

**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**

		DR.	CR.
Jan. 1	Cash	50,000	
	Notes Payable		50,000
Dec. 31	Notes Payable (\$50,000/4)	12,500	
	Interest Expense (\$50,000) (.1)	5,000	
	Cash		17,500
Dec. 31	Notes Payable	12,500	
	Interest Expense (\$37,500) (.1)	3,750	
	Cash		16,250
Dec. 31	Notes Payable	12,500	
	Interest Expense (\$25,000) (.1)	2,500	
	Cash		15,000
Dec. 31	Notes Payable	12,500	
	Interest Expense (\$12,500) (.1)	1,250	
	Cash		13,750

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.

P = A(PVMA)	Period Ending	(a) Principal BOP	(b) Period Payment	(c) Interest (a) (.10)	(d) Principal Reduction (b-c)	Principal EOP (a-d)
\$50,000 = A(3.17)						
A = \$15,773	12/31/02	\$50,000	\$15,773	\$ 5,000	\$10,773	\$39,227
	12/31/03	39,227	15,773	3,923	11,850	27,377
	12/31/04	27,377	15,773	2,738	13,035	14,342
	12/31/05	14,342	15,773	1,431	14,342	- 0 -

		DR.	CR.
Jan. 1	Cash	50,000	
	Notes Payable		50,000
Dec. 31	Notes Payable	10,773	
	Interest Expense	5,000	
	Cash		15,773
Dec. 31	Notes Payable	11,850	
	Interest Expense	3,923	
	Cash		15,773
Dec. 31	Notes Payable	13,035	
	Interest Expense	2,738	
	Cash		15,773
Dec. 31	Notes Payable	14,342	
	Interest Expense	1,431	
	Cash		15,773

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

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