

CONCEPT: INTRODUCTION TO BONDS AND BOND CHARACTERISTICS

- **Bonds Payable** are groups of debt securities issued to _____ lenders
 - Example: Company wants to raise \$1,000,000. The company can sell 1,000 bonds worth \$1,000 each.
 - The company will pay _____ on the bonds annually or semi-annually.
 - The company repays the _____ amount of the bonds (i.e. \$1,000 per bond) on the maturity date.

Repayment Characteristics:

- **Term Bonds** – bonds with one maturity date; the principal is paid back in a _____
- **Serial Bonds** – bonds with multiple maturity dates; the principal is paid back in _____

Collateral Characteristics:

- **Secured Bonds** – bonds that are collateralized by certain assets (such as a mortgage) → _____ risk
- **Debenture Bonds** – bonds that are backed only by the good faith of the borrower → _____ risk

Other Characteristics:

- **Callable Bonds** – bonds that can be repurchased by the issuer at the “call price” at any time before the maturity date
- **Convertible Bonds** – bonds that can be converted into shares of _____ in the company

Interest Rate Characteristics:

- **Stated Rate** – the rate printed on the face of the bond; also called the **coupon rate**
 - This determines the amount of cash interest that will be paid (credit to Cash in each interest journal entry)
- **Market Rate** – the going interest rate for similar bonds on the open market; also called the **effective rate**
 - This determines the selling price of the bond and the amount of Interest Expense (debit to Interest Expense)

Bond Issuance Terminology:

- Bond prices are quoted at a percentage of their maturity value:
 - A \$1,000 bond quoted at 100 is bought or sold for _____, which is 100% of the face value
 - A \$1,000 bond quoted at 103 is bought or sold for _____, which is 103% of the face value
 - A \$1,000 bond quoted at 92.375 is bought or sold for _____, which is 92.375% of the face value
- **Face Value** – the principal amount of the bond
- **Discount Price** – a price _____ face value; this occurs when the stated rate is _____ the market rate
- **Premium Price** – a price _____ face value; this occurs when the stated rate is _____ the market rate