3 9/19/13	Chapter 16 Notes Payable and Notes Receivable	Exercises: 1, 2, 4, 5, 8 Problem: 2A, 4A, 5A	Chapters 3 and 4

~~Notes Payable and~~ Notes Receivable

- **Promissory Note**: a written promise to pay a certain amount of money at a specific future time.
- **Interest:** a few for the use of money. Simple interest is calculated as interest = principal X rate X time
- ~~**Notes Payable:** a liability that represents a written promise by the maker to f the note to pay another party a specified amount at a specified future date.~~
- **Notes Receivable:** an asset where the buyer signs a written promise to pay a specified amount at a specified future date.
- **Face value vs.** Maturity value; banker's year of 360.

~~**Notes payable** issued and then paid:~~

General Journal					
					Page 552
	date	description	post ref.	Debit	Credit
1	18-May	Store Equipment		$ 4,000.00	
2		Notes Payable			$ 4,000.00
3		**Issued a note**			
4					
5					
6	16-Aug	Note Payable		$ 4,000.00	
7		Interest Expense		$ 80.00	
8		Cash			$ 4,080.00
9		**Payment of note**			
10					

~~**Discounted Notes Payable** (banks use this - interest deducted up front):~~

General Journal					
					Page 552
	date	description	post ref.	Dr.	Cr.
1	1-Jun	Cash		$ 9,900.00	
2		Interest Expense (P*R*T)		$ 100.00	
3		Notes Payable			$ 10,000.00
4					
5					
6	31-Jul	Notes Payable		$ 10,000.00	
7		Cash			$ 10,000.00
8		Payment of note			
9					
10					

Notes Receivable – interest bearing:

General Journal					
					Page 556
	date	description	post ref.	Dr.	Cr.
1	12-Jun	Notes Receivable		$ 1,200.00	
2		Accounts Receivable			$ 1,200.00
3		to convert A/R to a N/R			
4					
5					
6	11-Aug	Cash		$ 1,220.00	
7		Notes Receivable			$ 1,200.00
8		Interest Income			$ 20.00
9		Payment of notes receivable			
10					

If there was a year-end accrual, you would:

General Journal					
					Page 556
	date	description	post ref.	Dr.	Cr.
1	12-Jun	Interest Receivable		$ P*R*T	
2		Interest Revenue			$ P*R*T
3		to record year end accrual			

What happens if payment is not made at maturity date?

General Journal					
					Page 6
	date	description	post ref.	Dr.	Cr.
1	12-Jun	Accounts Receivable		$ 1,220.00	
2		Notes Receivable			$ 1,200.00
3		Interest Income			$ 20.00
4		To charge back dishonored note			
5					
6					

What if we sell off the note to someone else? ~~**See page 559 in 13th edition**~~

General Journal					
					Page 559
	date	description	post ref.	Dr.	Cr.
1	1-Jun	Cash		$ 2,975.00	
2		Interest Expense		$ 25.00	
3		Notes Receivable Discounted			$ 3,000.00
4		to sell a note - discounted			
5					

~~What if……~~

~~See all the permutations in the textbook page 560~~

- Contingent liability
- Discounted noninterest bearing notes receivable at maturity
- Interest bearing note receivable discounted
- Maturity of discounted interest bearing note receivable

Bank Draft: written by a bank that pulls the money out of your account and writes a check

Cashier's check: written by a bank on its own funds

Commercial Drafts: Can be **sight draft** (payable on presentation) or a **time draft** (payable during a specific period of time.

EXERCISE 16.6

GENERAL JOURNAL PAGE ____

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	2013						1
2	June	3	Notes Receivable		2800 00		2
3			Accounts Receivable/Kevin Fralicks			2800 00	3
4			**Accepted 60-day, 10% note for**				4
5			**past-due account from Kevin Fralicks**				5
6							6
7	June	18	Cash		2803 97		7
8			Notes Receivable—Discounted			2800 00	8
9			Interest Income			3 97	9
10			**Discounted Kevin Fralicks note**				10
11			**Maturity Value = $2,800 + (2,800 × 0.10 × 60/360)**				11
12			**= $2,846.67 if we kept it to maturity**				12
13			**Discount = $2,846.67 × 0.12 × 45/360 = $42.70**				13
14			**Proceeds = $2,846.67 − $42.70 = $2,803.97**				14

NOTES:

- This problem is not in the UCSC textbook
- We exchange a note for an accounts receivable.
- Then, we sell off the note to a third party but retain the legal ownership
- The cash we receive is determined by calculating the maturity value of what we would have received less the interest the bank will get at the higher interest rate (12%). The proceeds less the bank's interest is our cash received and the difference is either interest income or interest expense.