1. Rex Corporation issued a $700,000, 6% 3 year bond for $710,000 on January 1st, 2011. These bonds pay interest semi-annually on each June 30th and December 31st. At maturity on December 31st, 2014 these bonds can be repaid in cash or converted to 70,000 common shares at the investor’s option. The market for this specific bond is 7%.

**Required**

a. Calculate the present value of the bond.
b. Provide the journal entry on January 1st, 2011.
c. Provide journal entries to record the interest expense for the year 2011.
d. Provide journal entry at the maturity of the bond assuming that shares were issued.
e. Provide journal entry at the maturity of the bond assuming that cash was paid.
f. Assume that on December 31st, 2013 an early repayment was made. Cash for $715,000 was paid from which $705,000 related to the liability portion and the remaining to the conversion option.

2. On January 1st, 2011, Lake Limited issued a bond at a market rate of 8%. Bonds payable of $10,000,000, 8% was due in 20 years. Interest is paid semi-annually on June 30th and December 31st. These bonds were issued at 104. The bonds were convertible at the company’s discretion into commons shares of 6 shares for each $100 bond at maturity. The company can also pay cash in lieu of shares.

**Required**

a. Provide appropriate journal entries for the year 2011.
b. Show what would appear in the statement of financial position in relation to this bond.

3. Suppose that 20 employees are granted options for 250 shares each, a total of 5,000 common shares at an exercise price of $20 per share. The options were granted on January 1st, 2011. The employees can exercise the options whether employment continues or not. The options are exercisable after 5 years and expire in 8 years. Assume that the total value of the 5,000 shares is $48,000.

**Required:**

a. Provide the annual journal entry of the stock option
b. Provide the journal entry when the options are exercised.
c. Assuming that the options were not exercised. Prepare a journal entry to record the lapse of the shares.