# Quick Questions On Notes Receivable And Discounting

1. Make all the Journal Entries required by Ace Company in relation to the following transactions assuming the Company has a calendar-year accounting cycle.

| | |
|---|---|
| Dec. 16 | Accepted a 90-day 12% note for $8,000 from I Am Poor Corporation, a customer delinquent on their account. |
| Dec. 31 | Adjusting entry completed. |
| March 15 | I Am Poor Corporation paid the note dated December 16. |

DATA SUMMARY:

Total Interest = Pin = ($8,000 )(.12)(90/360) = $240

Days in December = 31 - 16 = 15

Interest in December = (15/90)($240) = $40

Interest next Year = $240 - $40 = $200

| DATE | | ACCOUNT TITLE AND DESCRIPTION | PR | DEBIT | | CREDIT | |
|---|---|---|---|---|---|---|---|
| Dec. | 16 | Notes Receivable | | 8,000 | | | |
| | | Accounts Receivable | | | | 8,000 | |
| | | | | | | | |
| Dec. | 31 | Interest Receivable | | 40 | | | |
| | | Interest Earned | | | | 40 | |
| | | | | | | | |
| March | 15 | Cash | | 8,240 | | | |
| | | Interest Receivable | | | | 40 | |
| | | Interest Earned | | | | 200 | |
| | | Notes Receivable | | | | 8,000 | |

2. Jan. 14 Assume the March 15 transaction above did not happen. Make the January 14 Journal Entry necessary to discount the I Am Poor Corporation notes receivable dated December 16. Assume the bank charges 14% interest.

DATA SUMMARY: Discount period = (31 - 14) + 28 + 15 = 60 days

Discount = Pin = ($8,240)(.14)(60/360) = $192.27

Amount received = $8240 - $192.27 = $8,047.73

| DATE | | ACCOUNT TITLE AND DESCRIPTION | PR | DEBIT | | CREDIT | |
|---|---|---|---|---|---|---|---|
| Jan. | 14 | Cash | | 8,047 | 73 | | |
| | | Notes Receivable | | | | 8,000 | 00 |
| | | Interest Receivable | | | | 40 | 00 |
| | | Interest Earned | | | | 7 | 73 |
| | | | | | | | |
| | | | | | | | |