

Bonds

Marketable securities often comprise the majority of assets tracked with Financial Navigator. Effectively using all the capabilities in this area can be critical for your meaningful use of Financial Navigator.

This document consists of 6 parts:

- Working with Investment Accounts
- Complex Investment Transactions
- Gifts of Securities
- Bonds (this document)
- Foreign Investments
- Retirement Plans

Accounting for Accrued Interest on Bonds

Financial Navigator accounts for accrued interest on bond transactions as detailed on page 502 of the *FN 7.0 Reference Guide*.

Remember two important points when dealing with accrued interest:

- If the bond purchase has accrued interest and the first interest payment is not until the investor's next taxable year, the interest should be deferred to a receivable account and offset against next year's interest income.
- When recording the sale of a bond with accrued interest, it is necessary to record two transactions, one for the bond sale and the other for the accrued interest to the date of sale.

Premiums and Discounts

Generally, bond premiums and discounts have to be accounted for when a bond is sold. The holder of tax-free bonds purchased at a premium must amortize the premium. The premium on taxable bonds may be amortized if the taxpayer makes the necessary election. More commonly, the premium is part of the tax basis at the time of the sale. For more information on bond amortization, see the section immediately following, **Amortizing Bond Premiums**.

Original Issue Discount

If a bond is issued at a discount, the Original Issue Discount may be accreted. If the bond is purchased at a market discount, a portion of the gain will be considered interest income.

The following example tracks the purchase of an Original Issue Discount (OID) Bond and its disposal.

Investment:	OID Bond
Issued on:	January 1, 1987
Maturity value:	\$1,000
Price at Issuance	\$975
Maturity Date:	December 31, 2003
Interest rate	8% per annum
Interest payable:	Semi-annually June 30 / December 31
Action #1:	Purchase of OID Bond
Date:	April 3, 2000
Purchase price:	\$970 including \$20 interest.
Action #2:	OID Bond is sold
Date:	October 3, 2000
Sales price:	\$1,030 including accrued interest of \$20

The calculation of the bond's market discount is as follows:

Bond's Original Issue Price	\$ 975
Previous Holders OID (supplied by broker)	<u> 5</u>
Revised Issue Price	980
Cost basis (net of accrued interest)	<u>(970)</u>
Market Discount	<u>\$ 30</u>

To record these transactions in Financial Navigator:

1. In the Chart of Accounts, insert the following accounts in the appropriate categories:

- Corporate Bonds category — **B BOND 8% 12-31-03/SWB**
- Interest Income-Taxable category — **INTEREST-BBOND REG/SWB**
- Interest Income-Taxable category — **INTEREST-BBOND OID/SWB**

Note: *Because the bond was bought and sold within a taxable year, interest on the purchase will not be set up through an interest receivable account.*

- Record the April purchase of the bond in the SWISS BANK/SWB as follows:

ID	Date	Payee / Payor	Account	Memo	Status	Debit	Credit
Cr	04/10/00	Swiss Bank	**** Multiple Distribution		Clr		970.00

Date Acquired: Apr 3 00 Quantity Acquired: 1 Symbol, Desc: BB0ID

	Account	Memo	Debit	Credit
1	B BOND 8% 12-31-03/SWB		950.00	
2	INTEREST-BBOND REG/SWB		20.00	
3				
4				
5				

Account Info:
 ASSET: B BOND 8% 12-31-03/SWB (237) Sym: BB0ID
 Activity: Apr 950.00 Bal: 950.00 Qty: 1 Acquired: Apr 3 00
 Tax Basis: 950.00 Sold:

Buttons: OK, Cancel, Help, Insert, Bal Net, Bal Dist, Balanced .00

- On June 30, 2000, \$40 interest is received in the Swiss Bank brokerage account and swept to the money market account. Record the transaction in the SWISS BANK/SWB as follows:

Transaction Activity - Dewey & Vera Goode - 2000 - E:\FIN\SAMPLE\

File Edit View Tools Options Help

Enter Change Reconcile Checks Prev Next Find Del Trans MD C of A

Reports Help Close

Function:
 Action: Enter Transactions Category: Savings/Money Market Apply
 Month: June Account: SWISS BANK/SWB (226)

ID	Date	Payee / Payor	Account	Memo	Status	Debit	Credit	Balance
Dr	06/30/00	Swiss Bank	INTEREST-BBOND REG/SWB		Out	40.00		409,070.00
101	06/30/00				Clr			

Account Activity:
 Activity: Month: 40.00
 Balance: Balance: 409,070.00

- Assume the bond has a \$1 OID while owned by the investor. Enter an October transaction in the SWISS BANK/SWB as follows:

Multiple Distribution

ID	Date	Payee / Payer	Status	Deposit	Charge	Balance
Dep	10/03/00	Swiss Bank	Clr	0.00		397,745.00

	Account	Memo	Charge	Deposit
1		OID Interest		
2	B BOND 8% 12-31-03/SWB		1.00	
3	INTEREST-BBOND OID/SWB			1.00
4				
5				
6				
7				
8				

Account Info

OK Cancel Help Insert Bal Net Bal Dist Balanced .00

- Go to the Asset and Liability Info screen for the B BOND 8% 12-31-03/SWB accounts. Change the Tax Basis to **\$951.00**.

Asset and Liability Info

Asset: B BOND 8% 12-31-03/SWB (227)

Starting Balance Jan 1 00 .00
 Jan Balance: .00

1 Bond Price 100.00

2 Valuation Date..

3 Check Number.....

4 Interest/Bd\$

5 Date Acquired...

6 Cost Basis.\$

7 Tax Basis..\$

8 No. of \$1000 Bonds.

9 Date Sold.....

0 Proceeds...\$

Sym.#:

Format:

Prev Balances... Print

List Next Budgets... OK Cancel Help

- In the SWISS BANK/SWB account, record an assumed \$3 of the gain to be re-characterized as interest as follows:

ID	Date	Payee / Payer	Status	Deposit	Charge	Balance
Dep	10/06/00	Swiss Bank	Clr	0.00		397,745.00

	Account	Memo	Charge	Deposit
1		Recharacterized Gain		
2	B BOND 8% 12-31-03/SWB		3.00	
3	INTEREST-BBOND REG/SWB			3.00
4				
5				
6				
7				
8				

Account Info

OK Cancel Help Insert Bal Net Bal Dist Balanced .00

Note: This entry is made to increase the basis of the bond so that the total proceeds from the capital sale can be accounted for on Schedule D.

- Return to the Asset and Liability Info screen for the B BOND 8% 12-31-03/SWB account. Change the Tax Basis to **\$954.00**. The screen appears as follows:

Asset: B BOND 8% 12-31-03/SWB (227)

Starting Balance Jan 1 00 .00
 Jan Balance: .00

1 Bond Price 100.00 **95**

2 Valuation Date..

3 Check Number..... **0**

4 Interest/Bd\$ **.00**

5 Date Acquired... **Apr 3 00**

6 Cost Basis.\$ **950.00**

7 Tax Basis..\$ **954.00**

8 No. of \$1000 Bonds. **1**

9 Date Sold.....

0 Proceeds...\$ **.00**

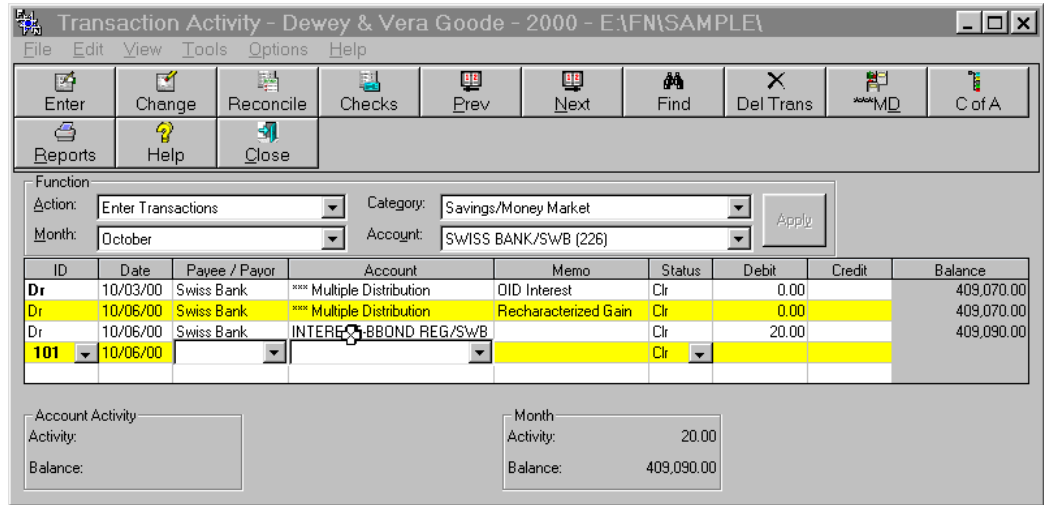
Sym.#: **BBOID**

Format: **Bonds**

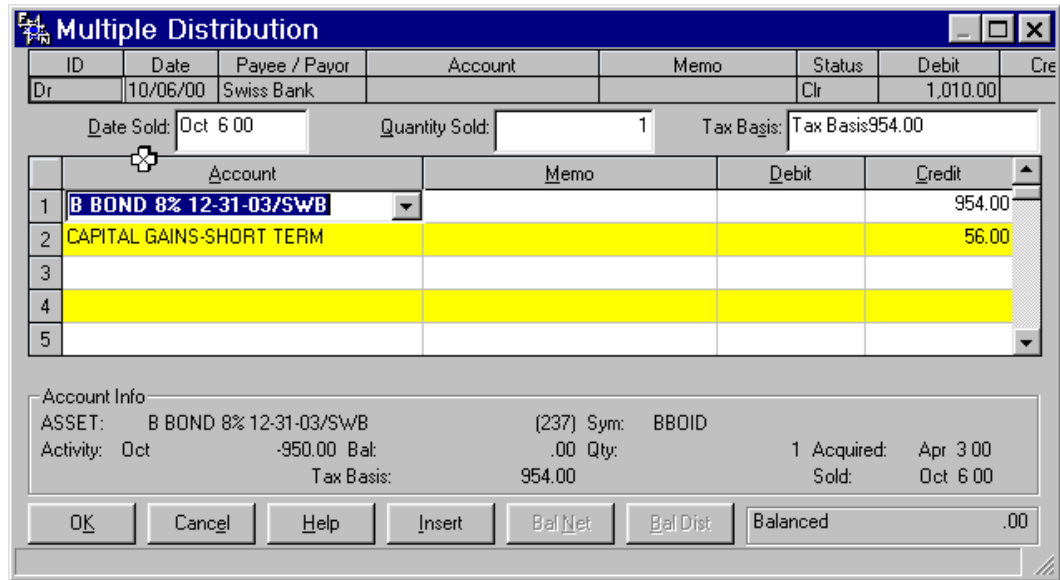
Prev Balances... Print

Calculator Next Budgets... OK Cancel Help

8. Enter the \$20 of interest received in the SWISS BANK/SWB account.



9. Record the October sale of the bond for \$1,010 as follows:



10. Save and exit the Multiple Distribution screen. Double-click on any of the October deposit entries to display the total transaction amount.

11. Review the **Schedule D** report. Note that the gain is correctly recorded.

Amortizing Bond Premiums

If a bond has a high coupon interest rate, it will sell at a price above its maturity value. This is called selling at a “premium” and the difference between the face value and the sales price is called “the premium.”

For tax planning reasons, you may elect to amortize this premium over the number of years you own the bond. This amortization may be deducted against the interest income you receive for a given year.

For tax record keeping, this premium must be used to reduce the tax basis of the bond. This means you save taxes during the period you hold the bond by paying less tax on the interest you receive. However, you pay more taxes when you sell the bond, because the tax basis has been reduced from the original purchase price.

To amortize a bond premium:

1. In the Chart of Accounts, insert the following accounts in the appropriate categories:

- Municipal Bonds category — **GEN UTILITIES 6-30-00/SWB**
- Interest Income-Taxable category — **AMORTIZATION BOND PREM**
- Interest Income-Taxable category — **INTEREST-GEN UTIL REG/SWB**

Note: Many users make the amortization account an income account even though it acts more like an expense account. They make it an income account so that it will appear along with the interest income where they are recording the corresponding income from the bonds.

2. Go to the Tax Code Changes screen for the AMORTIZATION BOND PREM account. Assign this account an appropriate **Interest Income – SchB** tax code so it will appear along with your interest income on your tax schedules.

3. Record the purchase of the bond in the SWISS BANK/SWB account as follows:

ID	Date	Payee / Payer	Account	Memo	Status	Debit
Cr	02/04/00	Swiss Bank			Cr	
Date Acquired: Apr 1 00		Quantity Acquired: 10		Symbol Desc: GENUT		
1			GEN UTILITIES 6-30-00/SWB			11,125.00
2			INTEREST-GEN UTIL REG/SWB			200.00
3						
4						
5						

Account Info
 ASSET: GEN UTILITIES 6-30-00/SWB (240) Sym:
 Activity: Feb 11,125.00 Bat: 11,125.00 Qty: 10 Acquired: Feb 4 00
 Tax Basis: .00 Sold:

OK Cancel Help Insert Bal Net Bal Det Balanced .00

- Record the amortization transaction in a general journal. You may enter this at whatever cycle you decide (once a year, quarterly, or even monthly).

Multiple Distribution

JE #	Date	Payee / Payer	Account	Memo	Status	Debit	Credit
81	12/31/00	Bond Premium Am			Clr		

	Account	Memo	Debit	Credit
1	GEN UTILITIES 6-30-00/SWB			235.00
2	AMORTIZATION BOND PREM		235.00	
3				
4				
5				

Account Info
 ASSET: GEN UTILITIES 6-30-00/SWB (240) Sym: GENUT
 Activity: Dec -235.00 Bal: 10,890.00 Qty: 10 Acquired: Apr 1 00
 Tax Basis: 11,125.00 Sold:

OK Cancel Help Insert Bal Net Bal Dist Balanced .00

- Go to the Asset and Liability Info screen for the GEN UTILITIES 6-30-00/SWB account. Change the Cost and Tax Basis to **\$10,890** to reflect the amortization.

Asset and Liability Info

Asset: GEN UTILITIES 6-30-00/SWB (240)

Starting Balance Jan 1 00 .00
 Jan Balance: .00

1	Bond Price 100.00	108.9	
2	Valuation Date..		
3	Check Number.....	0	
4	Interest/Bd\$.00	
5	Date Acquired...	Feb 1 00	
6	Cost Basis.\$	10,890.00	Per Bond.. 108.9
7	Tax Basis..\$	10,890.00	Per Bond.. 108.9
8	No. of \$1000 Bonds.	10	Par Value 10,000
9	Date Sold.....		Gain -10,890.00
0	Proceeds...\$.00	

Sym.#: GENUT
 Format: Bonds

Prev Balances... Print
 Calendar Next Budgets... OK Cancel Help

How to Reach Us

Information and Sales: 800 468-FNFN (3636)
Fax: 650 962-0730
Web site: www.finnav.com
E-mail: customerservice@finnav.com
Technical Support: 650 962-8510
Hours: Monday - Friday 7:30 a.m. - 4:30 p.m. PT
Business Address: 254 Polaris Ave
..... Mountain View, CA 94043
Telephone: 650 962-0300

Trademark Acknowledgments

Financial Navigator, Navigator, Advanced Reports, CheckForm Navigator, Navigator Access, Navigator DataBridge, Navigator Impressions, and Navigator StockWeb are trademarks or registered trademarks of Financial Navigator Int'l.

Windows is a registered trademark of Microsoft Corporation. Other product names mentioned in this reference material may be trademarks or registered trademarks of their respective companies and are hereby acknowledged.