**Weekly Schedule**

This week is an exam week. Please pay close attention to the schedule. Remember all assignments are due by 10:00 pm.

1) Read Lecture FIRST then textbook

2) Case Problem: Lions and Tigers

3) DB **Due:**

4) Assign #9 **Due:**

5) PV Handout **Due:**

6) Exam 2 **Due:**

**Lecture**

If I'm going to buy a car I look at Kelly Blue Book, the newspaper, online, etc to see what the market price is. This is also true for bonds: they can only be sold at market.

If you were buying a Kia you would expect to pay a lower price than a Hummer. With bonds someone has already told you the market rate. It is based on company reputation, bond features, and risk level.

Present Value:

Present value is a way to calculate how much money in the future is worth in today’s dollars. Present value is the price the buyer is willing to pay for the future benefits.

We will be using the tables in Appendix B. Break out your rulers!

If you look on page 278 Exhibit B-4 of the textbook you will see a table. We will use this table to determine the present value of the bond repayment. Assume you inherit 200,000 but you will not receive the money for 10 years and the market rate of return is 10%. How do you determine the present value of the inheritance?

Future Value x PV factor from Table B-4 Present Value of $1

200,000 X .3855 = 77,100

On page 281 Exhibit B-9 of the textbook you will see an annuity example. An annuity is a series of equal payments at equal intervals. Assume that you won the lottery. In the lottery you have can either take a lump sum payout OR accept an annuity contract. Assume that you will receive 60,900 for 24 years and the market rate is 4%. How do you determine the present value of the annuity contract?

Value of the payment X PV of an annuity from Table B-9 = Present Value of the Ordinary Annuity

60,900 x 15.2470 = 928,542.30

Okay, now how does this relate to bonds?

Bond issuers are required to make two different types of payments:

1) The bond issuer must pay back the Face Value of the bond at maturity (Present Value of 1)

2) The bond issuer must pay interest payments at set intervals (Present Value of an annuity)

With present value and bonds there are a lot of terms used that all mean the same thing. CR (contract rate), SR (Stated Rate) = the legal rate stated in the bond. YR (Yield Rate), DR (Discount Rate), MR (Market Rate) = the amount of interest the market requires for a similar investment.

**Example:** Company X issues a $600,000 bond, 5 year bond, 10% interest paid semi-annually. The market rate is 8%. Determine the sales price of the bond.

**Step One**: Lay out the problem and convert to years and rates if semi-annual.

FV: 600,000

CR: 10% / 2 = 5%

N: 5 x 2 = 10

MR: 8% / 2 = 4%

**Step Two:**

Calculate PV of the repayment of the loan

Face Value x PV factor for PV of 1 table.

600,0000 x .6756 = 405,360

**Step Three**:

Calculate PV of the interest payments

Face Value x CR Rate of bond = interest payment

600,000 x 5% = 30,000

Interest Payment x PV factor for PV of annuity table.

30,000 x 8.1109 = 243,327

**Step Four:**

Calculate the price of the bond and record the necessary entries.

PV of the repayment + PV of interest payments = Bond Sales Price

405,360 + 243,327 = 648,687

The journal entry to record the issuance would be:

Cash 648,867

Premium on B/P 48,867

B/P 600,000

The journal entry to record the first interest payment using straight – line amortization would be:

Bond Interest Expense\*\* 25,113.30

Premium on B/P (48,867 / 10) 4,886.70

Cash 30,000

**Read**

Page 194 LO7 only; Page 275 Introduction; SKIM Pg 277 – 283

I will NOT ask you to use excel or a calculator. We will use the tables.

Re-read portions of the chapter as appropriate.

**Homework and Discussion Forum**

**Make sure you scroll to the bottom and read all the information.**

As you complete the discussion board and homework please remember you only have one GRADED discussion board and one GRADED assignment this week. This means that each item is worth more points than prior weeks.

1) Case problem is posted as a separate page

2) DB Week Six

You must have a minimum of **three** posts for the week regarding the material covered to date. Each post must be at LEAST three lines. I expect a mix or original post and response post. You can discuss Chapters nine, the case problem, the graded homework, or any other RELEVANT topics.

I am also looking for active participation – post throughout the week not just on the last day. I encourage you to continue to use this discussion forum after the due date.

3) Assign #9 CengageNow

4) PV Handout Due

1) You issue a $50,000, 6 year, 12% bond payable annually. The market is trading at 10%.

Required: Calculate the bond issuance price; prepare the journal entry for the bond issuance, and the first interest payment.

2) Assume the same fact but the bonds pays interest semi-annually.

Required: Calculate the bond issuance price; prepare the journal entry for the bond issuance, and the first interest payment.

3) You issue a $50,000, 6 year, 10% bond payable semi-annually. The market is trading at 12%.

Required: Calculate the bond issuance price; prepare the journal entry for the bond issuance, and the first interest payment.

Bonus question:

Using the information from #3 assume the bond is redeemed for $51,500 after two interest payments. Record the redemption.

Exam 3:

This exam will cover Chapter Nine and Present Value.

**Exam Facts:**

*The exam is a two part exam.*

*Due Sunday by 10PM*

*Don’t wait until the last minute to take the exam.*

**Part I: CengageNow**

Multiple Choice

75 minutes