**E10-6** According to the accountant of Ulner Inc., its payroll taxes for the week were as follows: $198.40 for FICA taxes, $19.84 for federal unemployment taxes, and $133.92 for state unemployment taxes.

***Record accrual of payroll taxes.***

**Instructions-- Journalize the entry to record the accrual of the payroll taxes.**

Payroll Tax Expense                                                        $352.16

FICA Taxes Payable                                                                                       $198.40

Federal Unemployment Taxes Payable                                                            $19.84

State Unemployment Taxes Payable                                                              $133.92

(To Record Payable Taxes for the week)

**E10-8** Jim Thome has prepared the following list of statements about bonds.

***Evaluate statements about bonds.***

**Instructions identify each statement above as true or false. If false, indicate how to correct the statement.**

1. Bonds are a form of interest-bearing notes payable. - True

2. When seeking long-term financing, an advantage of issuing bonds over issuing common stock is that stockholder control is not affected. - True

3. When seeking long-term financing, an advantage of issuing common stock over issuing bonds is that tax savings result. - False

4. Secured bonds have specific assets of the issuer pledged as collateral for the bonds. - True

5. Secured bonds are also known as debenture bonds. - False

6. Bonds that mature in installments are called term bonds. - False

7. A conversion feature may be added to bonds to make them more attractive to bond buyers. - True

8. The rate used to determine the amount of cash interest the borrower pays is called the stated rate. - True

9. Bond prices are usually quoted as a percentage of the face value of the bond. - True

10. The present value of a bond is the value at which it should sell in the marketplace. - True

**\*E10-18** Hrabik Corporation issued $600,000, 9%, 10-year bonds on January 1, 2011, for $562,613.This price resulted in an effective-interest rate of 10% on the bonds. Interest is payable semiannually on July 1 and January 1. Hrabik uses the effective-interest method to amortize bond premium or discount.

**(a) The issuance of the bonds.**  
  
Cash = $562,613  
  
Discount on Bonds Payable = $37,387  
  
Bonds Payable = $600,000  
  
**(b) The payment of interest and the discount amortization on July 1, 2011, assuming that interest was not accrued on June 30.**  
Interest Expense ($562,613\*.05) = $28,131  
  
Discount on Bonds Payable = $1,131  
  
Cash ($600,000\*.09\*.50) = $27,000  
  
**(c) The accrual of interest and the discount amortization on December 31, 2011.**  
  
Interest Expense {($562,613+1,131)\*.05} = $57,738  
  
Discount on Bonds Payable = $1,187  
  
Cash ($600\*.09\*1) = $2,700

**P10-3A** On May 1, 2011, Newby Corp. issued $600,000, 9%, 5-year bonds at face value. The bonds were dated May 1, 2011, and pay interest semiannually on May 1 and November 1. Financial statements are prepared annually on December 31.

**Prepare entries to record issuance of bonds, interest accrual, and bond redemption.**

(d) Int. exp. = $18,000

(f) Loss = $12,000

**Instructions**

**(a) Prepare the journal entry to record the issuance of the bonds.**  
  
Cash = $600,000  
  
Bonds Payable = $600,000  
 **(b) Prepare the adjusting entry to record the accrual of interest on December 31, 2011.**  
  
Interest Expense ($600,000\*.09\*1.67) = $9,000  
  
Interest Payable = $9,000

**(c) Show the balance sheet presentation on December 31, 2011.**  
  
Current Liabilities:

Bond Interest Payable = $9,000  
  
Long -Term Liabilities:  
  
Bonds Payable (Due 2016) = $600,000  
  
**(d) Prepare the journal entry to record payment of interest on May 1, 2012, assuming no accrual of interest from January 1, 2012, to May 1, 2012.**  
  
Interest Expense ($600,000\*.09\*.3333333) = $18,000  
  
Interest Payable = $9,000  
  
Cash = $27,000  
  
**(e) Prepare the journal entry to record payment of interest on November 1, 2012.**  
  
Interest Expense ($600,000\*.09\*.50) = $27,000  
  
Cash = $27,000  
  
**(f) Assume that on November 1, 2012, Newby calls the bonds at 102. Record the redemption of the bonds.**  
  
Bonds Payable = $600,000

Loss on Bond Redemption = $12,000  
  
Cash ($600,000\*1.02) = $612,000

**\*P10-6A** On July 1, 2011, Atwater Corporation issued $2,000,000 face value, 10%, 10-year bonds at $2,271,813.This price resulted in an effective-interest rate of 8% on the bonds. Atwater uses the effective-interest method to amortize bond premium or discount. The bonds pay semiannual interest July 1 and January 1.

**Prepare entries to record issuance of bonds, payment of interest, and amortization of bond premium using effective-interest method.**

(c) Amortization = $9,127

(d) Amortization = $9,493

(e) Amortization = $9,872

**Instructions (Round all computations to the nearest dollar.)**

**P10-6A:** On July 1, 2011, Atwater Corporation issued $2,000,000 face value, 10%, 10-year bonds at $2,271,813.This price resulted in an effective-interest rate of 8% on the bonds. Atwater uses the effective-interest method to amortize bond premium or discount. The bonds pay semiannual interest July 1 and January 1.  
 **(a) Prepare the journal entry to record the issuance of the bonds on July 1, 2011.**  
  
Cash = $2,271,813  
  
Bonds Payable = $2,000,000  
  
Premium on Bonds Payable = $271,813  
 **(b) Prepare an amortization table through December 31, 2012 (3 interest periods) for this bond issue.**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Semi-  annual  Interest  Periods |  | (A)    Interest  to Be  Paid |  | (B)      Interest  Expense |  | (C)  Premium  Amor-  tization  (A) - (B) |  | (D)  Unamor-  tized  Premium  (D) - (C) |  | (E)  Bond  Carrying  Value  ($2,000,000 + D) |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Issue date  1  2  3 |  | $100,000   100,000   100,000 |  | $90,873   90,507   90,128 |  | $9,127   9,493   9,872 |  | $271,813   262,686   253,193   243,321 |  | $2,271,813   2,262,686   2,253,193   2,243,321 |

**(c) Prepare the journal entry to record the accrual of interest and the amortization of the premium on December 31, 2011.**  
  
Interest Expense ($2,271,813\*.04) = $90,873  
  
Premium on Bonds Payable = $9,127  
  
Interest Payable ($2,000,000\*.05) = $100,000  
  
**(d) Prepare the journal entry to record the payment of interest and the amortization of the premium on July 1, 2012, assuming no accrual of interest on June 30.**  
  
Interest Expense {($2,271,813-$9,127)\*.04} = $90,507  
  
Premium on Bond Payable = $9,493  
  
Cash = $100,000  
  
**(e) Prepare the journal entry to record the accrual of interest and the amortization of the premium on December 31, 2012.**  
  
Interest Expense {($2,262,686 - $9,493)\*.04} = $90,128  
  
Premium on Bonds Payable = $9,872  
  
Bond Interest Payable = $100,000