

Quick Question On Selling Bonds

On January 1, the We Need Money Corporation issued \$50,000 in 4-year 10% bonds. Interest was paid semiannually. The bonds sold to yield 8%. Make the Journal Entries to record the sale of the bonds, and the first interest payment using first the straight-line method and then the effective interest method.

DATA SUMMARY:

Value of the interest: $P = A(PVMA) = \$2,500(6.733) = \$16,832.50$
 Value of the principal: $P = F(PVM) = \$50,000(.7307) = \$36,535$
 Value of bond = $\$16,832.50 + \$36,535 = \$53,367.50$

$I = Pin = (\$50,000)(.1)(1/2) = \$2,500$

Straight-Line Amortization = $\$3,367.50/8 = \420.94

Effective interest $I = Pin = (\$53,367.50)(.08)(.5) = \$2,134.70; \$2,500 - \$2,134.70 = \$365.30$

DATE		ACCOUNT TITLE AND DESCRIPTION	PR	DEBIT		CREDIT	
Jan.	1	Cash		53,367	50		
		Premium on Bonds Payable				3,367	50
		Notes Payable				50,000	00
June	30	Interest Expense (\$2,500 - 420.94)		2,079	06		
		Premium on Bonds Payable		420	94		
		Cash				2,500	00
June	30	Interest Expense (\$2,500.00 - \$365.30)		2,134	70		
		Premium on Bonds Payable		365	30		
		Cash				2,500	00

Quick Question On Bond Sinking Funds

A \$2,000,000 bond issue is due in 10 years. Calculate the semiannual payments beginning on June 30 needed to accumulate \$2,000,000 over 10 years in a bond retirement sinking fund. Return on capital is expected to be 8%. Make the first year's entries

DATA SUMMARY:

F = \$2,000,000
 n = (10)(2) = 20 periods
 i = 8%/2 = 4%

$F = A(FVMA)$
 $\$2,000,000 = A(29.778)$
 A = \$67,163.68

Sinking Fund Earnings = $(\$67,163.68)(.08)(1/2) = \$2,686.55$

DATE		ACCOUNT TITLE AND DESCRIPTION	PR	DEBIT		CREDIT	
June	30	Bond Sinking Fund		67,163	68		
		Cash				67,163	68
Dec.	31	Bond Sinking Fund		2,686	55		
		Sinking Fund Earnings				2,686	55