Business Software Library has free accounting, math and statistics software.

Our 28 F have ac

material

teachers, and professional.

BONDS PAYABLE

MBA Internet Library will help with acceptance, graduation, and career advancement.

I. ISSUING BONDS AT PAR

Business was good, cash was short, and paying off the \$40,000 note to Bank B was difficult. The shortage was solved by issuing at Par on Dec. 31, 2002, bonds valued at \$60,000 with 15% semiannual interest maturing in 4 years. Below are the first years' entries and the entry to pay off the Bonds.

Dec. 31 2002	Cash Bonds Payable Sold 15%, 4-Year Bo	60,000 nds at Par.	60,000
June 30 2003	Interest Expense Cash Paid semiannual int	4,500 erest.	4,500
Dec. 31 2003	Interest Expense Cash Paid semiannual int	4,500 erest.	4,500
Dec. 31 2006	Bonds Payable Cash Paid Bonds at matur	60,000 ty.	60,000

II. ISSUING BONDS AT A DISCOUNT

During 2006, business continued good, but cash was again in short supply, and \$60,000 in bonds soon had to be paid. It was decided to raise \$100,000 in cash with a 4-year bond issue. Market conditions and the financial strength of the company indicated 10% interest paid semiannually would have been required to sell the entire issue. Unfortunately, market conditions worsened, business slowed, and the bonds sold on Dec. 31, to yield 12% semiannually. The amount received for the bond issue was the present value of 8 interest payments of \$5,000 (\$100,000)(.05), and the present value of the \$100,000 to be paid in 4 years. Interest was the market rate of 12% compounded semiannually. The amount received was calculated and recorded as follows:

	Value of Inter	rest	Valu	e of Bond		
	P = A(PVMA) P = \$5,000(6) P = \$31,050	.21)	P = F(P P = \$10 P = \$62	PVMA) 00,000(.6274) 2,740		
	Amount Receiv	red = \$31,05	0 + \$62,740	= \$93,790		
Dec.	31 Cash Discount on Bonds Paya Sold 10% se a discount	Bonds Payab able emiannual bo on Date of	93, le 6, nds at Issue.	790 210 100,0	00	
	AMORTIZING BO	ND DISCOUNT	S AND PAYIN	G INTEREST		
	STRAIGHT LINE M	TETHOD				
	Amortization Pe	eriod = <u>Disc</u>	<u>ount</u> = <u>\$6,2</u> n 8	10 = \$776.25		
Ju	ine 30 Bond Intere Discount Cash (\$10 Paid semia	est Expense on Bonds Pay 00,000)(.05) annual inter	57 yable est, amorti	76.25 7 5,0 zing discount	76.25 00.00	
EFFECTIVE	INTEREST METHOD			(-)	(6)	
	(a) Interest		(d)	(e) Unamortized	Carrying	
Car	rying Expense	(c)	Discount	Discount	Amount	
An	nount Recorded	Interest	Amortized	EOP	EOP	
Period	BOP (a) (.06)	Paid	(b-c)	(e-d)	(a+d)	
0		AF 000	AC07	\$6,210	004 417	
1 22	3,/90 \$5,62/	\$5,000	\$627 665	5,583	\$94,417	
3 0	5 082 5 705	5,000	705	4,918	95 787	
4 0	5,082 5,705	5,000	705	3,466	96,534	
5 0	6.534 5.792	5,000	792	2,674	97.326	
6 9	7.326 5.840	5,000	840	1.834	98,166	
7 9	8.166 5.890	5,000	890	944	99,056	
8 9	9.056 5.944	5,000	944	0	100,000	
	Note Column b was	s adjusted for	or decimal	loss period 8		
June 30 Bond Interast Expanse 5 627						
UL UL	Diggount	on Bonds Pa	avable	-, •= /	627	
50	DISCOULD					
Free Internet Libraries	Cash				5,000	
Free Internet Libraries	Cash Paid semi	iannual inte	rest, amort	ized discount	5,000	
Free Internet Libraries ademic and career	Cash Paid semi	iannual inte 100	rest, amort	ized discount	5,000	

Excel Internet Library has learning materials classified by learner type.

Our Professional Development Center has material to enhance your career.

III. ISSUING BONDS AT A PREMIUM

Had Horizons been more fortunate, interest rates would have fallen, and the bonds would have sold at a premium to yield 8% semiannually. The amount received would have been calculated and recorded as follows:

						- S		
		Value P = P P = S P = S	of Interes A(PVMA) 55,000(6.73 33,665 At Received	t 3) 1 = \$33,66	Value P = A P = \$ P = \$ 5 + \$73,07	of Prin (PVMA) 100,000(73,070 0 = \$106	cipal .7307) ,735	
	Dec. 31	Cash Premiu Bonds Paid se	um on Bonds Payable emiannual i	Payable	106,7 amortized	735 10 premium.	6,735 0,000	
		AMO	ORTIZING BO	ND PREMIU	MS AND PAY	ING INTE	REST	
		STRAIG	HT LINE ME	THOD				
		Amorti	ization Per	Period =	= <u>Premium</u> = n	<u>\$6,735</u> = 8	\$841.88	
	June 30) Interest Premium o Cash Paid ser	Expense on Bonds Pa niannual ir	nyable nterest, a	4,1 amortized p	58.12 341.88 premium.	5,000	
	EFFECTI	IVE INTERE:	ST METHOD (b)					
	Period	(a) Carrying Amount BOP	Interest Expense Recorded	(c) Interest Paid	(d) Premiur Amortize (c-b)) n Unamo ed Pre (e	(e) ortized emium e-d)	Carrying Amount EOP (a-d)
	0 1 2	\$106,735 106,004	\$4,269 4,240	\$5,000 5,000	\$731 760	\$6	5,735 5,004 5,244	\$106,004 105,244
	3 4 5	105,244 104,454 103,632	4,210 4,178 4,145	5,000 5,000 5,000	790 822 855	432	454 3,632 2,777	104,454 103,632 102,777
	6 7 8	102,777 101,888 100,964	4,111 4,076 4,036	5,000 5,000 5,000 adjusted	889 924 964 for decima	l loss r	0 0 0 0 0 0	101,888 100,964 100,000
June 30	Interes	st Expense	Payable	4	4,269 731			
	Cash					5.000		

Note: Had the bonds been issued on a date other than Dec. 31, an adjusting entry affecting Interest Expense and the discount or premium accounts would have been necessary.

IV. BOND SINKING FUND

On Dec. 31, 2006, a sinking fund was started to pay off the discounted bonds issued that day. The first of 8 semiannual payments, expected to earn 12% semiannually, was made in 6 months. The equal payment calculation, the entry to start the fund, the entry to record 6 months interest at 6%, and the entry to pay the bondholders \$100,000 were as follows:

	F = A(FVMA) \$100,000 = A(9.89' A = \$10,104) 7) 4.07	
June 30 2007	Bond Sinking Fund Cash To record semiannual sinking fund deposit.	10,104.07	10,104.07
Dec. 31 2007	Bond Sinking Fund (\$10,104.07) Sinking Fund Earnings To record sinking fund earnings for 6 months.	(.06) 606.24	606.24
Dec. 31 2010	Bonds Payable Bond Sinking Fund To retire Bond issue dated De	100,000.00 c. 31, 2006.	100,000.00
Free Busines	s Textbooks Library covers many s	subjects.	101 Free Quick