The amortization of bond premium is best achieved through the effective interest method. (If the amount of bond premium is not significant, the simpler straight-line method of amortization is acceptable. See **Form D8**.) With either method of amortization, a bond's book value is always moving to the bond's face or maturity amount. The reason is that the balance in the account Bond Premium 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 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 Premium** | Balance in *Bond Premium* | Balance in *Bonds Payable* | **Book Value of Bonds** |
| *Amounts at Issue Date:* | | | | | | |
| Date bonds are issued | | | | Original amount of bond premium | Face or maturity amount of bonds | The credit balance in Column F plus the credit balance in Column E |
| *How Accounts Are Affected on Each Semiannual Interest Date:* | | | | | | |
| | Credit *Cash* | Debit *Interest Expense* | Debit *Bond Premium* | | | |
| *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 beginning of the period X 1/2 year | Column B minus Column C | Previous credit balance in Bond *Premium* in Column E minus the debit amount in Column D | | The credit balance in Column F plus the credit balance in Column E |

See **Filled-In Form D7** for an illustration.

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