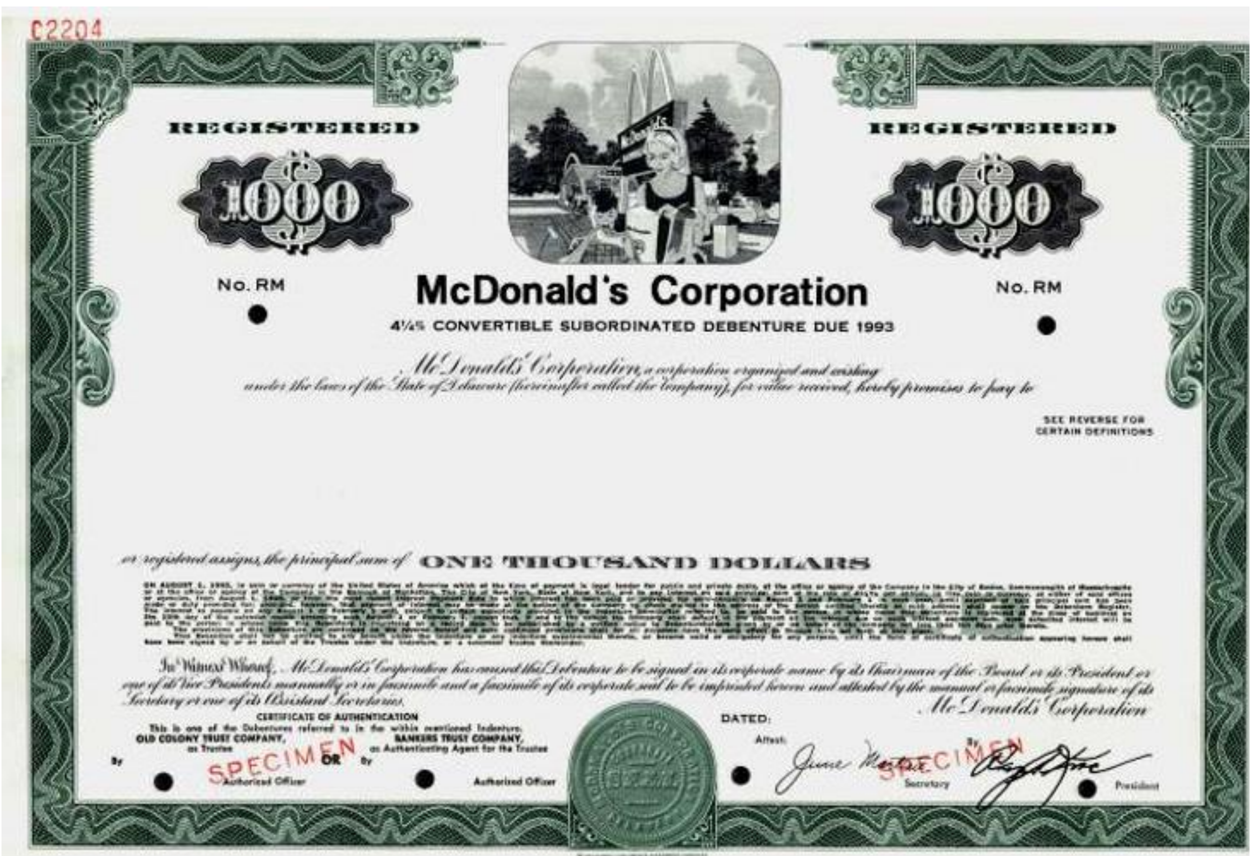
Financial Accounting Week 11 Chapter 9-Bonds:

Hello everyone! This week the resource will be walking through bonds! Additionally, I will be providing Accounting group tutoring sessions from 6:30-7:30pm on Tuesdays over Microsoft Teams each week. If you would like to attend those sessions or want to schedule a 1-on-1 appointment with one of our fantastic accounting tutors, please visit www.baylor.edu/tutoring to make an appointment!

-Jerry

- Debts of issuing company
- Communicated through notes receivable and payable
- Traded through bond markets

Example of Bond Certificate:



(Source: Pearson Education)

Types of Bonds:

1. Secured Bonds- backed with collateral consisting of company assets

2. Unsecured Bonds- backed by good faith which makes them riskier and carry a higher interest rate
3. Term Bonds- All mature at the same time
4. Serial Bonds- Mature in regular intervals of time

Bonds Issued at Par, Premium, or Discount-

Bonds contain a stated rate of interest at which the bonds are issued at. We compare this with the going market rate for bonds to determine whether the bonds should be issued at par, premium, or discount. We'll look at the each of these situations below.

Issued at Par (Stated Rate=Market Rate)

This means that the bonds issuer will receive the same amount of cash as the face value of the bond (bond payable account)

JE Issuance:

DR: Cash

CR: Bonds Payable

JE Interest Expense:

DR: Interest Expense (Face value*Rate)

CR: Interest Payable or Cash

Example: https://www.youtube.com/watch?v=pWob93bPGEg&feature=youtu.be

Issued at Premium (Stated Rate>Market Rate)

The bond issuer receives more cash than the face value of the bond

JE Issuance

DR Cash (Face value *Valuation percentage) (ie: Purchased at 105%)

CR: Premium (CV-FV) Carrying Value: Face value+premium

CR: Bonds Payable (Face value)

JE Interest Expense:

DR: Interest Expense (Plug!)

DR: Premium ((Discount/Term)

CR: Cash (Face value*SR)

This provides another method of calculating and doing these journal entries:

https://www.youtube.com/watch?v=meaqidbXHRY&feature=youtu.be

Issued at Discount (Stated Rate<Market Rate)

The bond issuer receives less cash than the face value of the bond

JE Issuance

DR: Cash (face value*valuation percentage)

DR: Discount ((FV-CV)) Carrying Value: Face value – Discount

CR: Bond Payable (FV*SR)

JE Interest Expense

DR: Interest Expense (Plug!)

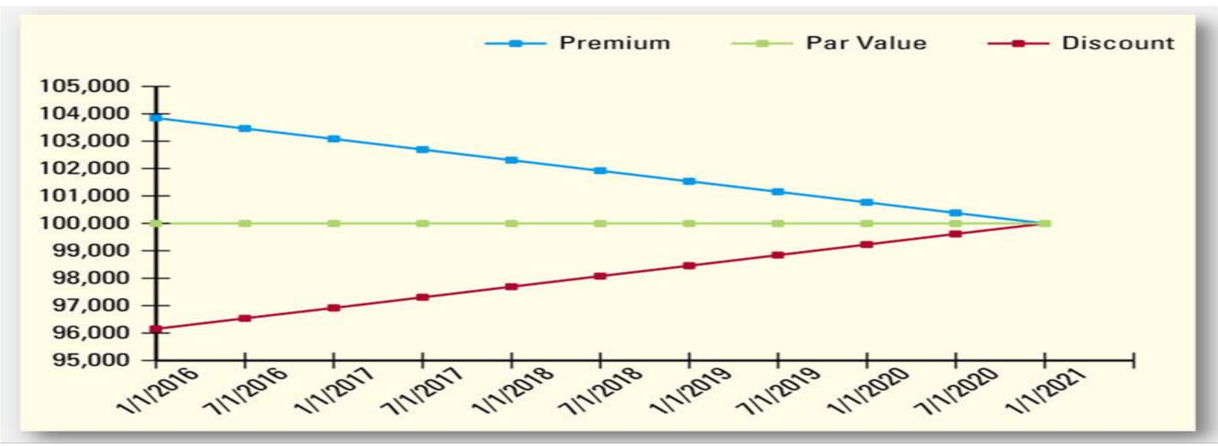
CR: Discount (Discount/Term)

CR: Cash (Face value *SR)

This video provides another way of doing these problems: https://www.youtube.com/watch?v=O2W935hzYpQ

In summation: We reduce the premium and the discount until the carrying value equals the face value at the end of the term of the bond.

This is illustrated in the following graph:



(Source: Pearson Education)

Sources:

Pearson Education

Edspira

https://wikifinancepedia.com/finance/debt-financing-vs-equity-financing-advantages-disadvantages