

# Receivables: Notes and Interest

## Chapter 9

### Premise

When you extend credit to customers, you know some customers won't pay.

### Solutions

- Notes \_\_\_\_\_ and Interest
- \_\_\_\_\_ Accounts

### Why Notes Instead of Accounts Receivable?

- charge \_\_\_\_\_
- stronger \_\_\_\_\_ claim
- more \_\_\_\_\_ -- may be converted to \_\_\_\_\_
  - selling Accounts Receivable called \_\_\_\_\_
  - selling Notes Receivable called \_\_\_\_\_

### Calculating Interest

Formula: \_\_\_\_\_

- rate is an \_\_\_\_\_ rate
- time expressed as a portion of a \_\_\_\_\_
  - government uses \_\_\_\_\_ days
  - many banks use \_\_\_\_\_ days
  - use \_\_\_\_\_ days for homework and classwork

Short-cut “6%, 60-day” Method

$\$844. \times 6\% \times 60 / 360 =$  \_\_\_\_\_

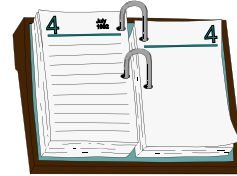
Simply move decimal place \_\_\_\_\_ to the left.

$\$844 \times 6\% \times 30 / 360 =$  \_\_\_\_\_

$\$844 \times 12\% \times 60 / 360 =$  \_\_\_\_\_

Determining the (Exact) Due Date of a Note

- Learn number of days in a month (may not use calendar)
  - \_\_\_\_\_ method
  - \_\_\_\_\_ method
- Counting days if term of note
  - stated in days
  - stated in months



A 60-day note dated August 17 will be due on \_\_\_\_\_ .

When stated in months:

RULE: \_\_\_\_\_

EXCEPTION: \_\_\_\_\_

A two-month note dated August 17 is due \_\_\_\_\_ .

A three-month note dated November 30 is due \_\_\_\_\_ .

A three-month note dated April 30 is due \_\_\_\_\_ .

**Exercise 9-10**  
**page 442**

Stroup Supply Company has the following transactions related to notes receivable during the last two months of the year. Journalize the transactions.

*Aug. 16 Sold merchandise to Max Weinberg on account, \$4,000.*

| Date | Account Title | Ref | Debit | Credit |
|------|---------------|-----|-------|--------|
|      |               |     |       |        |
|      |               |     |       |        |

*Nov. 1 Loaned \$15,000 cash to Jorge Perez on a 1-year, 10% note.*

|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  |  |  |
|  |  |  |  |  |

*Dec. 11 Sold goods to Armie Hammer, Inc., receiving a \$6,750, 90-day, 8% note.*

|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  |  |  |
|  |  |  |  |  |

*16 Received a \$4,000, 6-month, 9% note in exchange for Max Weinberg's outstanding accounts receivable.*

|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  |  |  |
|  |  |  |  |  |

*31 Accrued interest revenue on all notes receivable.*

|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  |  |  |
|  |  |  |  |  |

Show your calculations here.

**Demonstration Exercise**

*(similar to E9-10, page 442)*

Stoot Supply Company has the following transactions related to notes receivable during the last two months of the year. (a) Journalize the transactions.

**Calculations**

Aug 1 Sold merchandise to Max Blakney on account, \$4,000

| Date  | Account Title | Ref. | Debit | Credit |
|-------|---------------|------|-------|--------|
| Aug 1 |               |      |       |        |
|       |               |      |       |        |

Note: Assume the entry for the reduction in inventory was also made.

Aug 31 Loaned \$15,000 cash to Xavier Garcia on a 6-month, 12% note.

| Date   | Account Title | Ref. | Debit | Credit |
|--------|---------------|------|-------|--------|
| Aug 31 |               |      |       |        |
|        |               |      |       |        |

Oct 2 Sold goods to Armon Hander, Inc., receiving a \$9,800, 120-day, 6% note.

| Date  | Account Title | Ref. | Debit | Credit |
|-------|---------------|------|-------|--------|
| Oct 2 |               |      |       |        |
|       |               |      |       |        |

Note: Assume the entry for the reduction in inventory was also made.

Dec 1 Received a \$4,000, 90-day, 9% note in exchange for Max Blakney's outstanding accounts receivable.

| Date  | Account Title | Ref. | Debit | Credit |
|-------|---------------|------|-------|--------|
| Dec 1 |               |      |       |        |
|       |               |      |       |        |

Dec 31 Accrued interest revenue on all notes receivable.

| Date   | Account Title | Ref. | Debit | Credit |
|--------|---------------|------|-------|--------|
| Dec 31 |               |      |       |        |
|        |               |      |       |        |

(b) Record the collection of the Garcia note at its maturity (assuming reversing entries were made 1/1).

| Date | Account Title | Ref. | Debit | Credit |
|------|---------------|------|-------|--------|
| (b)  |               |      |       |        |
|      |               |      |       |        |
|      |               |      |       |        |