CONCEPT: REDEEMING BONDS BEFORE MATURITY

● A company may decide to ***redeem*** (i.e. repurchase) their bonds before maturity:

- □ No longer require the loan and desire to stop paying interest
- □ Interest rates have fallen; could save money on interest by repurchasing old bonds and issuing new bonds

● The company will repurchase the bonds at a different price than the current ________________ of the bonds

- □ The difference between the repurchase price and the carrying value will result in a ________ or ________

$$Gain\ or\ Loss\ on\ Retirement = Repurchase\ Price - Carrying\ Value\ of\ Bonds$$

On January 1, 2012, RX Enterprises issued $100,000 of 7% bonds maturing in ten years when other bonds of similar risk were paying 8%. The bonds were issued at 94 and paid semi-annual interest on January 1 and July 1. During 2012, the market rate of interest dropped to 6%. On January 1, 2013, RX decided to repurchase the bonds when the market price was $106,000.

Repurchase Price:

Carrying Value of Bonds:

January 1, 2013 Journal Entry:

On January 1, 2012, RX Enterprises issued $100,000 of 7% bonds maturing in ten years when other bonds of similar risk were paying 8%. The bonds were issued at 94 and paid semi-annual interest on January 1 and July 1. During 2012, the market rate of interest increased to 10%. On January 1, 2013, RX decided to repurchase the bonds when the market price was $88,000.

Repurchase Price:

Carrying Value of Bonds:

January 1, 2013 Journal Entry: