

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:

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

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:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
---------------	---	--------------------	---	---------------

- 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:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
---------------	---	--------------------	---	---------------

- 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:

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
---------------	---	--------------------	---	---------------

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