Fall2014 Bonds Payable Assignment

On January 1, 2014, AF Inc. issued $150,000 in bonds that mature in 5 years. The bonds have a stated annual interest rate of 2% and pay interest on June 30 and December 31 each year. When the bonds were issued, the market rate of interest was 4%. AF Inc. uses the effective interest method to account for long-term bonds.

On January 1, 2014, FA Corporation issued $140,000 in bonds that mature in 10 years. The bonds have a stated annual interest rate of 6% and pay interest on June 30 and December 31 each year. When the bonds were issued, the market rate of interest was 4%. FA Corporation uses the effective interest method to account for long-term bonds.

Required:

1. For the AF Inc. bonds, answer the following questions:
   a. How much cash was received from the issuance of the bonds? (round answer to whole $)
   b. What journal entry was made on January 1, 2014 to record the bond issuance?
   c. What amount of interest expense should be recorded on June 30, 2014? What amount should be recorded on December 31, 2014? (round to whole $)
   d. What amount of interest was paid to bond holders on June 30, 2014? What amount will be paid to them on December 31, 2014? (round to whole $)
   e. What journal entry was made on June 30, 2014 to record the interest paid on the bonds? What entry will be made on December 31, 2014? (round to whole $)
   f. What is the book value of the bonds on June 30, 2014? What is the book value of the bonds on December 31, 2014? (round to whole $)
   g. Will interest expense recognized in 2015 be greater than, equal to or less than interest expense recognized in 2014?

2. For the FA Corporation bonds, answer the following questions:
   a. How much cash was received from the issuance of the bonds? (round answer to whole $)
   b. What journal entry was made on January 1, 2014 to record the bond issuance?
   c. What amount of interest expense should be recorded on June 30, 2014? What amount should be recorded on December 31, 2014? (round to whole $)
   d. What amount of interest was paid to bond holders on June 30, 2014? What amount will be paid to them on December 31, 2014? (round to whole $)
   e. What journal entry was made on June 30, 2014 to record the interest paid on the bonds? What entry will be made on December 31, 2014? (round to whole $)
   f. What is the book value of the bonds on June 30, 2014? What is the book value of the bonds on December 31, 2014? (round to whole $)
   g. Will interest expense recognized in 2015 be greater than, equal to or less than interest expense recognized in 2014?