

Quick Question On Notes Payable Discounted By Bank

Make all the Journal Entries required for the following transactions assuming a calendar-year accounting cycle.

- Nov. 1 Borrowed \$50,000 for 120 days from the First Bank.
Interest of 12% was discounted.
- Dec. 1 Gave the Good Corporation, our main supplier, a 60-day, 9%, \$20,000 note for a trade payable due today.
- Dec. 31 Made appropriate Adjusting Entries.
- Jan. 30 Paid Good Corporation for the note dated December 1.
- March. 1 Paid First Bank the amount due.

DATA SUMMARY:

First Note

$I = Pin = (\$50,000)(.12)(120/360) = \$2,000$
Cash received = $\$50,000 - \$2,000 = \$48,000$

Second Note

$I = Pin = \$20,000(.09)(60/360) = \300

December 31 Adjustment Analysis

Days this year = $(30-1) + 31 = 60$

Days this year = $31 - 1 = 30$

$I' = \$2,000(60/120) = \$1,000$

$I' = \$300(30/60) = \150

$I'' = \$2,000 - \$1,000 = \$1,000$

$I'' = \$300 - \$150 = \$150$

DATE		ACCOUNT TITLE AND DESCRIPTION	PR	DEBIT	CREDIT
Nov.	1	Cash		48,000	
		Discount on Notes Payable		2,000	
		Notes Payable, 120 days			50,000
Dec.	1	Accounts Payable		20,000	
		Notes Payable, 60 days			20,000
Dec.	31	Interest Expense		1,000	
		Discount on Notes Payable			1,000
Dec.	31	Interest Expense		150	
		Interest Payable			150
Jan.	30	Notes Payable		20,000	
		Interest Expense		150	
		Interest Payable		150	
		Cash			20,300
March	1	Notes Payable		50,000	
		Interest Expense		1,000	
		Discount on Notes Payable			1,000
		Cash			50,000