

De Anza College
Practice Bond Problem
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 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.

Time Value of Money Tables for given interest rate

Version 1

\$ 1.00 =Amount of Payment

	Future Value of \$1		Present Value of \$1			Future Value of \$1		Present Value of \$1	
	n	per i	n	per i		n	per i	n	per i
10.0% =Rate per compounding period					12.0% =Rate per compounding period				
1	1.10000	0.90909	1.00000	0.90909	1	1.12000	0.89286	1.00000	0.89286
2	1.21000	0.82645	2.10000	1.73554	2	1.25440	0.79719	2.12000	1.69005
3	1.33100	0.75131	3.31000	2.48685	3	1.40493	0.71178	3.37440	2.40183
4	1.46410	0.68301	4.64100	3.16987	4	1.57352	0.63552	4.77933	3.03735
5	1.61051	0.62092	6.10510	3.79079	5	1.76234	0.56743	6.35285	3.60478
6	1.77156	0.56447	7.71561	4.35526	6	1.97382	0.50663	8.11519	4.11141
7	1.94872	0.51316	9.48717	4.86842	7	2.21068	0.45235	10.08901	4.56376
8	2.14359	0.46651	11.43589	5.33493	8	2.47596	0.40388	12.29969	4.96764
9	2.35795	0.42410	13.57948	5.75902	9	2.77308	0.36061	14.77566	5.32825
10	2.59374	0.38554	15.93742	6.14457	10	3.10585	0.32197	17.54874	5.65022
5.0% =Rate per compounding period					6.0% =Rate per compounding period				
1	1.05000	0.95238	1.00000	0.95238	1	1.06000	0.94340	1.00000	0.94340
2	1.10250	0.90703	2.05000	1.85941	2	1.12360	0.89000	2.06000	1.83339
3	1.15763	0.86384	3.15250	2.72325	3	1.19102	0.83962	3.18360	2.67301
4	1.21551	0.82270	4.31013	3.54595	4	1.26248	0.79209	4.37462	3.46511
5	1.27628	0.78353	5.52563	4.32948	5	1.33823	0.74726	5.63709	4.21236
6	1.34010	0.74622	6.80191	5.07569	6	1.41852	0.70496	6.97532	4.91732
7	1.40710	0.71068	8.14201	5.78637	7	1.50363	0.66506	8.39384	5.58238
8	1.47746	0.67684	9.54911	6.46321	8	1.59385	0.62741	9.89747	6.20979
9	1.55133	0.64461	11.02656	7.10782	9	1.68948	0.59190	11.49132	6.80169
10	1.62889	0.61391	12.57789	7.72173	10	1.79085	0.55839	13.18079	7.36009