NOTES RECEIVABLE

Key Topics to Know

Notes Receivable

- Short-term are due in less than one year.
- Notes always have a definite term and maturity date
- Notes always bear interest
- Payment of principle and interest are due at maturity

Interest

- Interest rates are stated per annum (for the year), regardless of the term of the note.
- Interest revenue must be accrued at the end of a period prior to maturity date.

Journal entries to record

- Issuance of a note
- Honoring the note at maturity date when it is paid if it is short-term
- Dishonoring the note at maturity date if it is not paid if it is short-term

Practice Problems

Problem #1

Payment for a 90-day, 12% note with a face amount of $30,000 was received on September 15 from a customer on account.

Required:
a) What is the journal entry to record the receipt of the note?
b) What is the date the note was made?
c) What is the maturity value of the note?
d) What is the journal entry to record the honoring of the note receivable?

Problem #2

A 60-day, 12% note for $15,000, dated March 1 is received from a customer on account. The maker dishonors the note at maturity.

Required:
a) What is the journal entry to record the receipt of the note?
b) What is the maturity date of the note?
c) What is the maturity value of the note?
d) What is the journal entry to record the dishonor of the note receivable?

Multiple Choice Questions

1. R Company made a loan of $8,000 to one of the company's employees on April 1, Year 1. The one-year note carried a 6% rate of interest. The amount of interest revenue that Rinehart would report in Year 1 and Year 2, respectively would be:
   a) $480, $0
   b) $0, $480
   c) $360, $120
   d) . $120, $360

2. The party that issues a promissory note is known as
   a) Lender.
   b) Maker.
   c) Borrower.
   d) Both b) and c)

3. C Company loaned $24,000 to S Company on December 1,at 10% interest for 90 days. What adjusting entry will C Company have to make on December 31 before preparing the financial statements.
   a) Debit Interest Receivable, 600; Credit Interest Revenue, 600
   b) Debit Interest Receivable, 200; Credit Interest Revenue, 200
   c) Debit Interest Receivable, 1,000; Credit Interest Revenue, 1,000
   d) Debit Interest Receivable, 2,400; Credit Interest Revenue, 2,400

4. The primary difference between a note receivable and an account receivable is:
   a) A note receivable cannot be classified as a current asset.
   b) An note receivable is more likely to be collected.
   c) An account receivable is more likely to be collected.
   d) A note receivable is evidenced by a written debt instrument.

Solutions to Practice Problems

Problem #1

a)	Notes receivable	30,000	
	Accounts receivable		30,000

b) The note was made on June 17

September:	15 days
August	31 days
July	31 days
June	13 days
	90 days

June has 30 days less 13 days of interest = June 17

c) Maturity value of the note is \$30,900 = \$30,000 + 30,000 X 12% X 90 / 360

d)	Cash	30,900	
	Notes receivable		30,000
	Interest revenue		900

Problem #2

a)	Notes receivable	15,000	
	Accounts receivable		15,000

b) Maturity date of the note is April 30.

c) Maturity value of the note is \$15,300 = \$15,000 + 15,000 X 12% X 60 / 360

d)	Accounts receivable	15,300	
	Notes receivable		15,000
	Interest revenue		300

Solutions to Multiple Choice Questions

1. C
2. D
3. B
4. D