

ACCOUNTING FOR BONDS PAYABLE

Accounting for bonds payable closely parallels accounting for notes payable.

The accounting events for a bond issue usually are

- (1) Issuance of the bonds
- (2) semiannual interest payments,
- (3) accrual of interest payable at the end of each accounting period, and
- (4) retirement of the bonds at maturity.

Illustration:

March 1, 2011, Wells Corporation issues \$1 million of 12 percent, 20-year bonds payable. These bonds are dated March 1, 2011, and interest is computed from this date. Interest on the bonds is payable semiannually, each September 1 and March 1. If all of the bonds are sold at par value (also referred to as face value), the issuance of the bonds on March 1 will be recorded by the following entry: closing date of company is 31st December.

Data

Bonds issue = 1,000,000 ----- Interest rate = 0.12 or 12 percent ----- Life of bond = 20 years ----- payment method = semi annually
Payment dates = 1st September and 1st March

Note: the second payment from 1st September to 1st March lies in two parts of the year:

First part: September, October, November and December

At the completion of these four months company actually pays nothing but because after these year is closing so we shall pass adjusting entry for these four months

Second Part: January and February

After February on 1st March company will pay the all interest of six months, this payment of six month will consist of two parts:

1. 2 Month interest belongs to this year interest expense

2. 4 month interest expenses was the expense of last year being paid in this year and last year it was interest payable:

So we pay:

1. Interest Payable and [2] Interest expense

SO after the understanding of basic complexities in recording of Bonds pay able now we shall pass journal entries

On Issuance of Bonds

Date	Details	Debit	Credit
1 st	Cash	1,000,000	
March	Bonds Payable		1,000,000

After 6 months on first interest payment:

Date	Details	Debit	Credit
1 st	Bonds interest expense	60,000	
Sep	Cash		60,000
	1000,000 x 0.12 x 6/12		

After 4 months on closing of year

Date	Details	Debit	Credit
31 st	Bonds interest expense	40,000	
Dec	Bonds Interest payable		40,000
	1000,000 x 0.12 x 4/12		

After six months from 1st September and two months from 31st December

Date	Details	Debit	Credit
1 st	Bonds interest expense	20,000	
March	Bonds interest payable	40,000	
	Cash		60,000
	[1000,000 x 0.12 x 2/12 = 20,000]		

The same three transactions 1st interest payment, adjustment on the end of accounting year and 2nd interest payment shall continue throughout the life of the bond:

After the life of the bond company shall pay all amounts back to bondholders and redeem the bonds:

After the maturity of bonds:

Date	Details	Debit	Credit
1 st	Bonds Payable	1,000,000	
March	Cash		1,000,000

Class Assignment:

Journalize the entries for the bond issued for Rs.500, 000 at 18 percent for 2 years on 1st May.

Bond payment is semiannually

Closing date for company is 31st December