

## Question #69528 Economics / Accounting

On September 30, 2014, when the market interest rate is 4 percent, Champs Ltd. issues \$9,750,000 of 6-percent, 20-year bonds for \$12,417,159. The bonds pay interest on March 31 and September 30. Champs Ltd. amortizes bond premium by the effective-interest method.

Prepare an amortization table for four semiannual interest periods.

The bond premium of \$2,667,159 (12,417,159 – 9,750,000) must be amortized to Interest Expense over the life of the bond. This amortization will cause the bond's book value to decrease from \$12,417,159 on September 30, 2014 to \$9,750,000 just prior to the bond maturing on September 30, 2034.

The corporation must make an interest payment of \$292,500 ( $\$9,750,000 \times 6\% \times 6/12$ ) on each September 30 and March 31. This means that the Cash account will be credited for \$292,500 on each interest payment date.

The effective interest rate method uses the market interest rate at the time that the bond was issued. In our example, the market interest rate on September 30, 2014, was 2% per semiannual period for 40 semiannual periods.

The effective interest rate is multiplied times the bond's book value at the start of the accounting period to arrive at each period's interest expense.

The following table illustrates the effective interest rate method of amortizing the \$2,667,159 premium on a corporation's bonds payable:

Date	Interest Payment	Interest Expense (2%)	Amortization of Bond Premium	Credit Balance in Bond Premium Account	Credit Balance in Bond Payable Account	Book Value of the Bond
30.09.2014	-	-	-	2667159	9750000	12417159
31.03.2015	292500	248343,2	(44156,82)	2623002,18	9750000	12373002,18
30.09.2015	292500	247460	(45039,96)	2577962,22	9750000	12327962,22
31.03.2016	292500	246559,2	(45940,76)	2532021,47	9750000	12282021,47
30.09.2016	292500	245640,4	(46859,57)	2485161,9	9750000	12235161,9
<b>Total</b>	<b>1170000</b>	<b>988002,9</b>	<b>(181997,1)</b>	-	-	-

### Source:

<https://www.accountingcoach.com/bonds-payable/explanation/8>

Answer provided by <https://www.AssignmentExpert.com>