

Problem 5

Euro Corporation had excess cash on hand on January 1, 20X1, and invested in three separate bond issues on that date. Each bond investment had a maturity date of December 31, 20X5, and a maturity value of \$100,000. The bond issues each pay interest on June 30 and December 31 of each year, and it is intended that these investments be held to maturity. Additional information about each investment follows:

Austria Company bonds were purchased at par and pay 8% annual interest.

Spain Company bonds were purchased for \$95,752.44 and pay 6% annual interest.

Italy Company bonds were purchased for \$104,247.56 and pay 10% annual interest.

- a) Prepare journal entries for the Austria Company bonds to record the initial investment, a periodic interest payment, and the maturity.
- b) Prepare journal entries for the Spain Company bonds to record the initial investment, a periodic interest payment, and the maturity.
- c) Prepare journal entries for the Italy Company bonds to record the initial investment, a periodic interest payment, and the maturity.

Worksheet

a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Issue			
Interest			
Maturity			

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Issue			
Interest			
Maturity			

c)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Issue			
Interest			
Maturity			

Solution

a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Issue	Investment in Bonds	100,000	
	Cash		100,000
	<i>To record the purchase of \$100,000, 8%, 5-year bonds at par -- interest semiannually</i>		
Interest	Cash	4,000	
	Interest Income		4,000
	<i>To record the receipt of an interest payment (\$100,000 par X .08 interest X 6/12 months = \$4,000)</i>		
Maturity	Cash	100,000	
	Investment in Bonds		100,000
	<i>To record the redemption of bond investment at maturity</i>		

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Issue	Investment in Bonds	95,752.44	
	Cash		95,752.44
	<i>To record the purchase of \$100,000, 6%, 5-year bonds at a discount -- interest semiannually</i>		
Interest	Cash	3,000.00	
	Investment in Bonds	424.76	
	Interest Income		3,424.76
	<i>To record the receipt of an interest payment (\$100,000 par X .06 interest X 6/12 months = \$3,000; \$4,247.56 discount /12 periods = \$424.76 amortization)</i>		
Maturity	Cash	100,000	
	Investment in Bonds		100,000
	<i>To record the redemption of bond investment at maturity</i>		

c)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Issue	Investment in Bonds	104,247.56	
	Cash		104,247.56
	<i>To record the purchase of \$100,000, 6%, 6-year bonds at a premium -- interest semiannually</i>		
Interest	Cash	5,000.00	
	Investment in Bonds		424.76
	Interest Income		4,575.24
	<i>To record the receipt of an interest payment (\$100,000 par X .10 interest X 6/12 months = \$5,000; \$4,247.56 premium/10 periods = \$424.76 amortization)</i>		
Maturity	Cash	100,000	
	Investment in Bonds		100,000
	<i>To record the redemption of bond investment at maturity</i>		