Financing With Bonds

Longer term liabilities include lines of credit and bonds. Companies issue bonds or stock to raise money. Bonds are debt instruments. Bonds are usually bought *for more or less* than the face amount. This is because the face amount is determined when the bond is issued. But bonds are bought and sold every day! So, you may be buying one that was issued a year ago when rates were higher. This causes for the premium or discount on the interest rate of the bond to require amortization or accretion of the difference. When the company issues bonds, they will have to pay interest to the bondholders twice a year. This transaction is accrued for monthly and paid semi-annually.

Debt Retirement

Bonds are also retired at some point in time. When that occurs, the liability is removed from the books and the cash is deducted from the assets.

** Video Alert**

Here is a great video on bond premiums and discounts!

http://www.youtube.com/watch?v=I-NgLF14fk8

Happy Accounting!

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