



Cihan University- Sulaimaniya

Accounting Department

Class : 2<sup>nd</sup> stage

# ***Loan Bonds***

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# Definition:

**Bond:** It is a document that the company is committed to pay its value at a specific date with annual interest.

**There are six types of Bonds**

Nominal  
Bonds

Bearer  
Bonds

Secured  
Bonds

Unsecured  
bonds

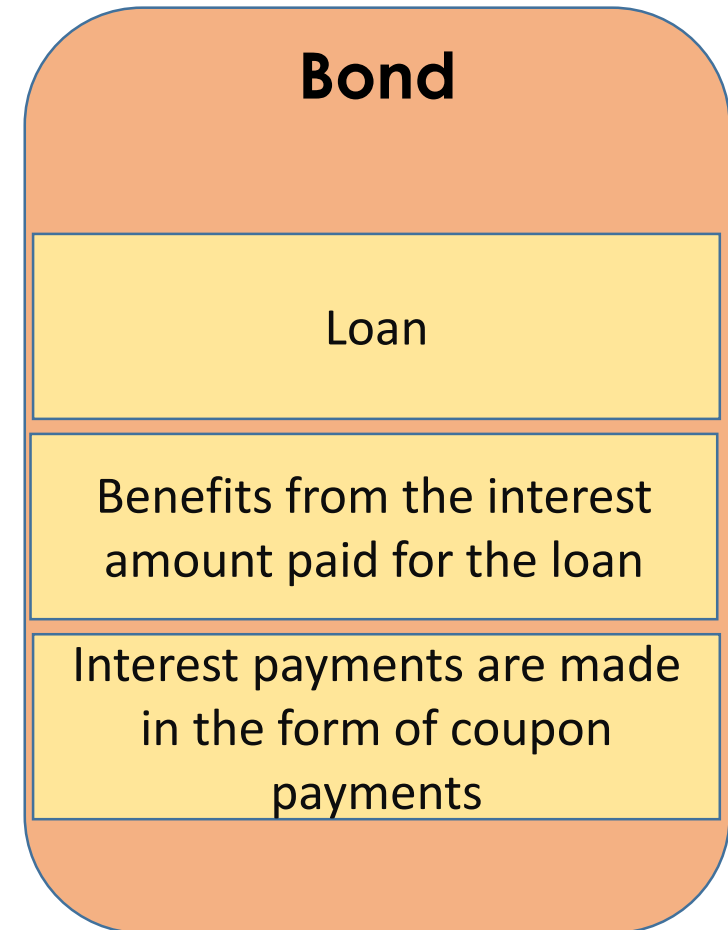
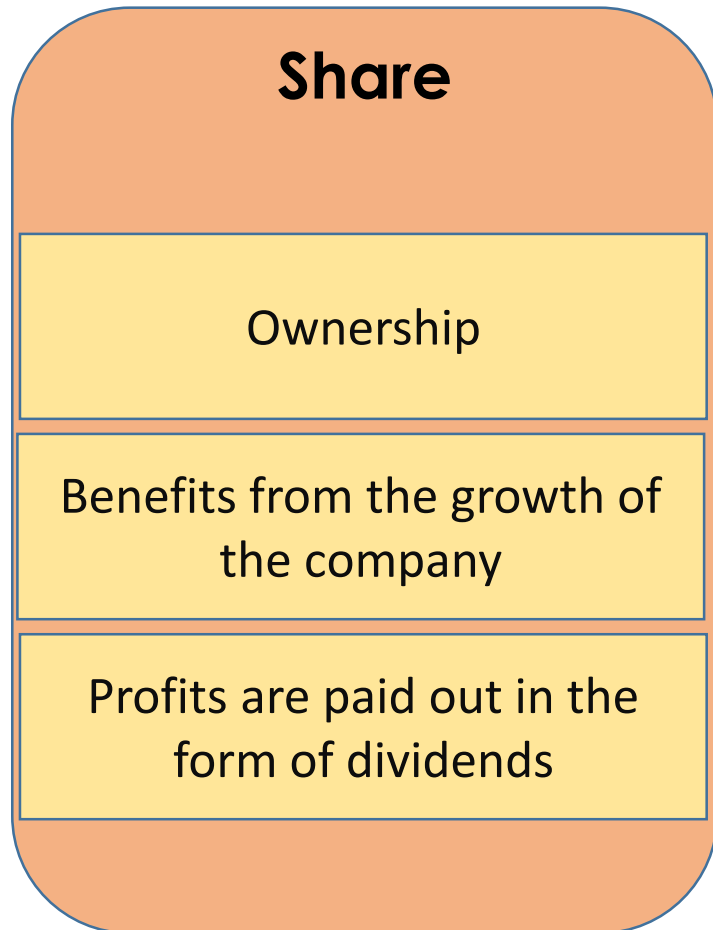
Convertible  
bonds

callable  
Bonds

# Types of bonds

- 1 - **Nominal bonds**, this type Includes the name of bond-holders.
- 2 - **Bearer bonds**, this type does not Include the name of bond-holders.
- 3- **Secured Bonds**, it is issued by ensuring.
- 4 - **Unsecured bonds**, it is issued without ensuring.
- 5 - **Convertible bonds**, it can be converted to shares.
- 6 - **callable Bonds**, it can be withdrawn before the due date.

# The difference between the share and the bond:



# Accounting treatments for the issuance of bonds:

**There are three cases to treatments bonds:**

- 1- Issuing bonds at a par value.**
- 2- Issuing bonds with issue premium.**
- 3- Issuing bonds with issue discount.**

## Accounting treatments for the issuance of bonds:

### 1- Issuing bonds at a par value

**This case will be explain by the following example:**

(WFF) Company issued (800) a bond interest rate of 10% and was the par value of the bond was \$100; pay the full amount in cash upon subscription.

**Par value = 800 x 100 = 80,000**

From: cash a/c 80,000

To: loan bonds a/c 80,000

Accounting treatments for the issuance of bonds:

Balance sheet	
	<u>Long-term liabilities</u>
Loan bonds	80,000

## Accounting treatments for the issuance of bonds:

### 2- Issuing bonds with issue premium: (issue price more than par value)

**This case will be explained by the following example:**

:(WFF) Company issued (4000) a bond interest rate of 10% and was the par value of the bond was \$100; the issue price \$110, pay the full amount in cash upon subscription.

Before answering the question, we must **compare** between **issue price** and **par value**.

- Issue price = 110
- Par value = 100



Accounting treatments for the issuance of bonds:

**In this case, the issue price is more than the par value, which means the bonds include issue premium.**

Calculate the issue premium:

- **Issue price =  $110 \times 4000 = 440,000$**
- **Par value =  $100 \times 4000 = (400,000)$**

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**Issue premium                      40,000**



## Accounting treatments for the issuance of bonds:

### **3- Issuing bonds with issue discount: (issue price less than a par value)**

**This case will be explained by the following example:**

(WFF) Company issued (4000) a bond interest rate of 10% and was the par value of the bond was \$100; the issue price \$95, pay the full amount in cash upon subscription.

Before answering the question, we must **compare** between the **issue price** and the **par value**:

- Issue price = 95
- Par value = 100



Accounting treatments for the issuance of bonds:

Recording the Accounting entry:

From: cash                      a/c 380,000  
  
    Issue discount a/c 20,000  
  
    To: loan bonds            a/c 400,000

Balance sheet	
	<u>Long-term liabilities</u>
Loan bonds	400,000
- Issue discount	(20,000)
	<hr/>
	380,000