

# ACCOUNTING in the headlines

## What are the characteristics of the \$2 billion in bonds that Tesla Motors is issuing?

[Tesla Motors, Inc.](#), is an American company that designs, manufactures, and sells electric cars and components. It is publicly traded on the NASDAQ under the symbol TSLA. Tesla has plans to [build a \\$4 to \\$5 billion battery production plant](#) beginning in 2017. To help to pay for the new manufacturing facility, Tesla is [issuing \\$2 billion of bonds](#). The \$2 billion in bonds is actually two different instruments:

1. \$800 million of five-year notes with a coupon payment rate of 0.25%
2. \$1.2 billion of seven-year notes with a coupon payment rate of 1.25%

Both types of bonds have an equity conversion feature, which means investors could convert these bonds into stock at some future date depending on certain events.

Tesla issued bonds in 2013 as well.

### Questions

1. Is Tesla issuing bonds/notes *receivable* or bonds/notes *payable*? How do you know?
2. Will the \$2 billion of bonds appear on the balance sheet or the income statement for Tesla? In what section?
3. Will Tesla pay or will it receive interest on these bonds?
4. How much annual interest will Tesla pay on the five-year notes?
5. How much annual interest will Tesla pay on the seven-year notes?
6. Why would the coupon (interest) rate on the seven-year notes be greater than the coupon rate on the five-year notes?
7. The equity conversion feature allows Tesla to issue these bonds at much lower coupon rates than if the bonds were not convertible. Why are investors willing to take less interest on these bonds than on a non-convertible bond?