

## Amortization of Bond Discount: Straight-Line Method

© AccountingCoach.com - Filled-In Form D6

The straight-line method of amortization may be used to amortize a bond's discount when the amount is not significant. (When the amount of discount is significant, the effective interest method is required. See **Form D5**.) With either method of amortization, a bond's book value is always moving toward the bond's face or maturity amount. The reason is that the balance in the account Bond Discount is being reduced to zero over the life of the bond.

The straight-line method of amortization is considered to be simpler than the effective interest method.

Our form assumes that bond's interest expense and amortization of bond's discount will be recorded on the dates of the interest payments.

The example below assumes that a bond with a stated interest rate of 9% and a face value of \$100,000 is issued on January 1, 2023. The bond pays interest on each June 30 and December 31 and matures in 5 years. The market interest rate at the time of issuance was 10%, which resulted in the bond selling for \$96,139.13 on its issue date.

A	B	C	D	E	F	G
Date	Interest Payment	Amortization of Discount	Interest Expense	Balance in Bond Discount	Balance in Bonds Payable	Book Value of Bonds
<u>Amounts at Issue Date:</u>						
Jan 1, 2023				\$ 3,860.87	\$ 100,000.00	\$ 96,139.13
<u>Amounts at Semiannual Interest Dates:</u>						
Jun 30, 2023	\$ 4,500.00	\$ 386.09	\$ 4,886.09	\$ 3,474.78	\$ 100,000.00	\$ 96,525.22
Dec 31, 2023	4,500.00	386.09	4,886.09	3,088.69	100,000.00	96,911.31
Jun 30, 2024	4,500.00	386.09	4,886.09	2,702.60	100,000.00	97,297.40
Dec 31, 2024	4,500.00	386.09	4,886.09	2,316.51	100,000.00	97,683.49
Jun 30, 2025	4,500.00	386.09	4,886.09	1,930.42	100,000.00	98,069.58
Dec 31, 2025	4,500.00	386.09	4,886.09	1,544.33	100,000.00	98,455.67
Jun 30, 2026	4,500.00	386.09	4,886.09	1,158.24	100,000.00	98,841.76
Dec 31, 2026	4,500.00	386.09	4,886.09	772.15	100,000.00	99,227.85
Jun 30, 2027	4,500.00	386.09	4,886.09	386.06	100,000.00	99,613.94
Dec 31, 2027	4,500.00	386.06	4,886.06	-	100,000.00	100,000.00
Totals	\$ 45,000.00	\$ 3,860.87	\$ 48,860.87			

### Calculation of Amounts at Semiannual Interest Dates:

	Bond's stated interest rate x face amount x 1/2 year	Original amount of Bond Discount spread evenly to the accounting periods during the life of the bonds.	Column B plus Column C	Previous debit balance in Bond Discount in Column E minus the credit amount in Column C	The credit balance in Column F minus the debit balance in Column E.
Jun 30, 2023	9% x 100000 x 1/2	3860.87/10 periods	4500.00 + 386.09	3860.87 - 386.09	100000.00 - 3474.78
Dec 31, 2023	9% x 100000 x 1/2	3860.87/10 periods	4500.00 + 386.09	3474.78 - 386.09	100000.00 - 3088.69
Jun 30, 2024	9% x 100000 x 1/2	3860.87/10 periods	4500.00 + 386.09	3088.69 - 386.09	100000.00 - 2702.60

### Journal entry at June 30, 2023:

Interest expense	4,886.09	
Bond Discount		386.09
Cash		4,500.00

For a blank form see **Form D6**.

Learn more about bonds payable at [www.AccountingCoach.com](http://www.AccountingCoach.com).