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.

DR. CR.

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

Hint: Interest earned was $10.50 in 1996, and cash collected in 1997 equaled $2,045.

Collected note plus accrued interest from B. Company.

REVERSING ENTRY ALTERNATIVE

Jan. 2

To reverse adjusting entry.

March 10

Hint: Interest earned was debited $10.50 and then credited $45.

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 **DISCOUNT CHARGE**

DR. CR.

Jan. 4

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

To discount B. Company Note.