

**Solution:**

(1)

Let us first calculate the amount of money that is received from issuing of the bonds.  
For this, we first calculate the principal and the rate of interest applicable.

Thus, we get

$$Principal = \$ \frac{10}{1.05^{10}} = \$6.14 \text{ million}$$

The interest amount that is received should be:

$$Interest \text{ Received} = \$ (10 - 6.14) \times \frac{6}{10} = \$2.32 \text{ million}$$

Thus, the total proceeds from the debenture are given by: *Proceeds* = \$8.46 million.

Using this value, we can now create a table to show interest expenses and the unamortized discount:

TABLE OF COMPUTATION (in \$)						
Semi-annual period	Liability		Interest Expense with		Discount	
	Beginning	Ending	Market %	Annual %	Amortized	Unamortized
Begin	-	8,460,000	-	-	-	1,540,000
1 <sup>st</sup>	8,460,000	8,583,000	423,000	300,000	123,000	1,417,000
2 <sup>nd</sup>	8,583,000	8,712,150	429,150	300,000	129,150	1,287,850
3 <sup>rd</sup>	8,712,150	8,847,758	435,608	300,000	135,608	1,152,242
4 <sup>th</sup>	8,847,758	8,990,146	442,388	300,000	142,388	1,009,854
5 <sup>th</sup>	8,990,146	9,139,653	449,507	300,000	149,507	860,347
6 <sup>th</sup>	9,139,653	9,296,636	456,983	300,000	156,983	703,364
7 <sup>th</sup>	9,296,636	9,461,468	464,832	300,000	164,832	538,532
8 <sup>th</sup>	9,461,468	9,634,541	473,073	300,000	173,073	365,459
9 <sup>th</sup>	9,634,541	9,816,268	481,727	300,000	181,727	183,732
10 <sup>th</sup>	9,816,268	10,000,000	483,732	300,000	183,732	0

(2)

The journal entries are as follows (explanations are omitted)

Transaction	Particulars	Debit	Credit
First semi-annual payment	Interest Expense To Cash	483,732	483,372

(3)

2010, January 1: Balance sheet will have the accounts of bond payable as mentioned above in liabilities section.

2010, July 1: Cash section will decrease only, and stockholders' equity will be effected.