

Accounting 1A

Chapter 11 – Liabilities: Bond Payable

Online tutoring site assistance may not be used on this assignment. Students found posting this assignment or relying on online solutions will receive a grade of 0 on the assignment and may be removed from the course

Adele Corp., a wholesaler of music equipment, issued \$22,000,000 of 20-year, 7% callable bonds on March 1, 2019 at their face amount, with interest payable on March 1 and September 1. The fiscal year of the company is the calendar year.

Journalize the entries to record the following selected transactions

2019

Mar. 1 Issued the bonds for cash at their face amount.

Sept. 1 Paid the interest on the bonds.

2023

Sept. 1 Called the bond issue at 102, the rate provided in the bond indenture. (Omit entry for payment of interest.)

	Date		Description	Post	Debit	Credit	
1	Mar	1	Cash		22,000,000		1
2			Bonds Payable			22,000,000	2
3	Sept	1	Interest expense		770,000		3
4			Cash			770,000	4
5	Sept	1	Bonds payable		22,000,000		5
6			Loss on redemption of Bonds		440,000		6
7			Cash			22,440,000	7
8							8
9							9

Accounting 1A

Chapter 11 – Liabilities: Bond Payable

Emil Corp. produces and sells wind-energy-driven engines. To finance its operations, Emil Corp. issued \$15,000,000 of 20-year, 9% callable bonds on May 1, 2019 at their face amount, with interest payable on May 1 and November 1. The fiscal year of the company is the calendar year. Journalize the entries to record the following selected transactions

2019

May 1 Issued the bonds for cash at their face amount.

Nov. 1 Paid the interest on the bonds.

2025

Nov. 1 Called the bond issue at 96, the rate provided in the bond indenture. (Omit entry for payment of interest.)

	Date		Description	Post	Debit	Credit	
1	May	1	Cash		15,000,000		1
2			Bonds payable			15,000,000	2
3	Nov	1	Interest expense		675,000		3
4			cash			675,000	4
5	Nov	1	Bonds payable		15,000,000		5
6			cash			14,400,000	6
7			Gain on redemption of bonds			600,000	7
8							8
9							9

1. If \$898,000 of 10% bonds are issued at 102 1/2, The amount of cash received from the sale is

- a. \$920,450
b. \$673,500
c. \$987,800
d. \$898,000

$$802,000 \times 102.5 = 920,450$$

2. On January 1, \$884,000, 5-year, 10% bonds, were issued for \$857,480. Interest is paid semiannually on January 1 and July 1. If the issuing corporation uses the straight-line method to amortize discount on bonds payable, the semiannual amortization amount is

- a. \$5,304
b. \$2,652
c. \$44,200
d. \$26,520

$$884,000 - 857,480 = 26,520$$

$$26,520 \div 10 = 2,652$$

Accounting 1A
Chapter 11 – Liabilities: Bond Payable

3. A \$303,000 bond was redeemed at 103 when the carrying amount of the bond was \$314,817. The entry to record the redemption would include a

a. loss on bond redemption of \$2,727.
b. gain on bond redemption of \$2,727.
c. gain on bond redemption of \$11,817.
d. loss on bond redemption of \$11,817.

$$\begin{aligned} 303,000 \cdot 1.03 &= 312,090 \\ 312,090 - 314,817 &= \boxed{-2,727} \end{aligned}$$

4. The Designer Company issued 10-year bonds on January 1. The 7% bonds have a face value of \$705,000 and pay interest every January 1 and July 1. The bonds were sold for \$585,933 based on the market interest rate of 8%. Designer uses the effective interest method to amortize bond discounts and premiums. On July 1 of the first year, Designer should record interest expense (round to the nearest dollar) of

a. \$28,200
b. \$23,437
c. \$24,675
d. \$20,508

$$\begin{aligned} 585,933 \cdot 8\% \cdot \frac{6}{12} \\ \boxed{23,437.32} \end{aligned}$$

5. If \$398,000 of 7% bonds are issued at 96, the amount of cash received from the sale is

a. \$370,140
b. \$382,080
c. \$425,860
d. \$398,000

$$\begin{aligned} 398,000 \cdot 96\% &= \\ \boxed{382,080} \end{aligned}$$