CONCEPT: STRAIGHT LINE AMORTIZATION OF BOND PREMIUM OR DISCOUNT

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

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

On January 1, 2018, ABC Company issues $50,000 of 9% bonds payable maturing in five years. Interest is payable semi-annually on January 1 and July 1. The market interest rate was equal to 8%. The bonds were issued at 108.

January 1, 2018 Journal Entry:

Assets	=	Liabilities	+	Equity

$$Amortization\ Amount = \frac{Total\ Bond\ Premium\ or\ Discount}{Total\ Number\ of\ Interest\ Periods}$$

● Interest is paid in cash. A journal entry is made for ***interest expense and premium amortization***:

On January 1, 2018, ABC Company issues $50,000 of 9% bonds payable maturing in five years. Interest is payable semi-annually on January 1 and July 1. The market interest rate was equal to 8%. The bonds were issued at 108.

July 1, 2018 Journal Entry:

Assets	=	Liabilities	+	Equity

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

On January 1, 2018, ABC Company issues $50,000 of 9% bonds payable maturing in five years. Interest is payable semi-annually on January 1 and July 1. The market interest rate was equal to 10%. The bonds were issued at 94.

January 1, 2018 Journal Entry:

Assets	=	Liabilities	+	Equity

$$Amortization\ Amount = \frac{Total\ Bond\ Premium\ or\ Discount}{Total\ Number\ of\ Interest\ Periods}$$

● Interest is paid in cash. A journal entry is made for ***interest expense and discount amortization***:

On January 1, 2018, ABC Company issues $50,000 of 9% bonds payable maturing in five years. Interest is payable semi-annually on January 1 and July 1. The market interest rate was equal to 10%. The bonds were issued at 94.

July 1, 2018 Journal Entry:

Assets	=	Liabilities	+	Equity

PRACTICE: Jayster Company issued bonds at a discount. The semi-annual journal entry for interest expense will include:

a) A debit to Discount on Bonds Payable

b) A debit to Premium on Bonds Payable

c) A credit to Discount on Bonds Payable

d) A credit to Premium on Bonds Payable