CONCEPT: NOTES PAYABLE

● A ***note payable*** is similar to AP, except that it is supported by a _____________________ contract

☐ Different from AP, notes payable 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:

$$Interest = Face\ Value\ of\ Note * Annual\ Interest\ Rate * (Time\ Factor)$$

● A note payable is **acquired** from a bank:

On October 1, Year 1, The Goods Company signed a $100,000, 12%, eight-month note payable maturing on May 1, Year 2.

Journal Entry:

Assets	=	Liabilities	+	Equity

● Interest **accrues** over the life of the note:

☐ Short-term Notes: The total amount of interest is paid at maturity

- Interest Expense is accrued to the Interest Payable until maturity

On October 1, Year 1, The Goods Company signed a $100,000, 12%, eight-month note payable maturing on June 1, Year 2. Prepare the adjusting entry to accrue interest on December 31, Year 1.

Journal Entry:

Assets	=	Liabilities	+	Equity

□ Long-term Notes: Interest is paid to the bank periodically, reducing the interest payable liability

- Interest Expense is accrued to Interest Payable until the interest payment date

On October 1, Year 1, The Goods Company signed a $100,000, 12%, ten-year note maturing on October 1, Year 11. Interest is payable annually on October 1. Prepare the adjusting entry on December 31, Year 1 and the journal entry on October 1, Year 2 for the payment of interest.

December 31, Year 1 Journal Entry:

October 1, Year 2 Journal Entry:

- Upon **maturity**, the principal and any unpaid interest are due.

□ Short-term Notes: The total amount of interest is paid at maturity

On October 1, Year 1, The Goods Company signed a $100,000, 12%, eight-month note payable maturing on June 1, Year 2. Prepare the entry to repay the note payable and all accrued interest on June 1, Year 2.

Journal Entry:

□ Long-term notes, interest is paid to the bank periodically, reducing the interest payable liability

On October 1, Year 1, The Goods Company signed a $100,000, 12%, ten-year note maturing on October 1, Year 11. Interest is payable annually on October 1. Prepare the entry to repay the note payable and all accrued interest on October 1, Year 11.

October 1, Year 11 Journal Entry: