

PRACTICE BOND PROBLEMS

**PROBLEM A**

Practice Co. needs to borrow money. On January 1, 2006 the company issued \$100,000 of five year, 12% bonds at an effective interest rate of 10%. Interest is payable semiannually on January 1 and July 1.

**Required**

Prepare journal entries to record the following:

- a) Sale of the bonds on January 1, 2006. Use the attached tables to determine the bond proceeds.
- b) First interest payment on July 1, 2006, and the amortization of bond premium for the first six months. Use the straight line method of amortization. (Round to the nearest dollar.

**PROBLEM A**

GENERAL JOURNAL				PAGE
DATE	ACCOUNT TITLES	Post Ref.	DEBIT	CREDIT
	Cash		107,721	
	Premium on Bonds Payable			7,721
	Bonds Payable			100,000
	Interest Expense		5,228	
	Premium on Bonds Payable		772	
	Cash			6,000

**PROBLEM A**

	Face	Market
Prin	\$100,000	107,721
Int	12%	10%

pv factors

5		0.61391	Single Sum	
<u>2</u>		7.72173	Annuity	
10	n			
10.0% market rate				
<u>2</u>				
5.0%	i			
		Principal:		
		Principal to be repaid at end of term	100,000	
		PV single sum	<u>0.61391</u>	
		Present value of principal		61,391
		Interest:		
12.0% face rate		Principal	100,000	
<u>2</u>		semiannual face rate	<u>6.0%</u>	
6.0% face rate		semiannual interest payment	6,000	
		PV annuity	<u>7.72173</u>	
				46,330
		Proceeds	<u>\$ 107,721</u>	
		Amortization of premium		
		Premium	7,721	
		n periods	<u>10</u>	
			772	

**PROBLEM B**

Sample Co. needs to borrow money. On January 1, 2007 the company issued \$100,000 of five year, 10% bonds at an effective interest rate of 12%. Interest is payable semiannually on January 1 and July 1.

**Required**

Prepare journal entries to record the following:

- a) Sale of the bonds on January 1, 2007. Use the attached tables to determine the bond proceeds.
- b) First interest payment on July 1, 2007, and the amortization of bond discount for the first six months. Use the straight line method of amortization. (Round to the nearest dollar.

**PROBLEM B**

GENERAL JOURNAL				PAGE
DATE	ACCOUNT TITLES	Post Ref.	DEBIT	CREDIT
	Cash		92,639	
	Discount on Bonds Payable		7,361	
	Bonds Payable			100,000
	Interest Expense		5,736	
	Discount on Bonds Payable			736
	Cash			5,000

**PROBLEM B**

	Face	Market
Prin	\$100,000	92,639
Int	10%	12%

pv factors			
5		0.55839	Single Sum
<u>2</u>		7.36009	Annuity
10	n		
12%	market rate		
<u>2</u>			
6.0%	i		
Principal:			
	Principal to be repaid at end of term	100,000	
	PV single sum	<u>0.55839</u>	
	Present value of principal		55,839
Interest:			
10%	face rate	100,000	
<u>2</u>	semiannual face rate	<u>5.0%</u>	
5.0%	semiannual interest payment	5,000	
	PV annuity	<u>7.36009</u>	
			36,800
	Proceeds		<u>\$ 92,639</u>
Amortization of Discount			
	Discount		7,361
	n periods		<u>10</u>
			736