



BONDS SOLD AT PREMIUM

CASH	BONDS PAYABLE AT PAR
120	100

PREMIUM ON BONDS PAYABLE

20

ADJUST LIAB. ACCT

PREMIUM AMORTIZED OVER LIFE OF BOND AND REDUCES INTEREST EXPENSE

PREMIUM ADDED TO PAR TO GET CARRYING (BOOK) VALUE

BONDS SOLD AT DISCOUNT

CASH	BONDS PAYABLE AT PAR
DR 90	CR 100

DISCOUNT ON BONDS PAY

DR 10

DISCOUNT CONTRA LIABILITY ACCT

DISCOUNT AMORTIZED OVER LIFE OF BOND

WILL BE ADDED TO INTEREST EXPENSE AS AMORTIZED

NET = CARRYING (BOOK VALUE)

CONCEPT

SITUATION
 CONTRACT RATE Higher than MARKET

PREMIUM SITUATION

Higher CONTRACT RATE AT 12%

PRIN × RATE = Interest - PMT
 $100 \times 12 = \underline{\underline{12}}$

thus, Interest will be PAID OF \$12. BUT the MARKET RATE is ONLY 10%.

IF MARKET RATE OF 10%

$100 \times .10 = \underline{\underline{10}}$
 Interest would be only \$10.00

∴ WHAT PRINCIPAL AMOUNT IS Required to yield a \$12.00 PMT AT 10%?

thus:

PRINCIPAL × .10 = 12.
 of ?

? = $12 \div 0.10$

Principal = 120

∴ $\underline{\underline{120}} \times .10 = \underline{\underline{12}}$

PARE	100
ISSUE	120
Prem	20

THE "PREMIUM" IS Adjusting FOR the FACT THAT a PMT OF INTEREST will be MADE BASED upon a RATE of Interest that is Higher than the Current MARKET Rate.

CASH
120
ISSUE price

BOND PAYABLE
100
Prem Bond payable
20

CONCEPT

SITUATION
 CONTRACT RATE LOWER THAN MARKET

IF MARKET RATE OF 10%
 $100 \times .10 = 10$
 Interest

DISCOUNT SITUATION

LOWER CONTRACT RATE AT 9%

PRIN X RATE = Interest PMT
 $100 \times .09 = 9$
 PAR
 THUS, Interest will be PAID OF \$9.00
 BUT, MARKET RATE IS 10%

∴ What PRINCIPAL AMOUNT IS Required to yield a \$9.00 Payment AT 10%

thus:
 Principal x .10 = \$9.00
 ? = 9 ÷ .10
 ? = 90.
 ∴ 90 x .10 = \$9.00
 issue price

PAR	100
ISSUE	90
Discount	10

The "DISCOUNT" IS Adjusting FOR the FACT THAT a PAYMENT OR Interest will be MADE BASED UPON a Rate OF Interest that IS LOWER than the CURRENT MARKET RATE

CASH		Bond Payable	100.
ISSUE price	90.	DISC BOND PAY	10