LO.a: Determine the initial recognition, initial measurement and subsequent measurement of bonds.

1. A company raises debt in the form of bonds of £10 million face value. When bonds are issued, the company will record a:
   A. cash inflow from financing activities.
   B. cash outflow from financing activities.
   C. cash inflow from investing activities.

2. Federal Motors reports using US GAAP. If at the time of its latest bond issue, it incurs €20,000 in printing, legal fees, commissions and other associated costs then it is *most likely* to report these costs on its financial statements as:
   A. a cash outflow from investing activities.
   B. an asset.
   C. a periodic expense which is not reflected on the balance sheet.

3. A company, which prepares its financial statements in accordance with IFRS issues £2,000,000 face value five year bonds on January 1, 2013 when interest rates are 3.20%. The bonds carry a coupon of 4.50%, with interest paid annually on December 31. The carrying value of the bonds as of December 31, 2014 will be *closest* to:
   A. £1,974,843.
   B. £2,073,262.
   C. £2,108,389.

4. The amount of cash payable to bondholders when the bonds mature is *best* known as:
   A. coupon.
   B. face value.
   C. principal.

5. Over the life of a bond, the rate demanded by investors varies based on the risks associated with future cash payments. This rate is *best* known as the:
   A. coupon rate.
   B. market rate.
   C. effective interest rate.

6. The effective interest rate was 5% on 5.25% coupon bonds at the time of issuance. The bonds were *most likely* issued at:
   A. a discount.
   B. a premium.
   C. par.

7. A company issues €1,500,000 worth of ten-year bonds. The proceeds from the issue is shown in the financial statements as a cash inflow from:
   A. financing activities.
   B. operating activities.
   C. investing activities.

8. Zero-coupon bonds are issued at:
   A. a discount to face value.
   B. a premium to face value.
   C. par to face value.

9. Ababa Corp. incurs $75,000 in legal fees when issuing $1,000,000 of five-year bonds at face value. The legal fees will *most likely* be recorded on the financial statements as:
   A. a liability under US GAAP and as part of bonds payable under IFRS.
   B. a cash outflow from investing activities under IFRS and US GAAP.
   C. an asset under US GAAP and as part of bonds payable under IFRS.

10. The effective interest rate:
   A. changes as market rates change.
   B. is the market rate at issuance.
   C. is the same as coupon rate after issuance.

11. Brookes Mount issued fixed-rate bonds when interest rates were 5 percent. Market interest rates have increased to 7 percent since then. An analyst using only the carrying amount (based on historical cost) while reviewing the company's balance sheet, will *most likely*:
   A. overestimate Brookes' economic liabilities.
   B. underestimate Brookes' economic liabilities.
   C. underestimate Brookes' interest coverage ratio.

LO.b: Describe the effective interest method and calculate interest expense, amortization of bond discounts/premiums, and interest payments.

12. The effective rate was 5.50% at the time of issuance of 7.00% coupon bonds. The bonds were *most likely* issued at:
   A. par.
   B. a discount.
   C. a premium.

13. On 1 July 2012, Veronica's Secret Inc. issues $3,000,000 face value, seven-year bonds with annual interest payments of $150,000 to be paid each 30 June. The market interest rate is 7.5 percent. According to the effective interest rate method of amortization, Veronica's Secret is *most likely* to report:
   A. a cash outflow of $195,207 from operating activities in the 30 June 2013 statement of cash flows.
   B. an interest expense of $150,000 in the 30 June 2013 income statement.
   C. a liability of $2,647,962 in the 30 June 2013 balance sheet.

14. Combined Corporation issues $5 million face value, seven-year bonds with a coupon rate of 3.5 percent paid annually. The market interest rate was 2.0 percent at the time of bond issuance. Using the effective interest rate method of amortization, the carrying value of liability after one year will be *closest* to:

A. $5.42 million.
B. $5.49 million.
C. $5.66 million

15. On January 1, 2011 BioGen Inc. issued bonds with a face value £10,000,000, with a term of 5 years paying 5% coupon annually on 31 December. The market rate at issue was 4%.
The company did not elect to carry the bonds at fair value. In December 2013 the market rate on similar bonds had increased to 4.5% and the company decided to buy back (retire) the bonds after the coupon payment on December 31. As a result, the gain on retirement reported on the 2013 statement of income is *closest* to:
A. $94,976.
B. $102,354.
C. $110,739.

LO.c: Explain the derecognition of debt.

16. The Bank of Cambodia pays $6.5 million to repurchase its own bond with a face value of $11.5 million and a carrying value of $7.5 million in the secondary market. The bank will *most likely* report:
A. other comprehensive income of $1 million.
B. other comprehensive income of $5 million.
C. a gain of $1 million in the income statement.

17. If a company issues $7 million face value zero-coupon bonds, its debt-to-equity ratio will *most likely*:
A. rise as the maturity date approaches.
B. decline as the maturity date approaches.
C. remain constant throughout the bond life.

18. A company incurs a loss of $500,000 on debt redemption. The *least likely* accounting treatment is to:
A. report the loss on the income statement as a separate line item.
B. provide details about the transaction in management, discussion and analysis or notes to the financial statements.
C. record the cash used to redeem the bonds as cash used for investing activities.

19. The repayment of the face value of the bonds at maturity *most likely* appears as a:
A. financing cash outflow.
B. reduction in bonds payable by the carrying amount at issuance.
C. operating cash outflow.

20. Haleys Corp. repurchases the bonds it issued in the open market by paying €15.3 million for bonds with a face value of €20 million and a carrying value of €18.1 million. The company will most likely report:
A. other comprehensive income of €4.7million.
B. a gain of €2.8 million on the income statement.

C. other comprehensive income of €2.8 million.

21. The events related to a company's bond issuance are given below:
    - Issued 5-year bonds with a par value of €7 million and a coupon rate of 6%, payable semiannually on 30 June and 31 December, on 1st January 2010. The effective interest rate was 5%.
    - The company repurchased its own bonds in the open market transaction on 1 January 2013, when the market rate of interest was 6%.

    The gain reported on the 2013 income statement due to the bond repurchase will be *closest* to:
    A. €131,669.
    B. €0.
    C. €130,099.

LO.d: Describe the role of debt covenants in protecting creditors.

22. Debt covenants are *least likely* to place restrictions on the borrower's ability to:
    A. issue additional debt.
    B. issue additional equity.
    C. pay dividends

23. Which of the following is an example of an affirmative covenant?
    A. Restriction on the amount of dividends paid.
    B. Need for periodic maintenance on real assets, if they are used as collateral.
    C. Restrictions on corporate restructurings that may materially affect the company.

24. Debt covenants *most likely*:
    A. limit the borrower's ability to issue equity.
    B. reduce the cost of borrowing.
    C. restrict the activities of the creditors.

25. A hiking expedition company that organizes trips in Leh uses term loans to finance the acquisition of new mountaineering and hiking gear. A negative covenant for the loans is most likely one that requires:
    A. the company to maintain a minimum level of working capital.
    B. Ensure that the gear is insured.
    C. the company to seek approval to pay dividends.

LO.e: Describe the financial statement presentation of and disclosures relating to debt.

26. A company issued $1,000,000 of bonds with a 10 year maturity at 98. Five years later, the company called the bonds at 102 when the unamortized discount was $30,000. The company would *most likely* report a loss of:
    A. $30,000.
    B. $50,000.
    C. $60,000.

27. Details about covenants can be *most likely* found in:
    A. The balance sheet as part of long-term debt.
    B. Notes to the financial statements.
    C. Management, discussion and analysis.

28. Information about the sources of debt financing can most likely be found in:
    A. Notes to the financial statements.
    B. Management, discussion and analysis.
    C. Balance sheet.

29. The portion of the long-term debt due within a year is shown as:
    A. a current liability.
    B. long-term debt.
    C. a separate line item on the balance sheet.

LO.f: Explain motivations for leasing assets instead of purchasing them.

30. If a lessor offers attractive terms on an operating lease, this is *most likely* because the lessor is able to:
    A. retain the tax benefits of ownership.
    B. avoid reporting the liability on its balance sheet.
    C. resell the asset at the end of the lease.

LO.g: Distinguish between a finance lease and an operating lease from the perspectives of the lessor and the lessee.

31. Company X and Company Y are similar in all respects except that Company X records a long term lease as an operating lease and Company Y records the same type of lease as a finance lease. Taking a lessee's perspective, which of the following statements is *most likely* true?
    A. Company X will report higher liabilities.
    B. Company X will report lower operating cash flow.
    C. Company X will report higher cash flow from investing.

32. Company A and Company B are similar in all respects except that Company A records a long term lease as an operating lease and Company B records the same type of lease as a finance lease. Taking a lessee's perspective, which of the following is *least likely* true for the early years of the lease?
    A. Company A will have lower operating income.
    B. Company A will have lower net income.
    C. Company A will have lower cash flow from operations.

33. For which type of lease, does the leased asset appear on the balance sheet of lessor and continue to be depreciated?

A. An operating lease.
B. A financing lease.
C. A sales-type lease.

34. Under U.S. GAAP, the reported revenues for a lessor at lease inception will be highest if the lease is classified as:
A. an operating lease.
B. a direct financing lease.
C. a sales-type lease

35. A company obtains equipment on lease. Compared to classifying the lease as a financing lease, if it chooses to report the lease as an operating lease, it will *most likely* result in a:
A. higher debt-to-equity ratio.
B. lower cash from operations.
C. lower return on assets.

36. Company A and Company B are similar in all respects except that Company A records a long term lease as an operating lease and Company B records the same type of lease as a finance lease. From a lessee's perspective, which of the following is *least* likely true for the early years of the lease?
A. Company A will have lower operating income.
B. Company A will have lower net income.
C. Company A will have lower cash flow from operations.

37. Which of the following is *least likely* a criterion for a lease to be classified as a finance lease under US GAAP?
A. The present value of lease payments comprises 90 percent or more of the fair value of the leased asset.
B. The lease term is 60 percent or more of the useful life of the leased asset.
C. Ownership of the leased asset transfers to the lessee at the end of the lease.

38. Under IFRS, a lessor who enters into a direct finance lease, reports:
A. lease revenue when lease payments are received.
B. a lease receivable equal to the carrying amount of the leased asset.
C. a depreciation expense on the income statement.

39. From a lessee's perspective, a company showing stronger solvency position in the early years relative to an identical company has *most likely* entered into:
A. operating lease.
B. financing lease.
C. sales-type lease.

40. From a lessee's perspective, a company with higher operating cash flows relative to an identical company has *least likely* entered into a:
A. financing lease.
B. sales-type lease.

C. operating lease.

LO.h: Determine the initial recognition, initial measurement, and subsequent measurement of finance leases.

41. Interest income is reported by the lessor if the lease is classified as:
    A. a capital lease.
    B. an operating lease.
    C. either a capital or an operating lease.

The following information relates to questions 42 – 48:

MoveIt Limited enters into a lease agreement to use earth moving equipment for five years on 1 January 2014. Details of the lease agreement are as follows:

- Annual lease payments starting on 1 January 2014: $31,842.
- Useful life of the equipment: five years.
- Salvage value: 0.
- Depreciation method: straight-line
- Fair value of the machine: $140,000
- Present value of the lease payment: $135,000
- Discount rate: 9%

42. Under US GAAP, the lease agreement for the equipment should be treated as a:
    A. Capital lease.
    B. Operating lease.
    C. Sale-type lease.

43. The amount reported as a leased asset on the balance sheet on 1 January 2014 is *closest* to:
    A. $135,000.
    B. $140,000.
    C. $159,210.

44. The depreciation expense reported in FY 2014 is *closest* to:
    A. $28,000.
    B. $27,000.
    C. $0.

45. The amount of the equipment reported as a leased asset on 31 December 2014 is *closest* to:
    A. $108,000.
    B. $112,000.
    C. $113,000.

46. The amount of the lease liability reported on the balance sheet on 1 January 2014, after the first lease payment, is *closest* to:
    A. $103,158.
    B. $135,000.

C. $140,000.

47. The interest expense reported in FY 2014 is *closest* to:
    A. $31,842.
    B. $12,150.
    C. $9,284.

48. The lease liability on 31 December 2015 is *closest* to:
    A. $103,158.
    B. $80,600.
    C. $22,557.

LO.i: Compare the disclosures relating to finance and operating leases.

49. Damas Gold Mines has $620 million in total liabilities and $380 million in shareholder's equity. It discloses operating lease commitments over the next four years with a present value of $60 million. If the lease commitments are treated as debt, the debt-to-total capital ratio is *closest* to:
    A. 0.62.
    B. 0.64.
    C. 0.68.

50. An analyst is comparing the relative magnitude of operating and finance leases of a company. The best source of information on undiscounted future lease payments is *most likely*:
    A. Notes to the financial statements.
    B. Management, discussion, and analysis.
    C. Balance sheet.

LO.j: Compare the presentation and disclosure of defined contribution and defined benefit pension plans.

51. Akzo Nobel has a defined benefit pension plan with pension liabilities of $12 million and pension assets of $9 million as on 31 December. Under either IFRS or U.S. GAAP, the reporting on the company's balance sheet would be *closest* to which of the following?
    A. Pension assets and liabilities are not required to be shown in the balance sheet but only disclosed in footnotes.
    B. $12 million is shown as a liability and $9 million as an asset.
    C. $3 million is reported as net pension obligation.

52. Alcon Inc. prepares financial statements using IFRS. The following information related to the company's defined benefit plan is extracted from the 2014 financial disclosures:
    - Employees' service costs 460
    - Net interest expense 80
    - Actuarial losses 5
    - Actual return on plan assets 525

The pension expense (in thousands) reported in the P&L statement is *closest* to:

A. 540.
B. 545.
C. 1,070.

53. NYC Inc. prepares financial statements under US GAAP. The following information related to the company's defined benefit plan is extracted from the 2014 financial disclosures:

- Employee service costs for the current period 10
- Employee service costs for prior periods 2
- Interest expense 5
- Expected return on plan assets 4
- Actuarial losses 5

The 2014 pension expense reported in the income statement is *closest* to:

A. 11.
B. 17.
C. 26.

LO.k: Calculate and interpret leverage and coverage ratios.

54. The details of a company are given below:
Total assets: $2,000 million
Total long-term debt: $500 million
Average interest rate on debt: 9%
A note to the financial statements contains the following information about the company's future beginning of year lease commitments:

Operating Lease

Year	**$ millions**
2015	300
2016	300
2017	300
2018	300
2019	300
Total	1,500

After adjustment for the off-balance-sheet financing, the debt-to-total-assets ratio for the company is *closest* to:

A. 52.6%.
B. 54.2%.
C. 57.1%.

55. An analyst is analyzing three companies in an industry. The data for the companies is given below. Which company is the *most* solvent?

$-amounts in '000's	Company A	Company B	Company C
Total Debt		$19,997.8	
Total Assets		$79,043	
EBIT		$6,207	
Interest Payments		$1373.23	
Debt-to-Assets Ratio	25%		26%
Interest Coverage Ratio	4.61		4.31

A. Company A.
B. Company B.
C. Company C.

56. While calculating the debt to equity ratio, one *must* consider:
A. only non-current liabilities.
B. only current liabilities.
C. both non-current liabilities and current liabilities.

Solutions

1. A is correct. The company received a cash inflow of £10 million from lenders at the time debt was issued, which is reported as a financing activity.

2. B is correct. Under U.S. GAAP, expenses incurred when issuing bonds are generally recorded as an asset and amortized over the bond's life to related expenses (printing, legal, etc.). Cash flows related to bond issuance are categorized in the CFF section of the cash flow statement.

3. B is correct. The bond's carrying value is determined by taking the present value of the cash flows over the remaining 3 years. N=3, I/Y=3.2, PMT=2,000,000 x 4.5%, FV=2,000,000. Compute PV = 2,073,262.

4. B is correct. Face value is the cash payable by the issuer to the bondholders when the bonds mature.

5. B is correct. The market rate fluctuates over the life of the bond and is based on the riskiness of future cash flows. The effective interest rate for a bond remains constant during the life of a bond. The effective interest rate is the market rate when the bond was issued.

6. B is correct. As the effective interest rate is lower than the coupon rate, the bonds should have been issued at a premium.

7. A is correct. The proceeds from the sale of a bond issue is shown as a cash inflow from financing activities.

8. A is correct. Zero coupon bonds are issued at a discount to face value.

9. C is correct. Expenses incurred when issuing bonds are recorded as an asset and amortized over the life of the bonds under US GAAP. The expense is recorded as a cash flow under financing activities.

10. B is correct.

11. A is correct. When market interest rates increase, the market value of bonds decreases. Thus, the carrying value of bonds on the balance sheet is greater than the market value of bonds. Since the company can repurchase bonds from the market at less than the carrying amount, therefore, economic liabilities are overestimated. There is no effect on interest coverage ratio because the bonds carry a fixed rate of coupon.

12. C is correct. Since the effective interest rate is lower than the coupon rate, the bonds are issued at a premium

13. C is correct. For the first year $150,000 is the actual cash flow, not the interest expense. Hence options A and B can be ruled out. The carrying value of the liability at the end of year 1 can be calculated as follows: N=6; I/Y=7.5%; PMT=$150,000; FV=$3,000,000, CPT PV = $2,647,962.

14. A is correct. At the end of year the carrying value can be calculated as follows: N=6; I/Y=2%, PMT=175,000, FV=5,000,000, CPT PV= $5,420,107. Note that the carrying value is simply the present value of future cash flows discounted at the market rate of interest at issuance.

15. A is correct. The steps are outlined below:
    - The market value of debt at retirement can be determined by discounting the future cash flows at the current market rate (4.5%) using a financial calculator:
      FV = 10,000,000; I/Y = 4.5%; PMT = 500,000; N = 2; CPT PV = 10,093,633
    - The book value after the third interest payment (two payments remaining) can be found either using a financial calculator and the market rate at the time of issue (4%) or an amortization table (shown below):
      FV = 10,000,000; I/Y = 4%; PMT = 500,000; N = 2; CPT PV = 10,188,609.
    - Gain = Book value of debt – Market value = $10{,}188{,}609 - 10{,}093{,}633 = 94{,}976$

16. C is correct. A gain of $1 million (carrying value minus amount paid) will be recorded in the income statement.

17. A is correct. As the discount is amortized over time, the value of the liability for zero-coupon bonds increases with the amortized interest reducing earnings at an increasing rate over time. The debt-to-equity ratio will increase as the zero-coupon bonds approach maturity with higher relative debt and lower relative equity (through retained earnings).

18. C is correct. Statements A and B are correct. The cash used must be recorded as cash spent on financing activities.

19. A is correct. When the face value of the bonds is repaid at maturity, bonds payable is reduced by the carrying amount at maturity of the bonds. It is a financing cash outflow.

20. B is correct. A gain of €2.8 million (carrying amount less amount paid) will be reported on the income statement.

21. A is correct. Book value of the bonds on 1 January 2013 = PV (remaining coupon payments) + principal discounted at market rate at the time of issuance.
    Coupon = 0.06 *1/2*7,000,000 = 210,000.
    Using a financial calculator, we enter: N = 4; I/Y = 2.5%; PMT = 210,000, FV = 7,000,000, CPT PV.
    Book value = 7,131,669.
    The market rate when the bonds are repurchased is equal to the coupon rate, the company purchases them at par (€7,000,000).

Cost of repurchase (€7,000,000) – Book value (7,131,669) = 131,669.

22. B is correct. Debt covenants restrict the borrower from taking excessive risk generally by limiting the debtor's ability to consume cash or by limiting the level of debt relative to income and equity. Since issuing additional equity would increase the company's ability to meet its obligations, therefore, debt holders would not restrict that ability.

23. B is correct. The other two are examples of negative covenants.

24. B is correct. There is no restriction on raising additional equity as a company will be able to meet its debt obligations. Covenants restrict the actions of borrowers, not creditors.

25. C is correct. The other two are examples of affirmative covenants.

26. B is correct. Redemption Cost = 1,000,000 x 102/100 = 1,020,000
Carrying amount retired = 1,000,000 – 30,000 = 970,000
Loss on redemption = 1,020,000 - 970,000 = 50,000

27. B is correct. Notes to the financial statements has details about covenants, stated and effective interest rates, collateral etc.

28. B is correct. Details about debt financing and off-balance sheet financing can be found in MD&A.

29. A is correct. Non-current liabilities are part of long-term debt on a company's balance sheet, while that due within a year is part of current liability.

30. A is correct. The lessor often retains the tax benefits of ownership of the leased asset, which allows the lessor to pass those savings along to the lessee in the form of lower financing costs or other attractive terms. The tax benefit arises because of depreciation of the asset which reduces the tax expense.

31. B is correct. An operating lease is not reported on the balance sheet and lease payments are recorded as rent. For Company X, the entire rent expense is treated as an operating cash flow. This will result in lower operating cash flow.

32. B is correct. Company A will have a higher net income because in the early years, the expenses related to the finance lease (depreciation and interest expense) will be higher than the lease payment.

33. A is correct. In case of an operating lease, the underlying asset remains on the lessor's balance sheet. Depreciation expense is recorded by the lessor that reduces the asset's value over time.

34. C is correct. In case of a sales-type lease, the lease is treated as an asset sale and revenue is recorded at the time of sale equal to the present value of future lease payments. In case of direct financing lease, only interest income is reported as earned. In case of an operating lease, revenue from rent payments is reported when collected.

35. B is correct. The cash from operations is lower if the lease is classified as an operating lease, because the full lease payment is shown as an operating cash outflow. If it were classified as a financing lease, only the portion of the lease payment relating to interest expense reduces the operating cash flow and the portion of the lease payment that reduces the lease liability is classified as a financing cash flow. Therefore, the lessee's cash from operations tends to be lower under operating leases.

36. B is correct. Company A will have a higher net income because in the early years, the expenses related to the finance lease (depreciation and interest expense) will be higher than the lease payment.

37. B is correct. The lease term should be 75 percent or more of the useful life of the leased asset.

38. B is correct. Statements A and C are true for an operating lease. With a direct finance lease:
    a. the present value of lease payments is equal to the carrying amount of the leased asset.
    b. the leased asset is removed (derecognized) from the lessor's balance sheet.
    c. the lessor recognizes a lease receivable.

39. A is correct. From a lessee's perspective, a company that has entered into an operating lease shows higher profits, higher return measures and higher solvency in the early years.

40. C is correct. It has entered into a finance-type lease if the operating cash flows are higher as part of the lease payment goes towards reducing the lease liability which appears as financing cash flow.

41. A is correct. For either financing or sales-type lease, a portion of payments for these capital leases is reported as interest income. With an operating lease, all revenue is reported as rental revenue.

The table below shows the lease payments and interest expense for leasing the equipment. The answers for questions 42-48 are based on this:

Year	**Lease Liability, 1 January**	**Annual Lease Payment, 1 January**	**Interest (at 9%; accrued in previous**	**Reduction of Lease Liability, 1 January**	**Lease Liability on 31 December after Lease Payment on 1 January**

			year)		Same Year
2014	$135,000	$31,842	$0	$31,842	$103,158
2015	103,158	31,842	9,284.2	22,557.8	80,600.2
2016	80,600.2	31,842	7,254	24,587.9	56,012.2
2017	56,012.2	31,842	5041.1	26,800.9	29211.29
2018	29211.29	31,842	2,629	29212	0
		$159,210	$24209	$135,000	

42. A is correct. The lease should be treated as a capital lease as the equipment is leased for more than 75% of its useful life and the present value of lease payments exceeds 90 percent of the fair value of the asset.

43. A is correct. The amount initially reported is the lower of the present value of lease payments and the fair value of the equipment.

44. B is correct. Depreciation expense per year = $\frac{\$135,000}{5}$ = $27,000.

45. A is correct. The carrying amount on 31 December 2014 is 135000 – 27000 = 108000.

46. A is correct. The initial lease liability reported on 1 January 2014 is 135,000. However, after the first lease payment on 1 January, the lease liability reduces to 103,158.

47. C is correct. Interest expense reported in fiscal year 2014 is 103,158*0.09 = $9284.22.

48. B is correct. Refer to the table above for the computations.

49. B is correct. The current debt-to-capital ratio is $620/ ($620 + $380) = 0.62. In order to adjust for lease commitments, an analyst should add $60 to both the numerator and denominator: $680/ ($680 + $380) = 0.64.

50. A is correct. Information on undiscounted future lease payments is generally presented in the notes to the financial statements.

51. C is correct. The company will report a net pension obligation of $3 million, equal to the pension obligation ($12 million) less the plan assets ($9 million).

52. A is correct. Under IFRS the defined benefit pension expense reported on the income statement has two components: employees' service costs and net interest expense. Actuarial losses and actual return on plan assets are part of re-measurements. These are shown under other comprehensive income.

53. A is correct. Under US GAAP three pension components are reflected in the income statement. These are: 1) current period service costs, 2) interest expense and 3) expected return on plan assets which reduces the pension expense. In this case we have 10 + 5 – 4 = 11. Service costs for prior periods and actuarial losses are reported in other comprehensive income.

54. B is correct. The present value of the operating leases should be added to both the total debt and the total assets.
The present value of an annuity due of $300 for 5 years at 9% = $1271.9.
(N = 5; I = 9; PMT = 300; Mode = Begin)
Adjusted debt to total assets = (500 + 1271.9) ÷ (2,000 + 1271.9) = 54.2%.

55. A is correct.
Calculate the debt to assets ratio and interest coverage ratio for company B.

Company A	Calculation	Ratio
Debt-to-Assets Ratio	19997.8/79043	25.3
Interest Coverage Ratio	6207/1373.23	4.5

Ratio	Company A	Company B	Company C	Comments
Debt-to-Assets	25%	25.3%	26%	Lower is more solvent; A is the most solvent.
Interest Coverage	4.61	4.52	4.31	Higher is better; A is the most solvent.

Company A is the most solvent.

56. C is correct. Current and non-current interest bearing liabilities should be considered when calculating the debt to equity ratio.