

CH10 PP PAGES 14-17 BONDS SOLD AT DISCOUNT (S/L AMORTIZATION OF DISCOUNT)

ISSUANCE
 CASH RECEIVED
 (A) 96,400 (A)

(B) Interest PMT
 DR BOND IntExp
 CR DISC BONDS PAY
 CR CASH

(C) BOND PAYOFF
 DR BONDS PAYABLE
 CR CASH

CASH

Interest CASH PMT (100,000 x .08 x 1/2yr)	12/31/21	(A) 3,600
4000 Interest PMT	6/30/22	(B)
4000 Interest PMT	12/31/2022	
4000 Interest PMT	6/30/2023	
4000 Interest PMT	12/31/2023	
PRINCIPAL PMT	12/31/23	(C)
100,000		

BONDS PAYABLE

100,000 (A) ← TOTAL TO BE PAID AT MATURITY
 BOND PAYOFF 100,000 (C)

DISCOUNT ON BONDS PAYABLE

← a CONTRA LIABILITY ACCOUNT

3600 ÷ 4 = 900	
900 (B)	
900	
900	
900	

THIS INCLUDES AMORTIZATION OF THE DISCOUNT

BOND Interest Expense

4,900 (B)
4,900
4,900
4,900

AT MATURITY THE CARRYING VALUE OF THE BOND NOW EQUALS THE FACE VALUE OF 100,000

NOTE (A) AT ISSUANCE YOU ONLY RECEIVED \$96,400 BUT AT MATURITY YOU HAVE TO PAY BACK \$100,000. That difference, OR DISCOUNT, IS PART OF THE COST OF BORROWING (i.e. INTEREST)