

## Bonds Payable - Accounting for Bonds Sold at a Premium

### Financial Accounting

On January 1, 2012, ELM Company, Inc. issued \$2,000,000, 8%, 10 year bonds for \$2,142,124. The market rate of interest at the time of issue was 7%. The bonds pay interest semiannually on June 30 and December 31.

#### Requirements:

- A. Prepare the journal entry for the issuance of the bonds.
- B. Prepare the journal entry for interest payment on June 30, 2012.
- C. Prepare the journal entry for the interest payment on December 31, 2012.
- D. 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	2,142,124	
	Bonds Payable		2,142,124

B)	Interest Expense	74,974	
	Bonds Payable	5,026	
	Cash		80,000

(interest expense:  $\$2,142,124 \times 7\% \times \frac{1}{2} = \$74,974$   
interest paid:  $\$2,000,000 \times 8\% \times \frac{1}{2} = \$80,000$ )

C)	Interest Expense	74,798	
	Bonds Payable	5,202	
	Cash		80,000

(interest expense:  $\$2,137,098 \times 7\% \times \frac{1}{2} = \$74,798$   
interest paid:  $\$2,000,000 \times 8\% \times \frac{1}{2} = \$80,000$ )

D)	Bonds Payable	2,000,000	
	Cash		2,000,000