

Quick Question On Installment Notes Payable

A Company borrowed \$30,000 for 3 years with interest at 10% on January 1, 1995. First Bank wanted three annual equal principal payments plus accrued interest while Second Bank wanted three annual equal payments. Make the required Journal Entry to record the receipt of the loan and the three Journal Entries to record payment of the loan for First Bank on this page and then for Second Bank on the next page.

FIRST BANK DATA SUMMARY:

Annual principal payment = $\$30,000/3 = \$10,000$

P = \$30,000

P' = \$20,000

P'' = \$10,000

i = 10%

n = 1 year

I = Pin = $(\$30,000)(.1)(1) = \$3,000$

I' = P'in = $(\$20,000)(.1)(1) = \$2,000$

I'' = P''in = $(\$10,000)(.1)(1) = \$1,000$

DATE		ACCOUNT TITLE AND DESCRIPTION	PR	DEBIT	CREDIT
Jan.	1	Cash		30,000	
		Notes Payable			30,000
Dec.	31	Notes Payable		10,000	
		Interest Expense		3,000	
		Cash			13,000
Dec.	31	Notes Payable		10,000	
		Interest Expense		2,000	
		Cash			12,000
Dec.	31	Notes Payable		10,000	
		Interest Expense		1,000	
		Cash			11,000