

I-13.06

Cold Creek Confections issued \$1,000,000 of 6% bonds on January 1, 20X5. The bonds were issued at 86.15 (note that bonds are frequently priced in increments of 1/32, so this nomenclature is taken to mean 86 and 15/32 of par, or \$864,688). The issue price resulted in an effective yield of 8%, and Cold Creek amortizes bond discounts by the effective interest method. The bonds pay interest on June 30 and December 31 of each year, and had a life of 10 years. By December 31, 20X6, the market rate of interest had declined to 5%. At that time, Cold Creek reacquired and retired the bonds for \$1,065,270.

- (a) Determine the carrying value of the bonds on December 31, 20X6 (immediately after recording the interest payment due on that date).
- (b) Prepare the journal entry to record the interest payment and bond retirement on December 31, 20X6.
- (c) Prepare calculations showing that the bonds would be fairly priced at \$1,065,270 on December 31, 20X6.