

Chapter 10

AMORTIZATION OF A BOND

DISCOUNT/PREMIUM

Effect of Amortization Reason

Discount:		
Bond is a debt instrument.	Increases interest expense.	Discount represents extra interest paid to bondholders to bring the bond's stated interest rate up to a higher market interest rate.
Bond is an investment.	Increases interest revenue	
Premium:		
Bond is a debt instrument.	Reduces interest expense.	Premium represents a reduction in the interest to bring the bond's stated interest rate down to a lower market interest rate
Bond is an investment.	Reduces interest Revenue	