

CH10 PP pages 18-23

BONDS SOLD AT PREMIUM (S/L AMORTIZATION OF PREMIUM)

(CONTRACT RATE $9\frac{1}{2}\%$ IS HIGHER THAN MARKET RATE OF 10%)

(A) ISSUANCE

CASH
103,600 (A)

Bonds Payable
100,000 (A)

(C) BOND PAYOFF
100,000

THIS INCLUDES AMORTIZATION OF THE PREMIUM WHICH REDUCES INTEREST EXP

(B) INTEREST PMTS

DR BOND INT Exp
DR Prem Bonds payable
CR CASH

Interest PMTS (100,000 x .12 x 1/2) YR

6,000	INT PMT	12/31/21	(B)
6,000		6/30/22	(B)
6,000		12/31/22	(B)
6,000		6/30/23	(B)
6,000		12/31/23	(B)
		12/31/23 Bal	0

Premium on BONDS Payable

3,600 (A)

(3600 ÷ 4 = 900)

NOTE: THE PREMIUM IS AMORTIZED AND REDUCES INTEREST Expense (S/L AMORTIZATION) SHOWN

Bonds Interest Expense

(B) 5,100.
5,100
5,100
5,100

(C) BOND PAYOFF
DR BOND payable
CR CASH

(C) 100,000

AT MATURITY, the carrying value of the bond now equals the face value of \$100,000.

NOTE (A) AT ISSUANCE you received 103,600 BUT AT MATURITY you have to pay back 100,000 THAT difference, OR premium REDUCES the COST OF borrowing (i.e., Interest)