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	Accounts Receivable	2,000.00	
	Sales		2,000.00

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

Dec. 10	Note Receivable	2,000.00	
	Account Receivable		2,000.00
	Note Receivable accepted for trade receivable due today.		

Dec. 31	Interest Receivable ($2,000)(.09)(21/360)	10.50	
	Interest Earned		10.50
	To adjust for interest earned.		

March 10	Cash $2,000 + ($2,000)(.09)(90/360)	2,045.00	
	Interest Receivable		10.50
	Interest Earned		34.50
	Notes Receivable		2,000.00
	Collected note plus accrued interest from B. Company.		

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

REVERSING ENTRY ALTERNATIVE

Jan. 2	Interest Earned	10.50	
	Interest Receivable		10.50
	To reverse adjusting entry.		

March 10	Cash	2,045.00	
	Interest Earned		45.00
	Notes Receivable		2,000.00
	Collected note from B. Company.		

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

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	<u>10</u>	
Days held in Dec.	21	
Days held in Jan.	<u>4</u>	
Days held by Linda		<u>25</u>
Discount Period		65

DISCOUNT CHARGE

I = Pin

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

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

		DR.	CR.
Jan. 4	Cash	2,004.38	
	Interest Expense	6.12	
	Interest Receivable		10.50
	Note Receivable		2,000.00

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

To discount B. Company note.