

Practice Set

INSTALLMENT NOTES PAYABLE

The Computer Warehouse planned to borrow \$50,000 for 4 years on January 1, 2002, paying interest of 10%. Bank A required four equal payments of \$12,500 on Principal plus accrued interest while Bank B required 4 equal payments. Make the entry for the receipt of the loan and the 4 entries required to pay off the loan under both situations.

Bank A

Hint: Total interest paid was \$12,500.

Bank B

Hint: Use PVMA Table on page 93 and round up to the nearest dollar throughout this problem.

Period Ending	(a) Principal BOP	(b) Period Payment	(c) Interest (a) (.10)	(d) Principal Reduction (b-c)	Principal EOP (a-d)
12/31/02		\$15,773			\$39,227
12/31/03		15,773			27,377
12/31/04		15,773			14,342
12/31/05		15,773			- 0 -

Hint: Interest expense the final year was \$1,431.

Note: Because of rounding, your answer may differ by a few dollars.