

# Problem 5

Swan Industrial Supply Company issued \$500,000 of face amount of 6-year bonds on January 1, 20X1. The bonds were issued at 97, and bear interest at a stated rate of 10% per annum, payable semiannually. The discount is amortized by the straight-line method.

- Prepare the journal entry to record the initial issuance on January, 20X1.
- Prepare the journal entry that Swan would record on each interest date.
- Prepare the journal entry that Swan would record at maturity of the bonds.
- How much cash flowed “in” and “out” on this bond issue, and how does the difference compare to total interest expense that was recognized?

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Worksheet 5

a), b), c)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Issue			
Interest			
Maturity			

d)

## Solution 5

a), b), c)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Issue	Cash	485,000	
	Discount on Bonds Payable	15,000	
	Bonds Payable		500,000
	<i>To record the issuance of \$100,000, 10%, 6-year bonds at 97 – interest semiannually</i>		
Interest	Interest Expense	26,250	
	Discount on Bonds Payable		1,250
	Cash		25,000
	<i>To record payment of an interest payment (\$500,000 par X .10 interest X 6/12 months = \$25,000; \$15,000 discount X 6 months/72 months = \$1,250 amortization)</i>		
Maturity	Bonds Payable	500,000	
	Cash		500,000
	<i>To record the redemption of bond issue at maturity</i>		

d) Total cash inflow was \$485,000, and total cash outflow was \$800,000 ( $(\$25,000 \times 12 \text{ periods}) + \$500,000$ ). The \$300,000 difference is equivalent to the interest expense that would be recognized over time ( $\$15,000 \times 12 \text{ periods}$ ).