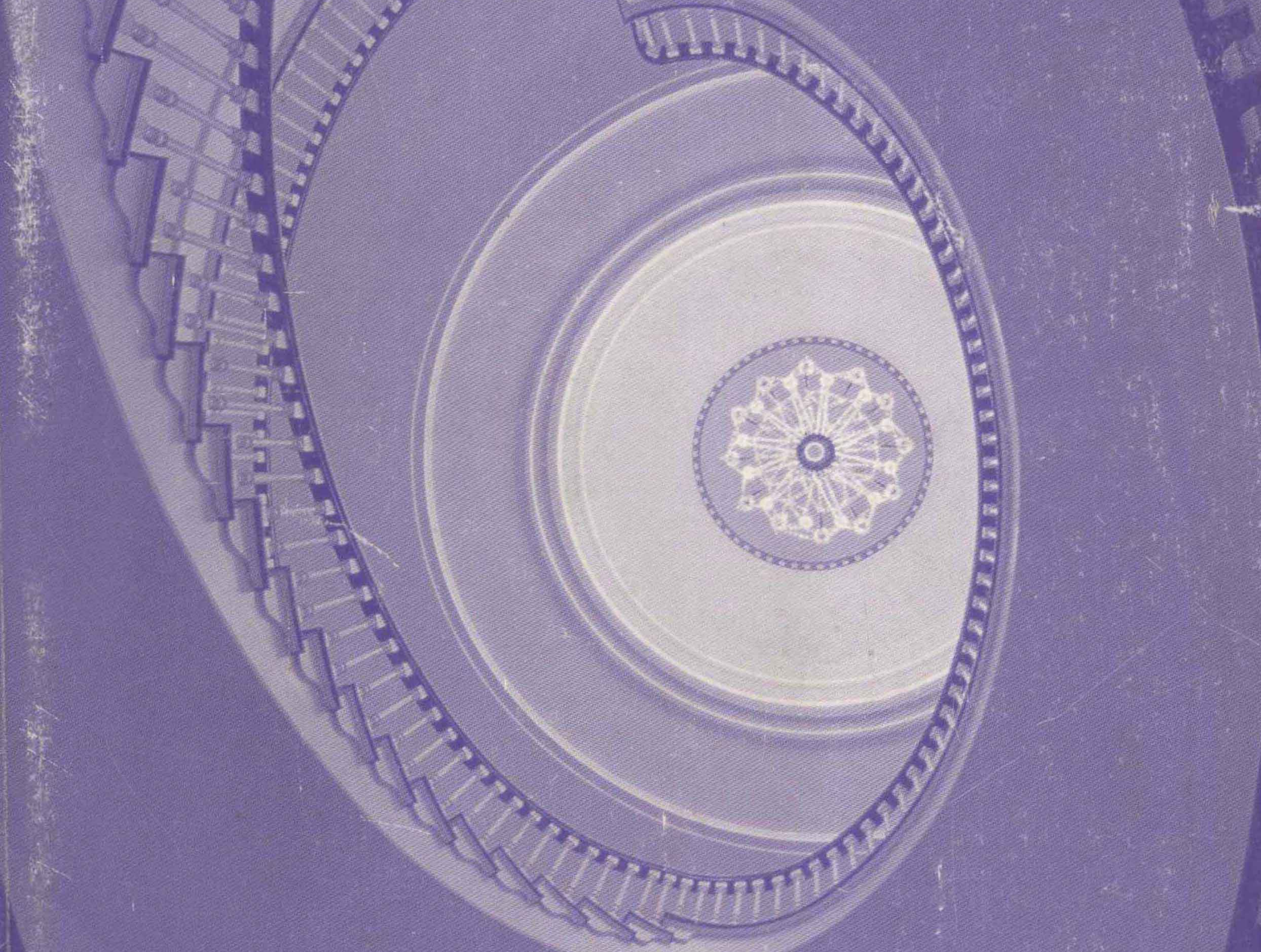
TEST BANK

VOLUME II: CHAPTERS 14-26

TO ACCOMPANY

INTERMEDIATE ACCOUNTING



DONALD E. KIESO • JERRY J. WEYGANDT

PREPARED WITH THE ASSISTANCE OF

WAYNE M. HIGLEY

EIGHTH EDITION

TEST BANK
VOLUME II: CHAPTERS 14-26
TO ACCOMPANY

INTERMEDIATE ACCOUNTING

Eighth Edition

Donald E. Kieso, PH.D., C.P.A.

KPMG Peat Marwick Emeritus Professor of Accounting
Northern Illinois University
DeKalb, Illinois

Jerry J. Weygandt, PH.D., C.P.A.

Arthur Andersen Alumni Professor of Accounting
University of Wisconsin
Madison, Wisconsin

Prepared with the assistance of

Wayne M. Higley, PH.D., C.P.A.

Buena Vista College
Storm Lake, Iowa

John Wiley & Sons, Inc.
New York • Chichester • Brisbane • Toronto • Singapore

ISBN 0-471-11750-1

Printed in the United States of America

10 9 8 7 6 5 4 3 2

PREFACE

This volume contains multiple choice questions, test exercises, examination problems, and comprehensive examinations for testing of students enrolled in a course that requires ***INTERMEDIATE ACCOUNTING*** 8th edition by Donald E. Kieso and Jerry J. Weygandt.

This edition's test bank has been expanded over the prior edition with many new items, including new exercises and problems, and several new features.

Multiple choice questions, test exercises, and examination problems are classified by chapter and are specifically described and are arranged in order of topical coverage. The multiple choice questions are provided first, followed by the test exercises and examination problems. Answers and solutions accompany each multiple choice question, test exercise, and examination problem. These questions, exercises, and problems have been carefully developed to insure that a representative number are available on the major subject areas of the *Intermediate* textbook. There also are ten, separately identified, CPA exam multiple-choice questions for each chapter; these questions have been adapted from the most recent CPA Examinations.

In addition, a special feature of this test manual is the inclusion of six comprehensive examinations that cover four to six chapters each. For example, Comprehensive Examination A covers the subject material of Chapters 1-6, Part 1 of the textbook. Each of these comprehensive examinations is designed for 120-180 minutes of testing.

Use of Multiple Choice Questions

Each of the multiple choice questions has *four* possible choices whereas previous editions had five choices. The type of multiple choice question varies; questions may be of a descriptive or conceptual type where no computations are involved; others are more analytical and require analysis and computations (number crunching) before a solution can be identified. New to this edition is the inclusion of derivations to all computational multiple choice questions; the *derivations* are presented on the last two or three pages of each chapter.

The multiple choice questions can be used for short scheduled or unannounced quizzes which test the student's ability to keep up with the material on a day-to-day basis; these questions may also be employed in longer tests such as mid-term or final examinations. Because of the ample number of questions provided, the choice can be varied from quarter to quarter or semester to semester.

If a separate answer sheet is used for scoring the multiple choice questions, the following instructions are appropriate:

Specimen Instructions

1. Write your name in the designated space.
2. Make your marks heavy with an ordinary soft black-lead pencil, preferably #2. There is only one correct response to each question.
3. Erase completely any answers you wish to change.
4. Do not make any other marks outside of the answer space.

These instructions are particularly pertinent if the examination is machine graded.

Use of Test Exercises and Examination Problems

The test exercises and examination problems provided in this book may also be used for short scheduled or unannounced quizzes; exercises and problems from specific chapters may also be combined to form longer examinations. The test exercises and examination problems are similar to the exercises and problems provided in the textbook; exercises and problems in the textbook not used during the quarter or semester are excellent also for testing purposes.

At the beginning of each exercise and problem is a short phrase indicating the topic covered. Each chapter begins with a complete listing and descriptions of all examination and test items.

Use of Comprehensive Examinations

Six comprehensive examinations, each one covering one of the six major subdivisions of the textbook, are provided in this book. These tests are designed for 120 to 180 minute examinations. Approximate times in minutes are provided for each problem. These examinations are particularly suited for mid-term or final examinations. Various combinations of text materials from the specific chapters and the comprehensive examinations may also be utilized. Factual data related to amounts and time periods may be changed to permit reuse of the problem.

SUPPLEMENTARY MATERIALS AND TEACHING/LEARNING AIDS

SOLUTIONS MANUAL I AND II. The comprehensive Solutions Manuals contain the answers to all questions and cases and the solutions with detailed derivations for all exercises and problems.

The eighth edition Solutions Manual contains two end-of-chapter-material classification tables at the beginning of each chapter. In Table I all four types of items (questions, cases, exercises, and problems) are categorized by key topics in the chapter. In Table II the problems, exercises, and cases are listed with a brief description of the item, an analysis of the degree of difficulty, and an estimate of the time frame required to complete each item. Preceding each section of case solutions and problem solutions is a discussion of the purpose of each case and each problem.

INSTRUCTOR'S MANUAL I AND II. These comprehensive resource guides have been prepared for the eighth edition by Greg A. Graber of Deloitte and Touche. Course syllabi, which have proven to be so useful for instructors, are in the front of the manual. This is followed by a chapter-by-chapter instructional guide. Supportive appendices are at the end of the manual. Each chapter opens with classification tables for all end-of-chapter items. In Table I, all four types of end-of-chapter items (questions, exercises, problems, and cases) are categorized by key topics in the chapter. In Table II, the exercises, problems, and cases are cataloged with a brief description of the item, an analysis of the degree of difficulty, and an estimate of the time frame required to complete that item. Following these tables is a review of the chapter, a list of learning objectives, lecture outlines *with numerous teaching tips*, illustrations for classroom use or for distribution, annotated bibliography, and, as appropriate, Teaching Transparency Masters for special display items that would further enhance the lecture presentation. There is a lecture outline on accounting research after Chapter 26 of the book. The appendix includes a duplication of the present value tables found in Chapter 6 of the text for use in preparing multiple copies for classroom distribution for examination purposes. We also provide a table that references the end of chapter problem material with the problem material for the seventh edition. This will facilitate making up assignment material when you wish to use the problems that you are familiar with from the previous edition. New to this edition are helpful essays *on Reading and Grading Writing Assignments, Team Learning, and Guidelines for Using the "Ethical Issues" Assignment Materials.*

CHECKLIST OF KEY FIGURES. To aid students in verifying their problems and solutions and in discovering their own errors, a Checklist of Key Figures has been developed. It is available free to instructors who wish to distribute key figures to their students.

SOLUTIONS TRANSPARENCIES I AND II. Packaged in organizer boxes, the transparencies feature detailed solutions to textbook *exercises and problems.* These transparencies have been especially prepared in large font type, new to this edition, and are designed to project readable solutions. All solutions were extensively checked by the authors and reviewers.

EXAMINATION BOOK AND TEST BANK I AND II. A collection of examination questions and problems for each chapter in the textbook, accompanied by answers and solutions, has been prepared with the assistance of Professor Wayne Higley of Buena Vista College. Derivations are provided for all multiple-choice questions requiring computations. In addition to the examination material provided for each chapter, comprehensive achievement tests covering multiple chapters are also included. Each of these comprehensive examinations has been class tested. Each chapter includes a Summary of Objectives by Questions linking test items to learning objectives.

COMPUTERIZED TEST BANK. The collection of objective questions and exercises with answers for each chapter in the textbook is also available for use with the IBM and the IBM-true compatibles and the Apple Macintosh.

The Computerized Test Bank offers the instructor a number of valuable options—the ability to extract a large number of questions manually or randomly; to modify and customize test questions by either changing existing items or by adding your own; to create multiple versions of the same test by scrambling questions by type, chapter, item number, or any combination of these. Questions can be selected from within the chapter study objectives, randomly or manually. Instructors can also customize exams with headers, page and margin size, and question numbering. Users may preview tests prior to printing, and an answer key accompanies the test. Examinations can be stored on a separate disk or hard drive and retrieved later for playback. The software can also print any of the Comprehensive Examinations.

TEST PREPARATION SERVICE. Simply call Wiley's Accounting Hotline (800) 541-5602 with the questions you have selected for an examination. Wiley will provide a customized master exam within 24 hours. If you prefer, random selections from a number of chapters are possible.

ANALYZING AND SOLVING INTERMEDIATE ACCOUNTING PROBLEMS USING LOTUS 1-2-3. Prepared by Professor David R. Koeppen of Boise State University, this workbook plus disk contains intermediate accounting problems formatted on templates to run on Lotus 1-2-3. The instructor or the department must have access to Lotus 1-2-3 in order to use this Lotus package. Exercises and problems contained in the textbook and used in this workbook are identified in the text margin by icons. The templates include problems covering time value of money, notes receivable, retail inventory method, dollar-value LIFO, exchange of used assets, depreciation, bonds payable, percentage-of-completion method, pensions, lease amortization, and many others. A solutions manual is available for instructors.

VIDEO WITH VIDEO INSTRUCTOR'S MANUAL. This video was designed to enhance the classroom use of the textbook by covering key topics in intermediate accounting. The video segments range in length from 18 to 28 minutes and can be divided into shorter segments to allow for discussion over one or more classes. Topics are presented in several formats to enhance learning effectiveness. These include a panel discussion, vignettes, and interviews with prominent experts. An Instructor's Manual is provided to help the instructor facilitate classroom discussion. Additionally, learning objectives, content summary, suggestions for relating the video to the textbook, and several discussion questions are provided for every segment.

TEACHING TRANSPARENCIES. 100 4-color illustrations used to clarify accounting concepts and principles are available as acetates. Illustrations are selected from the text and include original exhibits from outside the text. Suggestions on how to integrate Teaching Transparencies are provided in the Instructor's Manuals.

STUDENT STUDY GUIDE I AND II. These widely used supplements, prepared by Professor Douglas W. Kieso of Aurora University, consist of chapter learning objectives, chapter reviews, demonstration problems where appropriate, and review questions and exercises (true/false, matching, multiple choice, and exercises). The Study Guide, expanded this edition, is designed to highlight and summarize the material contained in the chapter and to help students measure their progress and understanding by immediate feedback. Answers to the questions and solutions to the exercises are presented at the end of each chapter to provide students with reinforcement of, or a check on, their knowledge of the subject matter. Also provided are explanations of false answers in the true/false section as well as explanations of the incorrect answers in the multiple-choice section for each chapter. The Study Guide may be used by the instructor to supplement classroom discussions and by students to review material in preparation for examinations.

SELF-STUDY PROBLEMS/SOLUTIONS BOOK I AND II. These student learning aids, coauthored with Marilyn F. Hunt of the University of Central Florida, contain exercises and problems for each chapter with annotated step-by-step solutions that demonstrate how the student might approach, set up, and solve the problem. This book coaches the student by providing insights and tips on how to study and how to analyze and solve accounting problems and examination questions.

PRACTICE SET (ROCKFORD CORPORATION). The accounting Practice Set for the eighth edition has been revised and is designed to be used at or near the beginning of *INTERMEDIATE ACCOUNTING*. The Practice Set provides material that can be assigned in conjunction with Chapter 3, "A Review of the Accounting Process." With this eighth edition we provide an alternative set of instructions so that the instructor has the choice of two sets of data to assign. The Practice Set has been designed as a student review and update of the accounting cycle and the preparation of financial statements that are covered in the traditional first-year principles of financial accounting. Completion of this Practice Set requires the student to (1) analyze transactions, (2) journalize transactions, (3) post to the general ledger and to subsidiary ledgers, (4) prepare year-end adjusting entries, (5) use a 10-column work sheet, (6) prepare financial statements (including the optional preparation of a statement of cash flows), and (7) close the accounts. *Check figures are provided.* The Rockford Corporation Practice Set is estimated to take between 10 and 14 hours to work. A solutions manual is available free for instructors.

COMPUTERIZED PRACTICE SET. A disk (5 1/4 inch or 3 1/2 inch) and accompanying documentation to run the Rockford Corporation Practice Set (described above) on microcomputer has been prepared. This Practice Set runs on IBM-PC. The IBM-PC preprogrammed disk for student use is packaged with the Practice Set. The solutions manual is the same one that accompanies the manual Practice Set described above.

WORKING PAPERS I AND II. Working Papers I is provided for all problems in Chapters 1 through 14. These Working Papers are partially filled in with company names, numerous headings, and some preliminary data. Working Papers II provides similar partial information for Chapters 14 through 26. The Working Papers save students time, standardize the solutions format, and facilitate rapid reviews by the instructor.

SUMMARY

All supplementary teaching aids have been painstakingly prepared, reviewed, and tested to provide instructors and students with valuable, error-free materials. To the extent that we have not, we invite the users of our textbook and supplementary materials to inform us directly of the reactions and suggested improvements. The examination book, MICROTEST®, all solutions manuals and the instructor's manual, the checklist, and the transparencies are all available at no cost for use by instructors adopting the textbook.

ACKNOWLEDGEMENTS

We sincerely thank the following individuals for their expert assistance in reviewing the material contained in this Examination Book and Test Bank: John Borke, University of Wisconsin - Platteville; Larry Falcetto, Emporia State University; and to Marinita Timban of John Wiley & Sons, Inc., and the staff of Delta Software, Inc., for preparing this entire manual for publication.

Donald E. Kieso
Jerry J. Weygandt

CONTENTS

CHAPTER 14

LONG-TERM LIABILITIES

MULTIPLE CHOICE—Conceptual

Answer	No.	Description
a	1.	Liability identification.
a	2.	Bond terms.
b	3.	Definition of "debenture bonds."
d	4.	Interest rate of the bond indenture.
d	5.	Rate of interest earned by the bondholders.
b	6.	Premium and interest rates.
a	7.	Interest and discount amortization.
d	8.	Effective interest amortization method.
d	9.	Impact of effective interest method.
c	10.	Recording bonds issued between interest dates.
d	11.	Bonds issued at other than an interest date.
d	12.	Calculating the issue price of bonds.
d	13.	Calculating the issue price of bonds.
d	14.	Classification of bond interest costs.
c	15.	Bond issuance costs.
b	16.	Classification of treasury bonds.
d	17.	Early extinguishment of bonds payable.
d	18.	Gain or loss on extinguishment of debt.
b	19.	Legal liability in an in-substance defeasance.
d	20.	Nature of an in-substance defeasance.
d	21.	Valuation of note issued in noncash transaction.
b	22.	Off-balance-sheet financing.
c	23.	Project financing arrangement.
a	24.	Recognition of project financing arrangement.
d	25.	Required bond disclosures.
d	26.	Disclosure of unconditional purchase obligations.
b	27.	Disclosure of unconditional purchase obligations.
d	28.	Discount rate for unconditional purchase obligation.
c	*29.	Modification of terms in debt restructure.
d	*30.	Gain/loss on troubled debt restructuring.
d	*31.	Gain/loss on troubled debt restructuring.
b	*32.	Interest and troubled debt restructuring.
c	*33.	Creditor's calculations for modification of terms.

* This topic is dealt with in an Appendix to the chapter.

MULTIPLE CHOICE—Computational

Answer	No.	Description
a	34.	Calculate the present value of bond principal.
b	35.	Calculate the present value of bond interest.
a	36.	Determine the issue price of bonds.
b	37.	Interest expense using effective interest method.
c	38.	Interest expense using effective interest method.
c	39.	Calculate gain on retirement of bonds.
b	40.	Calculate gain on retirement of bonds.
b	41.	Calculate loss on retirement of bonds.
a	42.	Calculate loss on retirement of bonds.
b	43.	Calculate loss on retirement of bonds.
b	44.	Bond retirement with call premium.
a	45.	Interest on noninterest-bearing note.
c	46.	Interest on installment note payable.
b	*47.	Transfer of equipment in debt settlement.
d	*48.	Recognizing gain on debt restructure.
a	*49.	Interest and troubled debt restructuring.

MULTIPLE CHOICE—CPA Adapted

Answer	No.	Description
a	50.	Determine proceeds from bond issue.
b	51.	Determine unamortized bond premium.
a	52.	Determine unamortized bond discount.
c	53.	Calculate bond interest expense.
a	54.	Calculate loss on retirement of bonds.
d	55.	Calculate loss on retirement of bonds.
d	56.	Calculate gain on retirement of bonds.
c	57.	Determine carrying value of bonds to be retired.
c	58.	Carrying value of bonds with call provision.
a	59.	Classification of gain from debt refunding.
d	*60.	Classification of gain from troubled debt restructuring.

EXERCISES

Item	Description
E14-61	Terms related to long-term debt.
E14-62	Amortization of discount or premium.
E14-63	Bond issue price and premium amortization.
E14-64	Entries for bonds payable.
E14-65	Retirement of bonds.
E14-66	Early extinguishment of debt.
E14-67	Long-term debt disclosures.
*E14-68	Accounting for a troubled debt settlement.
*E14-69	Accounting for troubled debt restructuring.
*E14-70	Accounting for troubled debt.

PROBLEMS

Item	Description
P14-71	Bond discount amortization.
P14-72	Bond interest and discount amortization.
P14-73	Entries for bond payable.
P14-74	Entries for bond payable.
*P14-75	Accounting for a troubled debt settlement.

CHAPTER LEARNING OBJECTIVES

1. Describe the formal procedures associated with issuing long-term debt.
2. Identify various types of bond issues.
3. Describe the accounting valuation for bonds at date of issuance.
4. Apply the methods of bond discount and premium amortization.
5. Describe the accounting procedures for the extinguishment of debt.
6. Explain the accounting procedures for long-term notes payable.
7. Describe off-balance-sheet financing arrangements.
8. Describe disclosure requirements for long-term debt.

*9. Distinguish between and account for (1) a loss on loan impairment, (2) a troubled debt restructuring that results in the settlement of a debt, and (3) a troubled debt restructuring that results in a continuation of debt with modification of terms.

SUMMARY OF LEARNING OBJECTIVES BY QUESTIONS

L.O. 1		L.O. 2		L.O. 3		L.O. 4		L.O. 4 (cont.)	
No.	Type	No.	Type	No.	Type	No.	Type	No.	Type
1.	MC	3.	MC	4.	MC	6.	MC	51.	MC
2.	MC			5.	MC	7.	MC	52.	MC
				12.	MC	8.	MC	53.	MC
				13.	MC	9.	MC	61.	E
				34.	MC	10.	MC	62.	E
				35.	MC	11.	MC	63.	E
				36.	MC	14.	MC	64.	E
				61.	E	15.	MC	71.	P
				63.	E	16.	MC	72.	P
				71.	P	37.	MC	73.	P
						38.	MC	74.	P
						50.	MC		

L.O. 5		L.O. 6		L.O. 7		L.O. 8		L.O. *9	
No.	**Type**	**No.**	**Type**	**No.**	**Type**	**No.**	**Type**	**No.**	**Type**
17.	MC	21.	MC	22.	MC	25.	MC	29.	MC
18.	MC	45.	MC	23.	MC	26.	MC	30.	MC
19.	MC	46.	MC	24.	MC	27.	MC	31.	MC
20.	MC					28.	MC	32.	MC
39.	MC					67.	E	33.	MC
40.	MC							47.	MC
41.	MC							48.	MC
42.	MC							49.	MC
43.	MC							60.	MC
44.	MC							68.	E
54.	MC							69.	E
55.	MC							70.	E
56.	MC							75.	P
57.	MC								
58.	MC								
59.	MC								
61.	E								
64.	E								
65.	E								
66.	E								
73.	P								
74.	P								

Note: MC = Multiple Choice
E = Exercise
P = Problem

MULTIPLE CHOICE—Conceptual

1. An example of an item which is not a liability is
   a. dividends payable in stock.
   b. advances from customers on contracts.
   c. accrued estimated warranty costs.
   d. the portion of long-term debt due within one year.

2. The covenants and other terms of the agreement between the issuer of bonds and the lender are set forth in the
   a. bond indenture.
   b. bond debenture.
   c. registered bond.
   d. bond coupon.

3. The term used for bonds that are unsecured as to principal is
   a. junk bonds.
   b. debenture bonds.
   c. indebenture bonds.
   d. callable bonds.

4. The interest rate written in the terms of the bond indenture is known as the
   a. coupon rate.
   b. nominal rate.
   c. stated rate.
   d. coupon rate, nominal rate, or stated rate.

5. The rate of interest actually earned by bondholders is called the
   a. market rate.
   b. yield rate.
   c. effective rate.
   d. market rate, yield rate, or effective rate.

6. Stockton, Inc. issued bonds with a maturity amount of $200,000 and a maturity ten years from date of issue. If the bonds were issued at a premium, this indicates that
   a. the yield (effective or market) rate of interest exceeded the nominal (stated) rate.
   b. the nominal rate of interest exceeded the yield rate.
   c. the yield and nominal rates coincided.
   d. no necessary relationship exists between the two rates.

7. If bonds are initially sold at a discount and the straight-line method of amortization is used, interest expense in the earlier years will
   a. exceed what it would have been had the effective interest method of amortization been used.
   b. be less than what it would have been had the effective interest method of amortization been used.
   c. be the same as what it would have been had the effective interest method of amortization been used.
   d. be less than the stated (nominal) rate of interest.

8. Under the effective interest method of bond discount or premium amortization, the periodic interest expense is equal to
   a. the stated (nominal) rate of interest multiplied by the face value of the bonds.
   b. the effective (yield) rate of interest multiplied by the face value of the bonds.
   c. the stated rate multiplied by the beginning-of-period carrying amount of the bonds.
   d. the effective rate multiplied by the beginning-of-period carrying amount of the bonds.

9. When the effective interest method is used to amortize bond premium or discount, the periodic amortization will
   a. increase if the bonds were issued at a discount.
   b. decrease if the bonds were issued at a premium.
   c. increase if the bonds were issued at a premium.
   d. increase if the bonds were issued at either a discount or a premium.

10. If bonds are issued between interest dates, the entry on the books of the issuing corporation should include a
   a. debit to Interest Payable.
   b. credit to Interest Receivable.
   c. credit to Interest Expense.
   d. credit to Unearned Interest.

11. When the interest payment dates of a bond are May 1 and November 1, and a bond issue is sold on June 1, the amount of cash received by the issuer will be
   a. decreased by accrued interest from June 1 to November 1.
   b. decreased by accrued interest from May 1 to June 1.
   c. increased by accrued interest from June 1 to November 1.
   d. increased by accrued interest from May 1 to June 1.

Use the following information for questions 12 and 13:

Fox Co. issued $100,000 of ten-year, 12% bonds that pay interest semiannually. The bonds are sold to yield 10%.

12. One step in calculating the issue price of the bonds is to multiply the principal by the table value for
   a. 10 periods and 12% from the present value of 1 table.
   b. 20 periods and 6% from the present value of 1 table.
   c. 10 periods and 10% from the present value of 1 table.
   d. 20 periods and 5% from the present value of 1 table.

13. Another step in calculating the issue price of the bonds is to
   a. multiply $12,000 by the table value for 10 periods and 12% from the present value of an annuity table.
   b. multiply $12,000 by the table value for 20 periods and 6% from the present value of an annuity table.
   c. multiply $12,000 by the table value for 20 periods and 5% from the present value of an annuity table.
   d. none of these.

14. Theoretically, the costs of issuing bonds could be
   a. expensed when incurred.
   b. reported as a reduction of the bond liability.
   c. debited to a deferred charge account and amortized over the life of the bonds.
   d. any of these.

15. The printing costs and legal fees associated with the issuance of bonds should
    a. be expensed when incurred.
    b. be reported as a deduction from the face amount of bonds payable.
    c. be accumulated in a deferred charge account and amortized over the life of the bonds.
    d. not be reported as an expense until the period the bonds mature or are retired.

16. Treasury bonds should be shown on the balance sheet as
    a. an asset.
    b. a deduction from bonds payable issued to arrive at net bonds payable and outstanding.
    c. a reduction of stockholders' equity.
    d. both an asset and a liability.

17. An early extinguishment of bonds payable, which were originally issued at a premium, is made by purchase of the bonds between interest dates. At the time of reacquisition
    a. any costs of issuing the bonds must be amortized up to the purchase date.
    b. the premium must be amortized up to the purchase date.
    c. interest must be accrued from the last interest date to the purchase date.
    d. all of these.

18. The generally accepted method of accounting for gains or losses from the early extinguishment of debt is based on the assumption that any gain or loss on the transaction reflects
    a. an adjustment to the cost basis of the asset obtained by the debt issue.
    b. an amount that should be considered a cash adjustment to the cost of any other debt issued over the remaining life of the old debt instrument.
    c. an amount received or paid to obtain a new debt instrument and, as such, should be amortized over the life of the new debt.
    d. a difference between the reacquisition price and the net carrying amount of the debt which should be recognized in the period of extinguishment.

19. A company which has recorded a loss on the extinguishment of debt may still have a legal liability for the amount of the debt if the extinguishment was in the form of
    a. a troubled debt restructuring.
    b. an in-substance defeasance.
    c. a project financing arrangement.
    d. a bond refunding situation.

20. An in-substance defeasance is an arrangement whereby a company records an extinguishment of debt by
    a. purchasing its own debt in the open market for the purpose of retiring it.
    b. purchasing its own debt in the open market and holding it in its treasury until the debt matures.
    c. defaulting on interest payments.
    d. placing cash or risk-free securities in an irrevocable trust which are pledged to be used solely for satisfying the principal and interest of the debt.

21. When a note payable is issued for property, goods, or services, the present value of the note is measured by
    a. the fair value of the property, goods, or services.
    b. the market value of the note.
    c. using an imputed interest rate to discount all future payments on the note.
    d. any of these.

22. Which of the following debt arrangements may represent a possible example of "off-balance-sheet financing"?
    1. Issuance of deep discount bonds ("zero interest debenture bonds").
    2. Entering into a "through-put agreement."
    3. Issuance of a "shared appreciation mortgage."

    a. 1
    b. 2
    c. 3
    d. both 1 and 2

23. On January 10, 1996, Hill Corp. entered into an agreement with Key Company. Under the terms of the agreement, Hill is obligated to pay $5,000,000 annually for each of the next five years in return for products to be delivered by Key. Hill is obligated to make these payments whether or not it takes delivery of the contracted products. This arrangement is an example of a(n)
    a. through-put agreement.
    b. commodity-backed debt agreement.
    c. take-or-pay contract.
    d. unsecured loan.

24. Which of the following is *not* an example of a project financing arrangement?
    a. A bond indenture agreement
    b. A take-or-pay contract
    c. A through-put agreement
    d. All of these are examples of project financing arrangements.

25. Which of the following must be disclosed relative to long-term debt maturities and sinking fund requirements?
    a. The present value of future payments for sinking fund requirements and long-term debt maturities during each of the next five years.
    b. The present value of scheduled interest payments on long-term debt during each of the next five years.
    c. The amount of scheduled interest payments on long-term debt during each of the next five years.
    d. The amount of future payments for sinking fund requirements and long-term debt maturities during each of the next five years.

26. In order to require disclosure as an "unconditional purchase obligation," an obligation must
    a. be noncancellable, or cancellable only upon the occurrence of some remote contingency or with the permission of the other party.
    b. have a remaining term in excess of one year.
    c. be part of a supplier's project financing arrangement.
    d. All of these conditions must be met.