Bonds Payable - Accounting for Bonds Sold at Face Value

Financial Accounting

On January 1, 2012, ELM Company, Inc. issued $2,000,000, 8%, 10 year bonds for $2,000,000. The bonds pay interest semiannually on June 30 and December 31.

Requirements:

A) Prepare the journal entry for the issuance of the bonds.

B) Prepare the journal entry for interest payment on June 30, 2012.

C) Prepare the journal entry for the interest payment on December 31, 2012.

D) Prepare the journal entry for the retirement of the bonds at the end of the 10th year (maturity) assuming interest for the last interest period has been paid and recorded.

		Debit	Credit
A)	Cash	2,000,000	
	Bonds Payable		2,000,000
B)	Interest Expense	80,000	
	Cash		80,000
	(interest expense and interest paid: $2,000,000 x 8% x ½ = $80,000)		
C)	Interest Expense	80,000	
	Cash		80,000
	(interest expense and interest paid: $2,000,000 x 8% x ½ = $80,000)		
D)	Bonds Payable	2,000,000	
	Cash		2,000,000