

Bonds

Bond is an document; the company is committed to pay the value of the bond at a specific date with annual interest.

:There are six types of bonds

- 1 - **Nominal bonds**. This type Includes the name of bondholders.
- 2 - **Bearer bonds**. This type does not Includes the name of bond holders
- 3- **secured Bonds**. Issued by ensuring.
- 4 - **Unsecured bonds**. Issued without ensuring.
- 5 - **Convertible bonds**. Can be converted to shares.
- 6 - **callable Bonds**. Can be withdrawn before the due date

The difference between the share and the bond:

Bonds as a debt - as a shareholder owner.
To the holder of the bond annual profit - while stock dividends.
Bondholders preference in liquidation.

Accounting treatments for the issuance of bonds:

1 – Issuing bonds at a par value:

Q1: (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.

From: cash a/c 80000

To: loan bonds a/c 80000

To record issued 800 par value \$100.

Balance sheet	
	<u>Long-term liabilities</u>
	Loan bonds xx

Bonds interest: There are three cases of determine bonds interest:

The accounting treatment of bond interest as follow:

1- At the end of period the accountant calculates bond interest by using the following equation:

Bond value x percentage x loan period = annual interest

- Recording the interest in journal:

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From: interest bond a/c xxx
To: profit & loss a/c xxx

2- depreciation of (issue premium) or (issue discount) by using straight line method: as follow:

(issue premium) or (issue discount) / years

Recording the following entry of:

A- (issue premium):

From: bond s interest a/c xxx
issue premium a/c xxx
To: Cash a/c xxx

B- (issue discount):

From: bond s interest a/c xxx
To: issue discount a/c xxx
Cash a/c xxx

And prepare the effect for the balance sheet

1 - Issuing at a par value:

Q A: 1/1/2012, AAQ Company issued 1000 bonds an interest rate of 10% at par value of the \$100 each, has been paid full value at the subscription in cash. If you know:

- 1 - Bond interest paid at the end of the year.
- 2 - 5 years of the loan period.
- 3 - The Company applies the straight-line method

Required:

Recording accounting entries and prepare balance sheet (partial).

2 - Issuing with issue premium

Q B: 1/1/2012, AAQ Company issued 1000 bonds an interest rate of 10% at par value of the \$100 each, the issue price \$120, has been paid full value at the subscription in cash. If you know:

- 1 - Bond interest paid at the end of the year.
- 2 - 5 years of the loan period.
- 3 - The Company applies the straight-line method.

Required:

Recording accounting entries and prepare balance sheet (partial).

3 – Issuing with issue discount

Q C: 1/1/2012, AAQ Company issued 1000 bonds an interest rate of 10% at par value of the \$100 each, the issue price \$90, has been paid full value at the subscription in cash. If you know:

- 1 - Bond interest paid at the end of the year.
- 2 - 5 years of the loan period.
- 3 - The Company applies the straight-line method.

Required:

Recording accounting entries and prepare balance sheet (partial).