Bonds Payable & Effective Interest Master Cheat Sheet

Par, Discount vs. Premium Issuance, Effective Interest Amortization & Early Retirement Entries

1. BOND PRICING RELATIONSHIPS & BALANCE SHEET TREATMENT

Pricing Condition	Rate Relationship	Balance Sheet Account & Nature	Carrying Value vs. Par
Sold at Par	Stated Rate = Market Yield	Bonds Payable (Face Amount)	Carrying Value = Face ($1,000)
Sold at a Discount	Stated Rate < Market Yield	**Discount on Bonds Payable** (Contra-Liability)	Carrying Value < Face Value
Sold at a Premium	Stated Rate > Market Yield	**Premium on Bonds Payable** (Adjunct Liability)	Carrying Value > Face Value

2. THE EFFECTIVE INTEREST AMORTIZATION METHOD (US GAAP)

Step	Core Formula	Worked Example (Carrying $92,000 | 6% Stated | 8% Market)
1. Interest Expense	**Carrying Value × Market Rate × Time**	$92,000 × 8% × 1/2 = **$3,680**
2. Cash Paid	**Face Value × Stated Rate × Time**	$100,000 × 6% × 1/2 = **$3,000**
3. Amortization Amount	| Interest Expense – Cash Interest Paid |	$3,680 – $3,000 = **$680 Discount Amortization**
4. Semiannual Entry	Dr. Interest Expense • Cr. Cash • Cr. Discount	**Dr. Interest Exp $3,680 | Cr. Disc $680 | Cr. Cash $3,000**
5. New Carrying Value	Previous Carrying + Discount Amortization	$92,000 + $680 = **$92,680** (Increases toward $100k)

3. EARLY EXTINGUISHMENT OF BONDS

Gain or Loss = Net Carrying Value – **Reacquisition Price Paid**

• If Carrying Value > Reacquisition Price → **Gain on Extinguishment (Credit)**
• If Carrying Value < Reacquisition Price → **Loss on Extinguishment (Debit)**

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