

B-13.05

The contractual conditions of specific bond issues vary. Therefore, it becomes important to understand exactly what is meant by the terminology used to describe a bond agreement. Every sentence in the following narrative contains a misstatement. Mark up and correct the narrative. The blank worksheet can be used to facilitate your answering this question.

The specific terms of a bond issue are specified in a bond debenture. Secured bonds are backed up only by the general faith and credit of the issuer. Computerization has resulted in the virtual elimination of registered bonds. Serial bonds must be matched with funds set aside in a fund to provide for the eventual retirement of the issue. Callable bonds can be exchanged for common stock of the issuer. Low-yield bonds of distressed firms are frequently called junk bonds. Bonds will sell at a premium when the effective rate is above the stated rate.