**Solution:**

(1)

|  |  |  |  |
| --- | --- | --- | --- |
| EFFECT ON THE BALANCE SHEET EQUATION  (Amounts are in thousands of $) | | | |
| Scenario | Balance Sheet Equation | | |
| Assets = | Liabilities + | Stockholders’ Equity |
| Issuance of debentures | +11,359  (cash) | +10,000  (bonds payable)  +1,359  (bond premium) |  |
| First semi-annual payment | -500.00  (cash) | -45.64  (bond premium) | -454.36  (interest expense) |
| Payment at maturity | -10,000  (cash) | -10,000  (bonds payable) |  |

(2)

|  |  |  |  |
| --- | --- | --- | --- |
| JOURNAL ENTRIES FOR THE BOND TRANSACTIONS  (Amounts are in thousands of $) | | | |
| Date | Particulars | Debit | Credit |
| Issuance | Cash  To Bonds Payable  To Bonds Premium | 11,359 | 10,000  1,359 |
| First Payment | Interest Expense  Bonds Premium  To Cash | 454.36  45.64 | 500.00 |
| Maturity Payment | Bonds Payable  To Cash | 10,000 | 10,000 |

(3) The bond related accounts can be easily updated, based on the data that is provided above.

(4)

To calculate, we note that after first payment, the net bond payable becomes $11,359,000 - $45,640 = $11,313,360.

Thus, the interest expense for the second payment (i.e. tenure ending on Dec 31, 2011) will be given by $11,313,360 x 4% = $45,253.44.