\* E16-1 (Issuance and Conversion of Bonds) For each of the unrelated transactions described below, present the entry(ies) required to record each transaction.

1. Coyle Corp. issued $10,000,000 par value 10% convertible bonds at 99. If the bonds had not been convertible, the company’s investment banker estimates they would have been sold at 95. Expenses of issuing the bonds were $70,000.

2. Lambert Company issued $10,000,000 par value 10% bonds at 98. One detachable stock warrant was issued with each $100 par value bond. At the time of issuance, the warrants were selling for $4.

3. Sepracor, Inc. called its convertible debt in 2012. Assume the following related to the transaction: The 11%, $10,000,000 par value bonds were converted into 1,000,000 shares of $1 par value common stock on July 1, 2012. On July 1, there was $55,000 of unamortized discount applicable to the bonds, and the company paid an additional $75,000 to the bondholders to induce conversion of all the bonds. The company records the conversion using the book value method.

\* E16-6 (Conversion of Bonds) On January 1, 2011, Trillini Corporation issued $3,000,000 of 10-year, 8% convertible debentures at 102. Interest is to be paid semiannually on June 30 and December 31. Each $1,000 debenture can be converted into eight shares of Trillini Corporation $100 par value common stock after December 31, 2012.

On January 1, 2013, $600,000 of debentures are converted into common stock, which is then selling at $110. An additional $600,000 of debentures are converted on March 31, 2013. The market price of the common stock is then $115. Accrued interest at March 31 will be paid on the next interest date.

Bond premium is amortized on a straight-line basis.

Instructions

Make the necessary journal entries for:

(a) December 31, 2012.

(b) January 1, 2013.

(c) March 31, 2013.

(d) June 30, 2013.

Record the conversions using the book value method.

\* E16-8 (Issuance of Bonds with Detachable Warrants) On September 1, 2012, Jacob Company sold at 104 (plus accrued interest) 3,000 of its 8%, 10-year, $1,000 face value, nonconvertible bonds with detachable stock warrants. Each bond carried two detachable warrants. Each warrant was for one share of common stock at a specified option price of $15 per share. Shortly after issuance, the warrants were quoted on the market for $3 each. No fair value can be determined for the Jacob Company bonds. Interest is payable on December 1 and June 1. Bond issue costs of $30,000 were incurred.

Instructions

Prepare in general journal format the entry to record the issuance of the bonds.

\* E16-12 (Issuance, Exercise, and Termination of Stock Options) On January 1, 2011, Scooby Corporation granted 10,000 options to key executives. Each option allows the executive to purchase one share of Scooby’s $5 par value common stock at a price of $20 per share. The options were exercisable within a 2-year period beginning January 1, 2013, if the grantee is still employed by the company at the time of the exercise. On the grant date, Scooby’s stock was trading at $25 per share, and a fair value option-pricing model determines total compensation to be $450,000.

On May 1, 2013, 9,000 options were exercised when the market price of Scooby’s stock was $30 per share. The remaining options lapsed in 2015 because executives decided not to exercise their options.

Instructions

Prepare the necessary journal entries related to the stock-option plan for the years 2011 through 2015.

\* E16-25 (EPS with Convertible Bonds and Preferred Stock) On January 1, 2012, Lindsey Company issued 10-year, $3,000,000 face value, 6% bonds, at par. Each $1,000 bond is convertible into 15 shares of Lindsey common stock. Lindsey’s net income in 2013 was $240,000, and its tax rate was 40%. The company had 100,000 shares of common stock outstanding throughout 2012. None of the bonds were converted in 2012.

Instructions

(a) Compute diluted earnings per share for 2012.

(b) Compute diluted earnings per share for 2012, assuming the same facts as above, except that $1,000,000 of 6% convertible preferred stock was issued instead of the bonds. Each $100 preferred share is convertible into 5 shares of Lindsey common stock.