

A company issues 4% bonds with a nominal value of \$500,000 for \$394,408 on 1 January 20X0. Redemption is at par in five years time and the effective rate of interest of the bonds is 9.5%.

What figure would ~~FRS 26~~ require to appear in the balance sheet at 31 December 20X2 for these bonds and in the income statement for the year ending 31 December 20X2?

	Balance sheet	Income statement
	\$	\$
A	451,951	20,000
B	451,951	40,946
C	500,000	20,000
D	500,000	47,500

The correct answer is B.

Year	Amount b/f	Interest @ 9.5%	Interest paid	Amount c/f
	\$	\$	\$	\$
20X0	394,408	37,469	(20,000)	411,877
20X1	411,877	39,128	(20,000)	431,005
20X2	431,005	40,946	(20,000)	451,951
20X3	451,951	42,935	(20,000)	474,886
20X4	474,886	45,114	(520,000)	—