III. PROMISSORY NOTES

ACCOUNTING FOR NOTES RECEIVABLE

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 Accounts Receivable
Sales

DR. 2,000.00
CR. 2,000.00

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

Dec. 10 Note Receivable
Account Receivable

Note Receivable accepted for trade receivable due today.

Dec. 31 Interest Receivable ($2,000)(.09)(21/360)
Interest Earned
To adjust for interest earned.

March 10 Cash $2,000 + ($2,000)(.09)(90/360)
Interest Receivable
Interest Earned
Notes Receivable
Collected note plus accrued interest from B. Company.

REVERSING ENTRY ALTERNATIVE

Jan. 2 Interest Earned
Interest Receivable

To reverse adjusting entry.

March 10 Cash
Interest Earned
Notes Receivable
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.

DISCOUNT PERIOD

Note Term 90 days
Days in December 31
Date on Note 10
Days held in Dec. 21
Days held in Jan. 4
Days held by Linda 25
Discount Period 65

DISCOUNT CHARGE

I = Pin

= ($2,045)(.11)(65/360) = $40.62

Proceeds = $2,045.00 - $40.62 = $2,004.38

Jan. 4 Cash
Interest Expense
Interest Receivable
Note Receivable

DR. 2,004.38
CR. 6.12 10.50

Hint: The Video Showcase had an interest expense of $6.12 in 1997.

To discount B. Company note.