Amortization of Bond Discount: Effective Interest Method

The amortization of bond discount is best achieved through the effective interest method. (If the amount of bond discount is not significant, the simpler straight-line method of amortization is acceptable. See **Form D6**.) 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 advantage of the effective interest method is that the amount of each accounting period's interest expense is directly related to the bond's book value at the start of each accounting period.

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

A	B	C	D	E	F	G
Date	**Interest Payment**	**Interest Expense**	**Amortization of Discount**	Balance in *Bond Discount*	Balance in *Bonds Payable*	**Book Value of Bonds**
Amounts at Issue Date:						
Date bonds are issued				Original amount of bond discount	Face or maturity amount of bonds	The credit balance in Column F minus the debit balance in Column E.
How Accounts Are Affected on Each Semiannual Interest Date:						
	Credit *Cash*	Debit *Interest Expense*	Credit *Bond Discount*			
Calculation of Amounts Entered at Each Semiannual Interest Date:						
	Bond's stated interest rate X face amount X 1/2 year	Effective/market interest rate X book value of bonds at the beginnng of the period X 1/2 year	Column C minus Column B	Previous debit balance in *Bond Discount* in Column E minus the credit amount in Column D		The credit balance in Column F minus the debit balance in Column E.

See **Filled-In Form D5** for an illustration.

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