

1	Present value the principal	20,000.00	x	0.677	=	13,540.00	
	Present value of of the coupon payments	800.00	x	6.463	=	<u>5,170.40</u>	
						18,710.40	
	<u>1-Jan-03</u>			<i>dr.</i>		<i>cr.</i>	
	Cash			<u>18,710.40</u>			
	Discount on bonds payable			1,289.60			
	Bonds payable					\$20,000	
2	Bonds payable	20,000.00					40428
	Less: Discount on bonds payable	<u>1,289.60</u>					
	Bonds payable, net	18,710.40					
3	<u>30-Jun-03</u>			<i>dr.</i>		<i>cr.</i>	
	Interest expense	18,710.40	x	5.00%	=	<u>935.52</u>	
	Interest payable						935.52
	<u>1-Jul-03</u>			<i>dr.</i>		<i>cr.</i>	
	Interest payable			<u>935.52</u>			
	Cash						800.00
	Discount on bonds payable						135.52
	<u>12/31/03</u>			<i>dr.</i>		<i>cr.</i>	
	Interest expense	18,845.92	x	5.00%	=	<u>942.30</u>	
	Interest payable						942.30
4	<u>1/1/04</u>			<i>dr.</i>		<i>cr.</i>	
	Interest payable			<u>942.30</u>			
	Cash						800.00
	Discount on bonds payable						142.30
5	<u>30-Jun-04</u>			<i>dr.</i>		<i>cr.</i>	
	Interest expense	18,988.22	x	5.00%	=	<u>949.41</u>	
	Cash						949.41
6	<u>1/1/04</u>						
	Bonds payable	20,000.00					
	Less: Discount on bonds payable	<u>1,011.78</u>				Plug	
	The economic value of the bond	18,988.22					

7	The entire discount will have been amortized; the bond will appear on the balance sheet at its face value of		20,000.00
8	<u>1-Jan-07</u>		
	Bonds payable		<u>dr.</u> 20,000.00
	Cash		<u>cr.</u> 20,000.00
	Interest payable	20,000.00 - 190.48	
	=	19,809.52 x 5.00%	990.48
	Cash		800.00
	Discount on bonds payable	200 / 105.00%	190.48
9	<u>1-Jan-04</u>		
	Present value the principal	20,000.00 x 0.705 =	14,100.00
	Present value of of the coupon payments	800.00 x 4.917 =	<u>3,933.60</u>
			18,033.60
10	<u>1-Jan-04</u>		
	Bonds payable	20,000.00	
	Gain on reirement of bonds		954.62
	Discount on bonds payable		1,011.78
	Cash		18,033.60
11	<u>1-Jan-04</u>		
	Interest expense	18,033.60 x 6.00% =	1,082.02