# On January 2,2015 , Concord Corporation Issued $1,100,000 Of 10% Bonds At 98 Due December 31,2024. Interest

**On January 2, 2015, Concord Corporation Issued $1,100,000 Of 10% Bonds At 98 Due December 31, 2024. Interest**

On January 2, 2015, Concord Corporation issued bonds totaling $1,100,000 with a 10% annual interest rate, due December 31, 2024. These bonds were issued at 98, meaning they were sold at a discount. This article explores the details of this bond issuance, including the terms, accounting implications, and how to analyze the bond's impact on Concord Corporation's financial statements.

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## Understanding Bond Issuance at a Discount

### What Does Issuing Bonds at 98 Mean?

When bonds are issued at 98, it indicates that the bonds are sold at 98% of their face value. Since the face value of the bonds is $1,100,000, the issuance price can be calculated as follows:

- Issue Price = Face Value × Issue Price Percentage
- Issue Price = $1,100,000 × 0.98 = $1,078,000

This means that investors paid $1,078,000 to purchase the bonds, which is $22,000 less than the face value, reflecting a discount.

### Reasons for Issuing Bonds at a Discount

Companies may issue bonds at a discount for various reasons:

- Market interest rates are higher than the bond's coupon rate (10%), making the bonds less attractive at face value.
- To incentivize investors to purchase the bonds, the company offers them at a discount.
- Company's credit rating may be lower, leading to a need to offer bonds at a discount to attract buyers.

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# Details of the Bond Terms

## Principal and Interest Payments

The bonds carry a face value of $1,100,000 with a 10% annual interest rate. The key details include:

- Annual interest payment = Face value × Coupon rate = $1,100,000 × 10% = $110,000
- Interest is typically paid semiannually or annually; for this case, assume annual payments unless specified otherwise.
- Maturity date: December 31, 2024, providing a 10-year term from issuance.

## Maturity and Repayment

At maturity on December 31, 2024, Concord Corporation will repay the bondholders the face value of $1,100,000. The issuance of bonds at a discount means the company will also recognize amortization of the discount over the bond's life.

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# Accounting for Bond Issuance and Discount

## Initial Journal Entry upon Issuance

When bonds are issued at a discount, the company records the cash received and recognizes a discount on bonds payable. The journal entry on January 2, 2015, would be:

- Debit: Cash $1,078,000
- Debit: Discount on Bonds Payable $22,000
- Credit: Bonds Payable $1,100,000

This entry reflects the receipt of cash at a discount and the obligation to pay the full face value at maturity.

## Amortization of the Discount

The discount on bonds payable is amortized over the bond's life using the effective interest method or straight-line method. The effective interest method is more precise and reflects the actual expense over time.

Assuming the effective interest method:
- The book value of bonds at issuance: $1,078,000
- The interest expense for each period: Book value × market rate (or effective interest rate)
- The amortized discount increases the carrying amount of bonds payable over time until it reaches $1,100,000 at maturity.

## Interest Expense Recognition

Each interest period, the company recognizes interest expense and makes a cash interest payment:

- Interest paid = $110,000 annually
- Interest expense = Book value of bonds at the period's start × effective interest rate

The difference between interest expense and interest paid represents the amortization of the discount.

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# Impact on Financial Statements

## Balance Sheet Effects

At issuance:

- Assets increase by the cash received ($1,078,000)
- Liabilities increase by the face value of bonds payable ($1,100,000)
- Liabilities also include the discount on bonds payable ($22,000), which reduces the net liability

Over time, as the discount is amortized:

- The carrying amount of bonds payable increases until it equals the face value of $1,100,000 at maturity

## Income Statement Effects

Interest expense recognized each period reflects the amortized amount of the discount plus the coupon interest paid:

- Interest expense increases over time as the discount amortizes
- The difference impacts net income, increasing interest expense over the bond life

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# Conclusion: Key Takeaways from the Bond Issuance

Understanding the issuance of bonds at a discount is crucial for accurate financial analysis and reporting. For Concord Corporation:

- The bonds issued at 98 resulted in cash proceeds of $1,078,000, slightly less than the face value
- The discount of $22,000 will be amortized over the bond's 10-year life, increasing interest expense gradually
- Proper accounting ensures that the company's liabilities and expenses are accurately reflected, impacting profitability and financial ratios

This case exemplifies fundamental bond accounting principles, including issuance at a discount, amortization, and the importance of understanding bond terms for investors and financial analysts alike. Whether you're studying corporate finance or managing company accounts, grasping these concepts enhances your ability to interpret bond-related transactions and their effects on financial statements.

# Frequently Asked Questions

## What is the total amount of bonds issued by Concord Corporation on January 2, 2015?

Concord Corporation issued bonds totaling $1,100,000 on January 2, 2015.

## What does issuing bonds at 98 mean for Concord Corporation?

Issuing bonds at 98 means the bonds were sold at 98% of their face value, or at a discount since 98 < 100.

## What is the interest rate on the bonds issued by Concord Corporation?

The bonds have a 10% annual interest rate.

## When do the bonds issued by Concord Corporation mature?

The bonds are due on December 31, 2024.

## How is the bond discount calculated for Concord Corporation's bonds?

The bond discount is calculated as the difference between the face value ($1,100,000) and the issue price (98% of face value).

## What journal entry would Concord Corporation record upon issuing the bonds at a discount?

Debit Cash for the issue amount (98% of $1,100,000), debit Discount on Bonds Payable for the difference, and credit Bonds Payable for the face value.

## How will interest be recorded for these bonds during their term?

Interest expense is recognized based on the effective interest method, and cash interest payments are made annually at 10% of the face value.

## What is the significance of the bonds being issued at a discount for Concord Corporation?

Issuing bonds at a discount increases the effective interest rate and reflects market conditions or issuer's creditworthiness at the time of issuance.

# Additional Resources

On January 2, 2015, Concord Corporation issued $1,100,000 of 10% bonds at 98, due December 31, 2024. Interest

Introduction

On January 2, 2015, Concord Corporation made a strategic move to raise capital by issuing bonds worth $1,100,000. These bonds carry a 10% annual interest rate, with a maturity date set for December 31, 2024. Notably, the bonds were issued at 98, meaning they were sold at 98% of their face value, or at a discount. This issuance reflects the company's financing strategy, investor demand, and the broader financial environment at the time. In this article, we will explore the details of this bond issuance, its accounting implications, and what it signifies for Concord Corporation’s financial health.

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Understanding Bond Issuance: Basic Concepts

Before delving into the specifics of Concord’s bond issue, it’s essential to understand some fundamental concepts related to bonds and their issuance:

What Are Bonds?

Bonds are debt instruments issued by corporations, municipalities, or governments to raise capital. When an entity issues bonds, it’s essentially borrowing money from investors, promising to pay back the principal amount at maturity, along with periodic interest payments.

Key Terms in Bond Issuance

- Face Value (Principal): The amount paid back at maturity. For Concord, this was $1,100,000.
- Coupon Rate: The annual interest rate paid on the bond’s face value, here 10%.
- Issue Price: The price at which bonds are sold; in this case, 98% of face value.
- Discount or Premium: The difference between the face value and the issue price. Since the bonds were issued at 98, they were issued at a discount.
- Maturity Date: The date bonds mature and principal is repaid, December 31, 2024, in this scenario.

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Details of Concord's Bond Issue

The Nominal Value and Coupon Rate

Concord’s bonds had a face value of $1,100,000, with an annual coupon rate of 10%. This means that each year, bondholders would receive interest payments totaling 10% of the face value, which equates to $110,000 annually ($1,100,000 x 10%).

Issue Price at 98

The bonds were issued at 98% of face value. This translates to:

- Issue Price: $1,100,000 x 0.98 = $1,078,000

Since the bonds were issued below their face value, investors paid less upfront, and Concord would recognize a discount on bonds payable.

Due Date

The bonds mature on December 31, 2024, providing a 10-year term from issuance. Over this period, Concord will make annual interest payments and will repay the principal at maturity.

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Accounting for Bond Issuance

Recording the Bond Issue

When Concord issued the bonds, it had to record the transaction in its accounting books. Since the bonds were issued at a discount, the company would recognize:

- The cash received: $1,078,000
- The face value of bonds payable: $1,100,000
- The discount on bonds payable: $22,000 ($1,100,000 - $1,078,000)

Journal Entry at issuance:

```
Debit Cash: $1,078,000
Debit Discount on Bonds Payable: $22,000
Credit Bonds Payable: $1,100,000
```

This entry reflects the obligation to pay $1,100,000 at maturity and accounts for the discount, which will be amortized over the bond’s life.

Amortization of Discount

Since the bonds were issued at a discount, the company must amortize this discount over the bond’s life, increasing interest expense above the cash interest paid.

Methods of amortization:

- Straight-line method: Equal amortization each period.
- Effective interest method: Recognizes interest expense based on the carrying amount and market rate at issuance.

Most companies prefer the effective interest method as it provides a more accurate reflection of interest expense over time.

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Interest Payments and Amortization Schedule

Annual Interest Payments

Concord will pay $110,000 annually to bondholders, calculated as:

```
Interest Payment = Face Value x Coupon Rate
= $1,100,000 x 10% = $110,000
```

Effective Interest Rate Calculation

Since bonds were issued at a discount, the market rate at issuance was higher than the coupon rate. To determine the effective interest rate, we perform financial calculations considering the issue price, face value, and payments.

Assuming the effective interest rate is approximately 11%, interest expense each year would be:

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Interest Expense = Carrying Amount x Effective Interest Rate
= Starting at $1,078,000, increasing as the discount amortizes.
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Amortization Schedule

Over the 10-year life, the discount of $22,000 will be amortized. For example, under the effective interest method:

| Year | Beginning Carrying Amount | Interest Expense (11%) | Interest Paid | Discount Amortized | Ending Carrying Amount |
|---------|-----------------------------|--------------------------|----------------|---------------------|------------------------|
| 2015 | $1,078,000 | $118,580 | $110,000 | $8,580 | $1,086,580 |
| 2016 | $1,086,580 | $119,523 | $110,000 | $9,523 | $1,096,103 |
| ... | ... | ... | ... | ... | ... |

This schedule continues until the carrying amount reaches the face value at maturity.

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Financial Implications for Concord Corporation

Impact on Financial Statements

- Balance Sheet: The bonds payable will be recognized as a liability at amortized cost, starting at $1,078,000 and increasing over time as the discount amortizes.
- Income Statement: Interest expense will be higher than the cash interest paid initially due to the amortization of the discount.
- Cash Flow Statement: The interest paid ($110,000 annually) appears as an operating activity, while the principal repayment at maturity appears as a financing activity.

Cost of Borrowing

Issuing bonds at a discount increases the effective interest rate, representing the true cost of borrowing for Concord. This higher interest expense affects profitability but provides the company with the capital needed for expansion, operations, or debt refinancing.

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Strategic Significance of the Bond Issue

Why Did Concord Issue Bonds at 98?

- Market Conditions: The decision to issue bonds below face value suggests investor caution or a higher market interest rate environment.
- Cost of Debt: Although the bonds had a 10% coupon rate, the effective interest rate was likely

higher due to the discount.
- Funding Needs: Concord needed substantial capital, and bond issuance provided a way to raise funds without diluting ownership through equity.

Benefits and Risks

Benefits:

- Access to large amounts of capital.
- Fixed interest payments provide predictability.
- No immediate dilution of ownership.

Risks:

- Increased debt obligation and interest expense.
- Market fluctuations affecting the bond's valuation.
- Potential impact on credit ratings if leverage increases.

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Conclusion

The bond issuance by Concord Corporation on January 2, 2015, exemplifies a common corporate financing strategy. By issuing $1,100,000 of 10% bonds at 98, the company accessed necessary capital, albeit at a cost reflected in the discount and higher effective interest rate. Understanding the intricacies of bond accounting, including initial recognition, amortization of discounts, and the impact on financial statements, is crucial for stakeholders analyzing the company’s financial health.

This issuance not only highlights the importance of strategic financing decisions but also underscores the significance of accurate accounting to reflect the true cost of borrowing and the company's obligations. As Concord approaches the maturity date in 2024, it will need to plan for the repayment of principal, ensuring its financial stability and continued growth.

In essence, bond issues like Concord’s serve as vital tools in corporate finance, enabling businesses to leverage debt for expansion while navigating the complexities of accounting and market dynamics.

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