**Gomez Corporation issued $9,000,000 of 7%, ten-year convertible bonds on July 1, 2004 at 96.1 plus accrued interest.  The bonds were dated April 1, 2004 with interest payable April 1 and October 1.  Bond discount is amortized semiannually on a straight-line basis.  On April 1, 2005, $1,800,000 of these bonds were converted into 500 shares of $20 par value common stock.  Accrued interest was paid in cash at the time of conversion.**

**If "interest payable" were credited when the bonds were issued, what should be the amount of the debit to "interest expense" on October 1, 2004?**

**a.  $193,500**

**b.  $202,500**

**c.  $166,500**

**d.  $405,000**

**What should be the amount of the unamortized bond discount on April 1, 2005 relating to the bonds converted?**

**a.  $70,200**

**b.  $64,800**

**c.  $35,100**

**d.  $66,600**

Par value of Bonds $ 9,000,000

Interest rate 7%

Period for interest payment Semi annual

Period for amortization of Discount: Semi annual

Now;

Semi annual interest ( for 6 months at 7% p.a . on $9,000,000 = 315,000.

Entry provided at the time of issue for one quarter 315,000/2 = 157,500

Balance for half to be provided = 157,500

(This amount has to be debited to Bond Interest payable a/c)

Discount on Bonds;

Total discount allowed 3.9% on $ 9,000,000 = 351,000

The discount is 351,000. This is to be amortized over the remaining life of 117 months (Total life 120 months, 3 months elapsed). The amortization per month is 351,000/117=3,000.

TWO INSTALMENTS to be provided on 1/10 out of 20 semi annual to be provided;

That is 12\*3000= 36000

Hence Debits to Interest Expenses to be on 1/10;

Total of 157500 + 36000 = $ 193500.