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.