

## Problem # 1

Interlink Company was authorized to issue 10-year, 12% bonds of P8,000,000. The bonds are dated January 1, 2020, and interest is payable semiannually on June 30 and December 31. The bonds were sold as follows:

|                   |                                        |
|-------------------|----------------------------------------|
| January 1, 2020   | 5,000,000 at 95                        |
| September 1, 2020 | 3,000,000 at 103 plus accrued interest |

**Required:**

- a. Prepare journal entries relating to the bond payable in 2020 and 2021.

Straight line amortization is use. Show how information relative to the bond issue will be reported in the statement of financial position prepared on December 31, 2021

**1. Journal Entry**

| Date          | Particulars                                                                                             | Debit                | Credit                        |
|---------------|---------------------------------------------------------------------------------------------------------|----------------------|-------------------------------|
| Jan. 1, 2020  | Unissued bonds Payable<br>Authorized bond Payable                                                       | P 8,000,000          | P 8,000,000                   |
| Jan. 1, 2020  | Cash (5,000,000 x 95%)<br>Discount on bonds payable<br>Unissued bonds payable                           | 4,750,000<br>250,000 | 5,000,000                     |
| June 30, 2020 | Interest expense (5,000,000 x 12% x 6/12)<br>Cash                                                       | 300,000              | 300,000                       |
| Dec. 31, 2020 | Interest expense<br>Cash                                                                                | 300,000              | 300,000                       |
| Dec. 31, 2020 | Interest expense (250,000/10)<br>Discount on bonds payable                                              | 25,000               | 25,000                        |
| June 30, 2021 | Interest Expense<br>Cash                                                                                | 300,000              | 300,000                       |
| Sept. 1, 2021 | Cash<br>Unissued bonds payable<br>Premium on bonds payable<br>Interest expense (2,000,000 x 12% x 6/12) | 2,100,000            | 2,000,000<br>60,000<br>40,000 |
| Dec. 31, 2021 | Interest expense<br>Cash (7,000,00 x 12% x 6/12)                                                        | 420,000              | 420,000                       |
| Dec. 31, 2021 | Interest expense<br>Discount on bonds payable                                                           | 25,000               | 25,000                        |
| Dec. 31, 2021 | Premium on bonds payable<br>Interest expense                                                            | 2,400                | 2,400                         |

|                  |                      |
|------------------|----------------------|
| 120 months -20 = | 100 months remaining |
|------------------|----------------------|

|              |             |
|--------------|-------------|
| 60,000/100 = | 600 monthly |
| 600 x 4 =    | 2,4000      |

**2. Straight line amortization is use. Show how information relative to the bond issue will be reported in the statement of financial position prepared on December 31, 2021**

|                                 |                           |
|---------------------------------|---------------------------|
| Noncurrent liabilities:         |                           |
| Authorized bonds payable        | P 8,000,000               |
| Less: Unissued bonds payable    | 1,000,000                 |
| Issued bonds payable            | 7,00,000                  |
| Add: Premium on bonds payable   | 57,600                    |
| Total                           | 7,057,600                 |
| Less: Discount on bonds payable | (200,000)                 |
| <b>Carrying Amount</b>          | <b><u>P 6,857,600</u></b> |

## Problem # 2

Marble Company was authorized to issue P5,000,000 of 12% face value bonds on April 1, 2020. Interest on the bonds is payable semiannually on April 1 and October 1. Bonds mature on April 1, 2025.

The entire issue was sold on April 1, 2020, at 98 less bond issue cost of P50,000.

**Required:**

- a. Prepare journal entries including any adjustments relating to the issuance of the bonds for 2020 and 2021.

Use memorandum approach and the straight-line method of amortization.  
Present the bonds payable in the statement of financial position on December 31, 2021

**1. Memorandum Entry**

| Date          | Particulars                                                                                            | Debit                            | Credit          |
|---------------|--------------------------------------------------------------------------------------------------------|----------------------------------|-----------------|
| April 1, 2020 | Cash<br>Discounts on bonds payable<br>Bond issue cost<br>Bonds Payable                                 | P 4,850,000<br>100,000<br>50,000 | P 5,000,000     |
| Oct. 1, 2020  | Interest expense<br>Cash (5,000,000 x 12% x 6/12)                                                      | 300,000                          | 300,000         |
| Dec. 31, 2020 | Interest expense<br>Accrued interest payable<br>(5,000,000 x 12% x 3/12)                               | 150,000                          | 150,000         |
| Dec. 31, 2020 | Interest expense<br>Discount on bonds payable (100,000/5 x 9/12)<br>Bond issues cost (50,000/5 x 9/12) | 22,500                           | 15,000<br>7,500 |
| Jan. 1 2021   | Accrued interest payable<br>Interest expense                                                           | 150,000                          | 150,000         |
| April 1, 2021 | Interest expense<br>Cash                                                                               | 300,000                          | 300,000         |
| July 1, 2021  | Interest expense<br>Discount on bonds payable (20,000 x 6/12)<br>Bond issues cost (10,00 x 6/12)       | 15,000                           | 10,000<br>5,000 |

|                                                                             |                         |
|-----------------------------------------------------------------------------|-------------------------|
| Retirement Price (2,000,000 x 99%)                                          | 1,980,000               |
| Add: Accrued interest from April 1 to July 1, 2021 (2,000,000 x 12% x 3/12) | 60,000                  |
| <b>Total Payment</b>                                                        | <b><u>2,040,000</u></b> |

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|                                  |        |                        |
|----------------------------------|--------|------------------------|
| Bonds payable retired            |        | 2,000,000              |
| Less: Applicable discount        | 30,000 |                        |
| Applicable issue cost            | 15,000 | 45,000                 |
| Carrying amount of bonds retired |        | 1,955,000              |
| Less: Retirement price           |        | 1,980,000              |
| <b>Loss on early retirement</b>  |        | <b><u>(25,000)</u></b> |

| Date          | Particulars                                          |  | Debit     | Credit    |
|---------------|------------------------------------------------------|--|-----------|-----------|
| July 1, 2021  | Bonds Payable                                        |  | 2,000,000 |           |
|               | Interest expense                                     |  | 60,000    |           |
|               | Loss on early retirement bonds                       |  | 25,000    |           |
|               | Cash                                                 |  |           | 2,040,000 |
|               | Discount on bonds payable                            |  |           | 30,000    |
|               | Bond issue cost                                      |  |           | 15,000    |
| Oct. 1, 2021  | Interest expense                                     |  | 180,000   |           |
|               | Cash (3,000,000 x 12% x 6/120)                       |  |           | 180,000   |
| Dec. 31, 2021 | Interest expense                                     |  | 90,000    |           |
|               | Accrued interest payable<br>(3,000,000 x 12% x 3/12) |  |           | 90,000    |
| Dec. 31, 2021 | Interest expense                                     |  | 9,000     |           |
|               | Discount on bonds payable (12,000 x<br>6/12)         |  |           | 6,000     |
|               | Bond issue cost (6,000/12)                           |  |           | 3,000     |

|                              |        |
|------------------------------|--------|
| Revised annual amortization: |        |
| Discount (3/5 x 20,000)      | 12,000 |
| Issue cost (3/5 x 10,000)    | 6,000  |

## 2. Present the bonds payable in the statement of financial position on December 31, 2021

|                            |           |
|----------------------------|-----------|
| Noncurrent Liabilities     |           |
| Bonds payable              | 3,000,000 |
| Discounts on bonds payable | (39,000)  |
| Bond issue cost            | (19,500)  |
| Carrying amount            | 2,941,500 |

END

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