CONCEPT: NOTES RECEIVABLE – MATURITY DATE AND INTEREST CALCULATION

● A ***note receivable*** is similar to AR, except that it is supported by a ____________________ contract

☐ Different from AR, notes receivable have a ___________________ and earn _____________

☐ ***Principal*** – the amount of money loaned (or borrowed)

☐ ***Interest*** – the cost of borrowing the principal

- Interest is calculated using the following basic formula:

$$Total\ Interest = Face\ Value\ of\ Note * Annual\ Interest\ Rate * (Time\ Factor)$$

EXAMPLE: Find the total interest on the following notes:

Terms of Note	Interest Computation
$1,800, 12%, 90 days	
$2,000, 8%, 9 months	
$4,500, 4.5%, 1 year	

☐ ***Maturity Date*** – the day the note is ________ with the payment of _________________________________

EXAMPLE: Find the maturity date of a 60-day note issued on July 17.

CONCEPT: NOTES RECEIVABLE – ACQUIRING AND DISPOSING

● A note receivable is generally **acquired** in two situations:

□ A customer on account is having difficulty paying and needs more time:

The Goods Company gets a notice from their regular customer, Consistent Chris, that he will not be able to pay his $15,000 account on its due date of August 1. On that day, Consistent Chris delivered a $15,000, 5%, 120-day note.

Journal Entry:

Assets	=	Liabilities	+	Equity

□ The company loans out extra cash to earn interest revenue:

The Goods Company had $12,000 extra cash on hand at the end of the quarter, which it loaned to Quick Cash International with a 3.5%, 30-day note.

Journal Entry:

Assets	=	Liabilities	+	Equity

● On the maturity date of the note, the company will receive the principal plus ____________________

On April 1, The Goods Company had $12,000 extra cash on hand at the end of the quarter, which it loaned to Quick Cash International with a 3.5%, 30-day note. On April 30, Quick Cash paid the note with interest.

Journal Entry:

Assets	=	Liabilities	+	Equity

CONCEPT: NOTES RECEIVABLE – INTEREST RECEIVABLE ADJUSTING ENTRY

● Adjusting entries include ***deferrals, accruals,*** and ***depreciation***.

□ ***Accrued Revenues –*** revenues earned before ________ is received.

POP QUIZ: Interest Receivable is:

a) Expenses
b) Liabilities
c) Assets
d) Revenues

□ There are two important dates for recording accrued interest:

The period-ending date – The Company ____________ interest revenue up to this date, but has not received __________ On June 1, Big Money Company loaned $16,000 to No Cash on terms of 8% annual interest for three months. When preparing the June 30 financial statements, Big Money Company would adjust for interest earned up to that date:

Cash Receipt Date – The Company receives cash, earns remaining interest revenue, and removes the interest receivable On August 1, No Cash repaid the loan plus interest.		
Interest Revenue Y1:	Interest Revenue Y2:	Total Interest Revenue:

PRACTICE: On April 15, Holden Company received a 60-day, 12% note in the amount of $10,000 from a customer who was having difficulty paying his account. When preparing the April 30 financial statements, the necessary adjusting entry related to interest would include:

a) Debit to Note Receivable for $50
b) Debit to Interest Receivable for $50
c) Credit to Interest Receivable for $50
d) Credit to Note Receivable for $50