

# ACCOUNTING in the headlines

## How does a convertible bond issued by Fiat Chrysler Automobile affect the company's balance sheet?

Fiat Chrysler Automobiles ([FCA](#)) launched a \$2.5 billion convertible bond issue in December 2014. FCA will be using the funds generated from the bond issue to help to turn its Jeep, Maserati, and Alfa Romeo brands into global brands, competing directly against Volkswagen and BMW in the premium car market.

The bond issue will mature in 2016 and will pay annual interest (an “annual coupon”). The bond will have a conversion feature that allows it to be converted into shares; an investor would presumably exercise the conversion right if the market price of FCA rises to an appropriate level at some future date. If the market price does not increase suitably, then the bondholder would simply hold the bond without converting it into FCA stock.

### Questions

1. Is the convertible bond accounted for as liability or as equity by FCA? Why?
2. How will the convertible bond issue affect FCA's assets, liabilities, and equity?
3. Assume that investors opt to convert the bond into stock in late 2015. How will that conversion affect FCA's assets, liabilities, and equity?