ACCOUNTING FOR CURRENT LIABILITIES

I.   NOTES PAYABLE USED TO SECURE CREDIT

MATURITY DATE

All loans on this page had an Oct. 17 origination date and a 90-day term and therefore the same maturity date as calculated below.

Number of Days in October	31
Minus Origination Date	17
Number of Days Outstanding in October	14
Number of Days Outstanding in November	30
Number of Days Outstanding in December	31
Total this year	75
Days in January needed to reach Term	15
Term of note	90

Interest Calculations:

This Year:
$I = Pin$
$I = (\$50{,}000)(.12)(75/360) = \$1{,}250$

Next Year:
$I = Pin$
$I = (\$50{,}000)(.12)(15/360) = \$250$

NOTES PAYABLE GIVEN FOR TRADE PAYABLE

Rapid expansion and a pre-holiday inventory buildup had left Darin short of Cash. On October 17 he signed a 90-day, 12% note payable to cover $50,000 trade credit with his largest supplier, the Far Out Music Co. The note was paid when due. Interest calculated above.

Oct. 17	Accounts Payable	50,000	
	Notes Payable		50,000
	To record 90-day, 12% note.		
Dec. 31	Interest Expense	1,250	
	Interest Payable		1,250
	To adjust for interest.		
Jan. 15	Notes Payable	50,000	
	Interest Expense	250	
	Interest Payable	1,250	
	Cash		51,500
	To record repayment of loan.		

II. BANK LOANS

Also on October 17, to pay other expenses during the period, Darin Jones borrowed $10,000 from each of his two banks, the second of which discounted the note. When a bank discounts a note payable, interest is subtracted in advance. Because less money is received, the effective interest rate is higher. Both charged 16% for the 90-day notes. Both notes were paid when due. Interest calculated below.

INTEREST CALCULATIONS:

This Year	Next Year
$I = Pin = (\$10{,}000)(.16)(75/360) = \$333.33$	$I = Pin = (\$10{,}000)(.16)(15/360) = \$66.67$

FIRST BANK	SECOND BANK

Oct. 17 Cash   10,000.00
    Notes Payable   10,000.00
    To record $10,000 loan, 16%, 90 days.
	Cash 9,600.00
	Discount on Notes Payable 400.00
	    Notes Payable 10,000.00
	    To record $10,000 discounted loan.

Dec. 31 Interest Expense   333.33
    Interest Payable   333.33
    To adjust for interest expense.
	Interest Expense 333.33
	    Discount on Notes Payable 333.33
	    To adjust for Interest Expense.

Jan. 15 Notes Payable   10,000.00
    Interest Payable   333.33
    Interest Expense   66.67
    Cash   10,400.00
    To record payment of loan.
	Notes Payable 10,000.00
	    Cash 10,000.00
	    To record payment of loan.
	Interest Expense 66.67
	    Discount on Notes Payable 66.67
	    To record Interest Expense.

Note: A reversing entry could have been used. Discounts on Notes Payable are deducted from Notes Payable in the Current Liabilities section of the Balance Sheet.