

Bonds Payable - Accounting for Bonds Sold at Face Value

Financial Accounting

On January 1, 2012, ELM Company, Inc. issued \$2,000,000, 8%, 10 year bonds for \$2,000,000. The bonds pay interest semiannually on June 30 and December 31.

Requirements:

- Prepare the journal entry for the issuance of the bonds.
- Prepare the journal entry for interest payment on June 30, 2012.
- Prepare the journal entry for the interest payment on December 31, 2012.
- Prepare the journal entry for the retirement of the bonds at the end of the 10th year (maturity) assuming interest for the last interest period has been paid and recorded.

		<u>Debit</u>	<u>Credit</u>
A)	Cash	2,000,000	
	Bonds Payable		2,000,000
B)	Interest Expense	80,000	
	Cash		80,000
	(interest expense and interest paid: $\$2,000,000 \times 8\% \times \frac{1}{2} = \$80,000$)		
C)	Interest Expense	80,000	
	Cash		80,000
	(interest expense and interest paid: $\$2,000,000 \times 8\% \times \frac{1}{2} = \$80,000$)		
D)	Bonds Payable	2,000,000	
	Cash		2,000,000