

ACCOUNTING in the headlines

What is the accounting impact of the issuance of Solar Bonds by SolarCity?

[SolarCity](#) is a U.S. company that designs, finances, and installs solar energy systems. These solar energy systems are installed at businesses, homes, non-profits, and other organizations.

On October 15, 2014, SolarCity launched its first public offering of Solar Bonds. This public offering allows individuals to invest in SolarCity by purchasing bonds from SolarCity's website.

There are four main groups of Solar Bonds that Solar City is offering:

- 2.0% Solar Bonds, Series 2014/1-1, 2.0%, 1 year bonds, Maturity date: October 15, 2015
- 2.5% Solar Bonds, Series 2014/2-2, 2.5%, 2 year bonds, Maturity date: October 15, 2016
- 3.0% Solar Bonds, Series 2014/3-3, 3.0%, 3 year bonds, Maturity date: October 15, 2017
- 4.0% Solar Bonds, Series 2014/4-7, 4.0%, 7 year bonds, Maturity date: October 15, 2021

The minimum investment is \$1,000 in denominations of \$1,000. Interest on these bonds is calculated based on a 360-day year consisting of twelve 30-day months. Interest will be paid in arrears semi-annually on February 15 and August 15 of each year, to holders of record as of February 1 and August 1, respectively. (Assume that the interest for January through June will be paid each August 15 and the July through December interest will be paid each February 15. Also assume that the initial interest period is October 15 through December 31, which is 2.5 months.)

SolarCity is issuing \$200 million in this round of bonds.

Questions

1. Are these bonds considered to be assets or liabilities for SolarCity? Explain.
2. Assume that SolarCity issued the entire \$200 million of Solar Bonds in one day. What would be the impact on assets? On liabilities?
3. What is a "holder of record"?
4. What does it mean that interest will be "paid in arrears"?
5. SolarCity is a publicly-held corporation that also issues stock. Why might SolarCity prefer to issue bonds rather than issue additional stock?
6. Most bond issues are marketed directly to large corporations and large investors. Why might SolarCity be marketing this bond issue to the general public in the relatively small denominations of \$1,000 (for example, many bond issues are in \$10,000 denominations)?