Cihan University- Sulaimaniya

Accounting Department

Class : 2nd 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6 - **callable Bonds**, it can be withdrawn before the due date.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:

Share	Bond
Ownership	Loan
Benefits from the growth of the company	Benefits from the interest amount paid for the loan
Profits are paid out in the form of dividends	Interest payments are made in the form of coupon payments

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

	Long-term liabilities	
	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 x 4000 = 440,000**
- **Par value = 100 x 4000 = (400,000)**

Issue premium 40,000

Accounting treatments for the issuance of bonds:

Recording the Accounting entry:

From: cash a/c 440,000

To: loan bonds a/c 400,000

issue Premium a/c 40000

Balance sheet

	Long-term liabilities
	Loan bonds 400000
	+ Issue premium 40000
	440000

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:

In this case, the issue price is less than the par value, which means bonds include issue discount.

Calculate the issue discount:

- **Issue price = 95 x 4000 = 380,000**
- **Par value = 100 x 4000 = (400,000)**

Issue discount (20,000)

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

Long-term liabilities	
Loan bonds	400,000
- Issue discount	(20,000)
	380,000