CONCEPT: ZERO COUPON BONDS

- A ***zero coupon bond*** has no ___________ payments. The stated rate on these bonds is ____________.
    - ☐ The selling price of a bond is equal to the present value of the interst payments and principal payments

Stated Rate = Market Rate	The price of the bond will be ______________ the face value
Stated Rate < Market Rate	The price of the bond will be ______________ the face value
Stated Rate > Market Rate	The price of the bond will be ______________ the face value

- Bonds are initially ***issued*** and the respective journal entry is made:

On January 1, 2018, ABC Company issues $50,000 of zero coupon bonds maturing in five years. The market interest rate was equal to 8%. The bonds were issued at 85.

January 1, 2018 Journal Entry:

Assets	=	Liabilities	+	Equity

- There is no cash interest. However, a journal entry is made for ***interest expense and discount amortization***:

On January 1, 2018, ABC Company issues $50,000 of zero coupon bonds maturing in five years. The market interest rate was equal to 8%. The bonds were issued at 85.

December 31, 2018 Journal Entry:

Assets	=	Liabilities	+	Equity

- On the maturity date, the company ***repays the principal*** and removes the bonds payable from the books:

On January 1, 2018, ABC Company issues $50,000 of zero coupon bonds maturing in five years. The market interest rate was equal to 8%. The bonds were issued at 85. January 1, 2023 Journal Entry:				
Assets	=	Liabilities	+	Equity

PRACTICE: On January 1, ABC Company issues $1,000,000 of zero coupon bonds at 75. The bonds mature in five years. Assuming that ABC uses the straight-line method for amortization of bond premiums and discounts, the journal entry at the end of the first year would include:

a) A credit to Cash of $50,000

b) A credit to Interest Payable of $50,000

c) A credit to Discounts on Bonds Payable of $50,000

d) A credit to Bonds Payable of $50,000

e) None of the above