

**Glossary**

**Bond certificate** A legal document that indicates the name of the issuer, the face value of the bonds, and such other data as the contractual interest rate and the maturity date of the bonds. (p. 00)

**Bonds** A form of interest-bearing notes payable issued by corporations, universities, and governmental entities. (p. 00)

**Callable bonds** Bonds that are subject to retirement at a stated dollar amount prior to maturity at the option of the issuer. (p. 00)

**Capital lease** A type of lease whose characteristics make it similar to a debt-financed purchase and that is consequently accounted for in that fashion. (p. 00)

**Contingencies** Events with uncertain outcomes, such as a potential liability that may become an actual liability sometime in the future. (p. 00)

**Contractual interest rate** Rate used to determine the amount of interest the borrower pays and the investor receives. (p. 00)

**Convertible bonds** Bonds that permit bondholders to convert them into common stock at their option. (p. 00)

**Current liability** A debt that can reasonably be expected to be paid (1) from existing current assets or through the creation of other current liabilities, and (2) within one year or the operating cycle, whichever is longer. (p. 00)

**Discount (on a bond)** The difference between the face value of a bond and its selling price, when a bond is sold for less than its face value. (p. 00)

**Effective-interest method of amortization** A method of amortizing bond discount or bond premium that results in periodic interest expense equal to a constant percentage of the carrying value of the bonds. (p. 00)

**Effective-interest rate** Rate established when bonds are issued that remains constant in each interest period. (p. 00)

**Face value** Amount of principal due at the maturity date of the bond. (p. 00)

**Long-term liabilities** Obligations expected to be paid more than one year in the future. (p. 00)

**Market interest rate** The rate investors demand for loaning funds to the corporation. (p. 00)

**Maturity date** The date on which the final payment on a bond is due from the bond issuer to the investor. (p. 00)

**Mortgage note payable** A long-term note secured by a mortgage that pledges title to specific units of property as security for the loan. (p. 00)

**Notes payable** An obligation in the form of a written promissory note. (p. 00)

**Off – balance-sheet financing** The intentional effort by a company to structure its financing arrangements so as to avoid showing liabilities on its books. (p. 00)

**Operating lease** A contractual arrangement giving the lessee temporary use of the property with continued ownership of the property by the lessor. Accounted for as a rental. (p. 00)

**Premium (on a bond)** The difference between the selling price and the face value of a bond when a bond is sold for more than its face value. (p. 00)

**Present value** The value today of an amount to be received at some date in the future after taking into account current interest rates. (p. 00)

**Secured bonds** Bonds that have specific assets of the issuer pledged as collateral. (p. 00)

**Straight-line method of amortization** A method of amortizing bond discount or bond premium that allocates the same amount to interest expense in each interest period. (p. 00)

**Times interest earned ratio** A measure of a company's solvency, calculated by dividing income before interest expense and taxes by interest expense. (p. 00)

**Unsecured bonds** Bonds issued against the general credit of the borrower; also called debenture bonds. (p. 00)