

Amortization of Bond Premium: Straight-line Method

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The straight-line method of amortizing bond premium may be used when the amount of premium is not significant. (When the amount of premium is significant, the effective interest method is required. See **Form D7**.) With either method of amortization, a bond's book value is always moving toward the bond's face amount. The reason is that the balance in the account Bond Premium 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 the bond's interest expense and amortization of the bond's premium 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 8%, which resulted in the bond selling for \$104,055.45 on its issue date.

| A | B | C | D | E | F | G |
|----------------------------------------------|------------------|-------------------------|------------------|-------------------------|--------------------------|---------------------|
| Date | Interest Payment | Amortization of Premium | Interest Expense | Balance in Bond Premium | Balance in Bonds Payable | Book Value of Bonds |
| <u>Amounts at Issue Date:</u> | | | | | | |
| Jan 1, 2023 | | | | \$ 4,055.45 | \$ 100,000.00 | \$ 104,055.45 |
| <u>Amounts at Semiannual Interest Dates:</u> | | | | | | |
| Jun 30, 2023 | \$ 4,500.00 | \$ 405.54 | \$ 4,094.46 | \$ 3,649.91 | \$ 100,000.00 | \$ 103,649.91 |
| Dec 31, 2023 | 4,500.00 | 405.55 | 4,094.45 | 3,244.36 | 100,000.00 | 103,244.36 |
| Jun 30, 2024 | 4,500.00 | 405.54 | 4,094.46 | 2,838.82 | 100,000.00 | 102,838.82 |
| Dec 31, 2024 | 4,500.00 | 405.55 | 4,094.45 | 2,433.27 | 100,000.00 | 102,433.27 |
| Jun 30, 2025 | 4,500.00 | 405.54 | 4,094.46 | 2,027.73 | 100,000.00 | 102,027.73 |
| Dec 31, 2025 | 4,500.00 | 405.55 | 4,094.45 | 1,622.18 | 100,000.00 | 101,622.18 |
| Jun 30, 2026 | 4,500.00 | 405.54 | 4,094.46 | 1,216.64 | 100,000.00 | 101,216.64 |
| Dec 31, 2026 | 4,500.00 | 405.55 | 4,094.45 | 811.09 | 100,000.00 | 100,811.09 |
| Jun 30, 2027 | 4,500.00 | 405.54 | 4,094.46 | 405.55 | 100,000.00 | 100,405.55 |
| Dec 31, 2027 | 4,500.00 | 405.55 | 4,094.45 | - | 100,000.00 | 100,000.00 |
| Totals | \$ 45,000.00 | \$ 4,055.45 | \$ 40,944.55 | | | |

Calculation of Amounts at Semiannual Interest Dates:

| Dates of semiannual interest payments | Bond's stated interest rate x face amount x 1/2 year | Original amount of Bond Premium spread evenly to the accounting periods during the life of the bonds. | Column B minus Column C | Previous credit balance in Bond Premium in Column E minus the debit amount in Column C | The credit balance in Column F plus the credit balance in Column E |
|---------------------------------------|------------------------------------------------------|-------------------------------------------------------------------------------------------------------|-------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| Jun 30, 2023 | 9% x 100,000 x 1/2 | 4055.45/10 periods | 4500.00-405.54 | 4055.45-405.54 | 100,000.00+3649.91 |
| Dec 31, 2023 | 9% x 100,000 x 1/2 | 4055.45/10 periods | 4500.00-405.55 | 3649.91-405.55 | 100,000.00+3244.36 |
| Jun 30, 2024 | 9% x 100,000 x 1/2 | 4055.45/10 periods | 4500.00-405.54 | 3244.36-405.54 | 100,000.00+2838.82 |

Journal entry at June 30, 2023:

| | | |
|------------------|----------|----------|
| Interest expense | 4,094.46 | |
| Bond Premium | 405.54 | |
| Cash | | 4,500.00 |

For a blank form see **Form D8**.

Learn more about bonds payable at www.AccountingCoach.com.