Bonds Handout

Ewing Corp issued $4.0M worth of 20-year bonds on January 1st, 2013. The bond requires semiannual interest payments (on January 1st and July 1st) with an interest rate of 5%. The market rate was 5% at the time of the issuance.

1. Did Ewing receive any more or less than the face value of the bonds? Why or why not?
2. How much will Ewing pay in interest when the first payment is due?
3. Assume Ewing's fiscal year ends on December 31st. How much is interest expense and interest payable on the 31st?

On January 1st, 2013 Kemp Industries issued $20M of 15-year 7% semiannual bonds. The market rate at the time of the issuance was 9%.

1. Were the bonds issued at a premium or a discount? How do you know?
2. Suppose Kemp received $16,742,222 for the bonds. How would the bonds payable appear on the balance sheet?
3. The first interest payment is due July 1st. How much will Kemp pay in interest?
4. How much is interest expense and how much is the amortization of the discount/premium for the period ended June 30th, 2013 using the effective interest method?

On January 1st, 2013, Nicklaus Corp issued $5M of 10-year 6% semiannual bonds. The market rate at the time of the issuance was 4%. The bonds makes interest payments on January 1 and July 1.

1. Did Nicklaus receive more or less cash than the face value of the bonds? By how much?
2. Assuming a December 31st fiscal year end, how much was interest paid in 2013?
3. What will the total interest expense be over the life of the bond?
4. How much was interest expense in 2013 (round to the nearest dollar)?