



HOW DO I CALCULATE ACCRUED INTEREST?

Step 1

Calculate the daily interest that the bond pays. For example, the QUARTERLY coupon is 2.75% and investment is \$10,000 USD.

Step 2

Divide the quarterly coupon percentage by the total days in the quarter. (1 quarter = 90 days)
 $2.75\%/90 = 0.03\%$, this is the interest that is accrued daily.

$$0.03\% \times \$10,000 = \$3 \text{ usd a day}$$

Step 3

Sum up the days since the last coupon was paid and multiply it by the daily interest, for example:

If 73 days have passed since the last coupon date then multiply 73 days by \$3 usd = \$219 USD

Step 4

Now we know that to buy 10,000 units of a bond when the price is PAR, at \$1 USD, we need an extra \$219 USD in cash on top of the \$10,000 USD plus the broker cost of the purchase 0.25% (\$25 USD + \$219 USD = \$244 USD)