

Chapter 19 Bonds and Mutual Funds

**SOFTWARE
ACTIVITY
(OPTIONAL)**

Spreadsheet Application

Calculating Profit or Loss on a Bond Transaction

Objective: Calculate the profit or loss realized on a bond transaction.

Practice Situation

Assume that you purchased an $8\frac{3}{8}$ percent Phoenix Municipal Water Bond on December 1, 2006. You paid \$650 plus a \$25 commission charge, for a total investment of \$675. The bond holds a maturity date of 2026. On December 1, 2016, you sold the bond at its current market value of \$1,050. Complete the spreadsheet to determine the total profit or loss on the bond transaction. Then, answer the questions that follow.

Purchase Costs	
1 bond @ \$650	
Plus commission cost	
Total investment	

Returns when Sold	
1 bond @ \$1,050	
Minus commission fee	
Total return on sale	

Transaction Summary	
Total return on sale	
Minus total investment	
Profit from bond sale	
Plus interest	
Total profit and interest on transaction	

Spreadsheet Directions

1. Start your spreadsheet software program and open problem **SA10.xls**.
2. Using the data presented, first input the purchase costs for the bond. *Note: Format all dollar amounts to Number, 2 decimal places. Use 1000 Separator (,).*
3. Next, input the data for the dollar returns on the sale of the bond.
4. Complete the transaction summary information. When computing the interest on the bond, remember to multiply the annual interest earned by the number of years that the bond has been held.
5. When you have completed your spreadsheet, save your work to a new file labeled **SA10***.xls**. (Replace *** with your initials.)
6. Print out a copy of your work if your teacher has instructed you to do so.

Interpreting Results

- 1. What was your total investment for the bond on December 1, 2006? _____
- 2. What were the total dollar returns on the sale of the bond on December 1, 2016? _____
- 3. What total interest income was earned on the bond for the period of 12/1/2006 through 12/1/2016? _____
- 4. What total profit and interest was earned on the bond transaction? _____

Drawing Conclusions

- 1. In this example, the Phoenix Municipal Water bond was sold well in advance of its maturity date. If the bond had been held until its maturity date, what total interest would have been earned over the life of the bond?

- 2. What factors might cause an investor to sell a bond prior to its maturity date? How might fluctuations in the overall interest rates of the economy impact bond market values? Explain.

