

B-09.07

Petersen Stores invested in \$100,000 of face amount of 4-year bonds issued by Erik Food Supply Company on January 1, 20X1. The bonds were purchased at 98, and bear interest at a stated rate of 8% per annum, payable semiannually.

- (a) Prepare the journal entry to record the initial investment on January, 20X1.
- (b) Prepare the journal entry that Petersen would record on each interest date.
- (c) Prepare the journal entry that Petersen would record at maturity of the bonds.
- (d) How much cash flowed "in" and "out" on this investment, and how does the difference compare to total interest income that was recognized?