

Clear Water Coffee issued \$100,000 of 7% bonds on January 1, 20X1. The bonds were issued at par and pay interest on June 30 and December 31 of each year. By December 31, 20X5, the market rate of interest had increased, and Clear Water was able to reacquire and retire the bonds for \$97,500, plus accrued interest.

Prepare the journal entry to record the interest payment and bond retirement on December 31, 20X5.