

QUIZ #10: RECORDING BONDS

On January 1, 2014, Merlin Corporation sold a \$2,000,000, 10% bond issue (8 percent market rate). The bonds were dated January 1, 2014, pay interest each June 30 and December 31, and mature in 10 years.

Required:

1. Give the journal entry to record the issuance of the bonds.
2. Give the journal entry to record the interest payment on June 30, 2014. Use effective interest amortization. Show your amortization schedule on a separate sheet.
3. Show how the bond interest expense and the bonds payable should be reported on the June 30, 2014, statement of financial positions and the statement of income.

QUIZ #10: RECORDING BONDS - SOLUTION

GENERAL JOURNAL				
Date		Accounts Titles and Explanation	Debit	Credit
2014				
Jan	1	Cash [A+]	2,271,813.00	
		Bond payable [L+]		2,000,000.00
		Bond premium [Adjunct L+, L+]		271,813.00
Issue a 10-year, 10% bond.				
2014				
Jun	30	Interest expense [Exp+, E-]	90,872.52	
		Bond premium [Adjunct L-, L-]	9,127.48	
		Cash [A-]		100,000.00
To record interest payment on bond.				

Semi-annual Interest Period	Date	[a] Carrying Amount at Begin of Period	[b] Semi-annual Interest Expense [a] x 8% x 6/12	[c] Semi-annual Interest Payment 2,000,000 x 10% x 6/12	[d] Amortization of Bond Premium [c] - [b]	[e] Unamortized Bond Premium at End of Period [e] - [d]	[f] Carrying Amount at End of Period [a] - [d]
0						271,813.00	2,271,813.00
1	30-Jun-14	2,271,813.00	90,872.52	100,000.00	9,127.48	262,685.52	2,262,685.52

Presentation in Statement of Financial Positions

AAA Company Statement of Financial Positions (partial) As at June 30, 2014			
Non-current Liabilities			
10% Bond payable, due 12/31/2023		2,000,000.00	
Add Bond premium		<u>262,685.52</u>	2,262,685.52

Presentation in Statement of Income

AAA Company Statement of Income (partial) For the 6 months ended June 30, 2014	
Interest expense	90,872.52

Note: Rounding differences are allowed.