

Bonds Payable - Accounting for Bonds Sold at a Discount

On January 1, 2012, ELM Company, Inc. issued \$2,000,000, 8%, 10 year bonds for \$1,869,921. The market rate of interest at the time of issue was 9%. 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	1,869,921	
	Bonds Payable		1,869,921

B)	Interest Expense	84,146	
	Bonds Payable		4,146
	Cash		80,000

(interest expense: $\$1,869,921 \times 9\% \times \frac{1}{2} = \$84,146$
interest paid: $\$2,000,000 \times 8\% \times \frac{1}{2} = \$80,000$)

C)	Interest Expense	84,333	
	Bonds Payable		4,333
	Cash		80,000

(interest expense: $\$1,874,067 \times 9\% \times \frac{1}{2} = \$84,333$
interest paid: $\$2,000,000 \times 8\% \times \frac{1}{2} = \$80,000$)

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