

# Practice Set

## ACCOUNTING FOR CURRENT LIABILITIES

### I. NOTES PAYABLE USED TO SECURE CREDIT

Rapid expansion and a pre-holiday inventory buildup had left Linda short of Cash. On October 19, she signed a 90-day, 10% note payable to cover an \$80,000 trade credit with her largest supplier, IBN Computers. The note was paid when due. Calculate the maturity date and make the 3 Journal Entries required to account for the loan. Transaction descriptions are not required throughout this practice set. Use a 360-day year.

Days in October	31	
Minus Origination Date	<u>19</u>	
Days Outstanding - October	12	
Days Outstanding - November	30	
Days Outstanding - December	<u>31</u>	
Total this year	73	
Days Outstanding in January to Reach Term	<u>17</u>	
Term of note	90	
Oct. 19	Accounts Payable	80,000.00
	Notes Payable	80,000.00
Dec. 31	Interest Expense	1,622.22
	Interest Payable	1,622.22
Jan. 17	Notes Payable	80,000.00
	Interest Expense	377.78
	Interest Payable	1,622.22
	Cash	82,000.00

Interest Calculations: Part I

This Year:

I = Pin

= (\$80,000) (.10) (73)

360

= \$1,622.22

Next Year:

I = Pin

= (\$80,000) (.10) (17)

360

= \$377.78

### II. BANK LOANS

Also on October 19, to pay other expenses during the period, Linda Smith borrowed \$20,000 from each of her two banks, the second of which discounted the note. Both charged 14% for the 90-day notes. Both notes were paid when due. Make two sets of Journal Entries, one for each bank.

Interest Calculations: Part II

<p>Total Interest:</p> <p>I = Pin</p> <p style="margin-left: 20px;">= (\$20,000) (.14) (<u>90</u>)</p> <p style="margin-left: 100px; text-align: right;">360</p> <p style="margin-left: 20px;">= \$700</p>	<p style="text-align: center;">This Year:</p> <p>I = Pin = (<u>73</u>) (\$700) = \$567.78</p> <p style="margin-left: 100px; text-align: right;">90</p>	<p style="text-align: center;">Next Year:</p> <p>I = Pin = (<u>17</u>) (\$700) = \$132.22</p> <p style="margin-left: 100px; text-align: right;">90</p> <p style="text-align: right; margin-top: 10px;">= \$132.22</p>
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#### FIRST BANK

		DR.	CR.
Oct. 19	Cash	20,000.00	
	Notes Payable		20,000.00
Dec. 31	Interest Expense	567.78	
	Interest Payable		567.78
Jan. 17	Notes Payable	20,000.00	
	Interest Payable	567.78	
	Interest Expense	132.22	
	Cash		20,700.00

#### SECOND BANK

		DR.	CR.
Oct. 19	Cash	19,300.00	
	Discounts on Notes Payable	700.00	
	Notes Payable		20,000.00
Dec. 31	Interest Expense	567.78	
	Discount on Notes Payable		567.78
Jan. 17	Notes Payable	20,000.00	
	Interest Expense	132.22	
	Cash		20,000.00
	Discount on Notes Payable		132.22

Hint: Interest Expense for year one was \$567.78.