**E14-3 (Entries for Bond Transactions)** Presented below are two independent situations.

**1.** On January 1, 2012, Divac Company issued $300,000 of 9%, 10-year bonds at par. Interest is payable quarterly on April 1, July 1, October 1, and January 1.

**2.** On June 1, 2012, Verbitsky Company issued $200,000 of 12%, 10-year bonds dated January 1 at par plus accrued interest. Interest is payable semiannually on July 1 and January 1.

**Instructions**

For each of these two independent situations, prepare journal entries to record the following.

**(a)** The issuance of the bonds.

**(b)** The payment of interest on July 1.

**(c)** The accrual of interest on December 31.

**E14-7 (Amortization Schedules—Straight-Line)** Spencer Company sells 10% bonds having a maturity value of $3,000,000 for $2,783,724. The bonds are dated January 1, 2012, and mature January 1, 2017. Interest is payable annually on January 1.

**Instructions**

Set up a schedule of interest expense and discount amortization under the effective-interest method.

**E14-10 (Entries for Bond Transactions)** On January 1, 2012, Osborn Company sold 12% bonds having a maturity value of $800,000 for $860,651.79, which provides the bondholders with a 10% yield. The bonds are dated January 1, 2012, and mature January 1, 2017, with interest payable December 31 of each year. Osborn Company allocates interest and unamortized discount or premium on the effective-interest basis.

**Instructions**

**(a)** Prepare the journal entry at the date of the bond issuance.

**(b)** Prepare a schedule of interest expense and bond amortization for 2012–2014.

**(c)** Prepare the journal entry to record the interest payment and the amortization for 2012.

**(d)** Prepare the journal entry to record the interest payment and the amortization for 2014.

**E14-17 (Imputation of Interest)** Presented below are two independent situations:

**(a)** On January 1, 2013, Spartan Inc. purchased land that had an assessed value of $390,000 at the time of purchase. A $600,000, zero-interest-bearing note due January 1, 2016, was given in exchange. There was no established exchange price for the land, nor a ready fair value for the note. The interest rate charged on a note of this type is 12%. Determine at what amount the land should be recorded at January 1, 2013, and the interest expense to be reported in 2013 related to this transaction.

**(b)** On January 1, 2013, Geimer Furniture Co. borrowed $4,000,000 (face value) from Aurora Co., a major customer, through a zero-interest-bearing note due in 4 years. Because the note was zero-interest-bearing, Geimer Furniture agreed to sell furniture to this customer at lower than market price. A 10% rate of interest is normally charged on this type of loan. Prepare the journal entry to record this transaction and determine the amount of interest expense to report for 2013.

**E14-21 (Settlement of Debt)** Strickland Company owes $200,000 plus $18,000 of accrued interest to Moran State Bank. The debt is a 10-year, 10% note. During 2012, Strickland’s business deteriorated due to a faltering regional economy. On December 31, 2012, Moran State Bank agrees to accept an old machine and cancel the entire debt. The machine has a cost of $390,000, accumulated depreciation of $221,000, and a fair value of $180,000.

**Instructions**

**(a)** Prepare journal entries for Strickland Company and Moran State Bank to record this debt settlement.

**(b)** How should Strickland report the gain or loss on the disposition of machine and on restructuring of debt in its 2012 income statement?

**(c)** Assume that, instead of transferring the machine, Strickland decides to grant 15,000 shares of its common stock ($10 par) which has a fair value of $180,000 in full settlement of the loan obligation. If Moran State Bank treats Strickland’s stock as a trading investment, prepare the entries to record the transaction for both parties.