is given.

d) Correct!

8. Par Value = $100, Bond Price = $100. Which of the following amounts will be in the journal entry to issue the bond?

a) Cash = $100  b) Bond Payable = $200 c) Discount on Bond Payable = $5 d) Premium on Bond Payable = $5

Answer : A

Explanation :

a) Correct!

b) Bond Payable should be $100.

c) It is a bond sold at par. No discount is given.

d) It is a bond sold at par. No premium is received.

9. How many days are there between Aug 23th and December 30th in terms of actual days?

a) 130 b) 127 c) 120 d) 129

Answer : D, 8 days in Aug + 30 in Sept + 31 in Oct + 30 in Nov + 30 in Dec = 129 days

10. Annual yield = 5%. When quarterly coupon payments are made, what is the discount rate?

a) 5% b) 2.5% c) 20% d) 1.25%

Answer: D

Explanation : As it is quarterly coupon payment, the annual yield percentage should be divided by four.

11. Annual yield = 10%. When semi-annual coupon payments are made, what is the discount rate?

a) 5% b) 10% c) 20% d) 1.25%

Answer: A

Explanation : As it is semi-annual coupon payment, the annual yield percentage should be divided by two.

12. Par Value = $1000, Bond Price = $1199. Which of the following amounts will be in the journal entry to issue the bond?

a) Cash = $1000  b) Bond Payable = $1199 c) Discount on Bond Payable = $199 d) Premium on Bond Payable = $199

Answer : D

Explanation :

a) The cash value should be $1199.

b) Bond Payable should be $1000.

c) It is a bond sold at premium. No discount is given.

d) Correct!