

PRINCIPLES OF ACCOUNTING II
ACC 122

BONDS

1. Issuing company agrees to:
 - a. repay par value of bonds at a future date, and
 - b. pay interest at specified dates.
2. No loss of control of the company.
3. Interest is tax deductible.
4. Increases the companies return on equity.

BOND CHARACTERISTICS

Serial Bonds	Registered and Bearer Bonds
Sinking Fund Bonds	Secured Bonds and Debentures
Convertible Bonds	Bond Market Values

BOND TERMS

TERMS	EXAMPLE
1. Par Value or Face Value	1. \$1,000
2. Contract Interest Rate	2. 10%
3. Interest Payment Dates	3. 6/30 & 12/31
4. Bond Date	4. 1/1/X1
5. Maturity Date	5. 12/31/X5
6. Sale or Issue Date	6. 1/1/X1

JOURNAL ENTRIES:

1. Record the issuance of 100 bonds on 1/1/X1 at face value:

Cash	100,000	
Bonds Payable		100,000

2. Record the interest payments on 6/30 and 12/31:

Interest Expense	5,000	
Cash		5,000

3. Record the retirement of the bonds on the maturity date:

Bonds Payable	100,000	
Cash		100,000

PAGE 2

BONDS SOLD BETWEEN INTEREST DATES

When bonds are sold between the interest dates, the bond issuer collects cash for:

1. The selling price of the bonds.
2. The interest that has accrued since the last interest payment date.

Example: Same facts as earlier, however, now the bonds are sold on 4/1/X1.

Cash	102,500	
Interest Payable		2,500
Bonds Payable		100,000

On the June 30 semiannual interest date, the issuer pays the full six months interest.

Interest Expense	2,500	
Interest Payable	2,500	
Cash		5,000