III. PROMISSORY NOTES

ACCOUNTING FOR NOTES RECEIVABLES

Sold $2,000 worth of merchandise on credit to B. Company on November 10, 1996. On December 10, B. Company was unable to pay and signed a 9%, 90-day, $2,000 note. If the note was paid when due, the following Journal Entries would have been recorded: Assume a 360-day year.

Nov. 10

**READ FIRST --> To record sale to B. Company.**

Dec. 10

Note Receivable accepted for trade receivable due today.

Dec. 31

To adjust for interest earned.

March 10

Collected note plus accrued interest from B. Company.

**REVERSING ENTRY ALTERNATIVE**

Jan. 2

To reverse adjusting entry.

March 10

Collected note from B. Company.

**DISCOUNTING A NOTE RECEIVABLE**

Assume the above did not happen and on January 4, Video Showcase discounted the B. Company $2,000, 90-day Note Receivable with Z. Bank which charged 11% interest. Calculate the relative interest and make the Journal Entry necessary to discount the note. Assume a 360-day year.

<table>
<thead>
<tr>
<th>DISCOUNT PERIOD</th>
<th>DISCOUNT CHARGE</th>
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<tr>
<td>Jan. 4</td>
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**Hint:** The Video Showcase had an interest expense of $6.12 in 1997.

To discount B. Company Note.