

**APB Opinion No.26
Early Extinguishment of Debt**

Example: Smith Co. has the following bond liability on its balance sheet:

Bonds Payable, 15%, \$1,000 par, 100 issued and outstanding	\$ 100,000
Unamortized bond discount	<u>4,000</u>
Book value of bonds	<u>\$ 96,000</u>

The bonds had a term of 20 years, and were issued 10 years ago. The bond discount has been appropriately amortized on a straight line basis. The bonds are callable at 105 at the option of Smith Co.

Case A: Smith has decided to exercise its call option on December 31, 2003.

Entry:

Case B: Smith decides to refund the bonds; i.e., to issue new bonds and use the proceeds to retire the old bonds. New 15 year term, 6% bonds can be issued at par. Smith issues 105 bonds for \$105,000.

Pre APB Opinion No. 26--three options:

- 1.
- 2.
- 3.

Post APB Opinion No. 26--

Rationale: _____

