

<b>HELD TO MATURITY and AVAILABLE FOR SALE SECURITIES</b>
---

***I. This case illustrates how to determine the amortized cost of a financial instrument, including the preparation of an amortization schedule.***

On January 1, 2005, RCA Company purchased a bond in the market for P 53,993. The bond has a principal amount of P50,000 that will be repaid on December 31, 2009. The bond has a stated rate of 10% payable annually, and the quoted market interest rate for the bond is 8%.

**Required:**

Indicate whether the bond was acquired at a premium or a discount. Prepare an amortization schedule that shows the amortized cost of the bond at the end of each year between 2005 and 2009 and reported interest income in each period.

***II. This case illustrates how to account for available-for-sale financial assets.***

On August 1, 2006, RCA purchased a two-year bond, which it classified as available for sale. The bond has a stated principal amount of P100,000, which RCA will receive on August 1, 2008. The stated coupon interest rate was 10% per year, which is paid semiannually on December 31 and July 31. The bond was purchased at a quoted annual yield of 8% on a bond-equivalent yield basis.

**Required:**

- a.) What price did RCA pay for the bond? (Hint: Compute the present value using a semi-annual yield and semiannual periods.)
- b.) Did RCA purchase the bond par, at a discount, or a premium?
- c.) Prepare a journal entry at the date RCA purchased a bond. (RCA paid cash to acquire the bond. Assume that no transaction costs were paid.)
- d.) Prepare a bond amortization schedule for years 2006 to 2008. For each period, show cash interest receivable, recognized interest revenue, amortization of any bond discount or premium, and the carrying amount of the bond at the end of the period.

e.) Prepare the journal entries to record cash interest receivable and interest revenue on July 31, 2007.

f) If the quoted market yield for the bond changes from 8% to 9% on December 31, 2007, should RCA recognize an increase, a decrease, or no change in the carrying amount of the bond on that date? If you conclude that the carrying amount should change, compute the change and prepare corresponding journal entries.