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.

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**
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 *Bond Premium*	Debit *Interest Expense*			
Calculation of Amounts Entered at Each Semiannual Interest Date:						
	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

See **Filled-In Form D8** for an illustration.

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