

# 14

## Notes Payable

### DEMONSTRATION PROBLEM

The following were among the transactions of O'Neill Company, whose fiscal period extends from January 1 through December 31 (O'Neill uses a periodic inventory system), no leap year involved.

#### Year 1

- Apr. 1 Bought merchandise on account from Aston Company; terms 2/10, n/30; \$8,200.
- May 1 Gave a 60-day, 11 percent note to Aston Company, dated May 1, to apply on account, covering purchase of April 1.
- June 30 Paid \$1,200 as part payment of principal, and paid full interest on the note given to Aston Company; issued now 30-day, 11 percent note, dated June 30, \$7,000.
- July 21 Borrowed \$4,000 from Barton State Bank for 90 days, with a 10 percent note, dated July 21, receiving full face value.
  - 30 Paid amount owed on the note to Aston Company, dated June 30.
- Oct. 19 Paid amount owed on the note issued to Barton State Bank, dated July 21.
- Nov. 5 Bought two generators (Equipment) for \$12,800 from Riley Company; issued a 60-day, 10 percent note, dated November 5.
- Dec. 3 Borrowed \$6,200 from Barton State Bank for 90 days; discount rate is 10 percent. Signed a non-interest-bearing note, dated December 3, for \$6,200.
  - 31 Made the adjusting entries for the two unpaid notes (see notes payable register).

#### Year 2

- Jan. 1 Made the reversing entry. (Assume closing entries were made prior to reversing.)
  - 4 Paid amount owed on the note given to Riley Company, dated November 5.
- Mar. 3 Paid amount owed on the note issued to Barton State Bank, dated December 3.
  - 3 Recorded the entry to expense the remainder of the Discount on Notes Payable to Interest Expense (December 31 to March 3) on the Barton note.

### Instructions

1. Record these transactions in the general journal (pages 22-24).
2. Immediately after each journal entry, record each note in the notes payable register (page 5).
  - a. Fill in the date paid after journalizing the entry to pay the note, or fill in "renewed" or "discounted."
  - b. Show the calculation of each due date in the space provided below the notes payable register.

**SOLUTION**

GENERAL JOURNAL

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	<i>Year</i>	<i>1</i>					1
2	<i>Apr.</i>	<i>1</i>	<i>Purchases</i>		<i>8,200.00</i>		2
3			<i>    Accounts Payable, Aston Company</i>			<i>8,200.00</i>	3
4			<i>    Bought merchandise on account,</i>				4
5			<i>    terms 2/10, n/30.</i>				5
6							6
7	<i>May</i>	<i>1</i>	<i>Accounts Payable, Aston Company</i>		<i>8,200.00</i>		7
8			<i>    Notes Payable</i>			<i>8,200.00</i>	8
9			<i>    Gave a 60-day, 11 percent note to</i>				9
10			<i>    settle our open account, note dated</i>				10
11			<i>    May 1.</i>				11
12							12
13	<i>June</i>	<i>30</i>	<i>Notes Payable</i>		<i>1,200.00</i>		13
14			<i>Interest Expense</i>		<i>150.33</i>		14
15			<i>    Cash</i>			<i>1,350.33</i>	15
16			<i>    Interest payment on note to Aston</i>				16
17			<i>    Company, dated May 1, and part</i>				17
18			<i>    payment of principal.</i>				18
19			<i>    ( \$8,200 x 0.11 x 60 / 360 )</i>				19
20							20
21		<i>30</i>	<i>Notes Payable</i>		<i>7,000.00</i>		21
22			<i>    Notes Payable</i>			<i>7,000.00</i>	22
23			<i>    Renewed note to Aston Company, by</i>				23
24			<i>    issuing a 30-day, 11 percent note,</i>				24
25			<i>    dated June 30.</i>				25
26							26
27	<i>July</i>	<i>21</i>	<i>Cash</i>		<i>4,000.00</i>		27
28			<i>    Notes Payable</i>			<i>4,000.00</i>	28
29			<i>    Gave a note to Barton State Bank to</i>				29
30			<i>    borrow cash for 90 days, 10 percent</i>				30
31			<i>    interest, dated July 21.</i>				31
32							32
33		<i>30</i>	<i>Notes Payable</i>		<i>7,000.00</i>		33
34			<i>Interest Expense</i>		<i>64.17</i>		34
35			<i>    Cash</i>			<i>7,064.17</i>	35
36			<i>    Paid note to Aston Company.</i>				36
37			<i>    ( \$7,000 x 0.11 x 30 / 360 )</i>				37
38							38

**SOLUTION (continued)**

GENERAL JOURNAL

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	<i>Year</i>	<i>1</i>					1
2	<i>Oct.</i>	<i>19</i>	<i>Notes Payable</i>		<i>4,000.00</i>		2
3			<i>Interest Expense</i>		<i>100.00</i>		3
4			<i>Cash</i>			<i>4,100.00</i>	4
5			<i>Paid Barton State Bank our note dated</i>				5
6			<i>July 21.</i>				6
7			<i>( \$4,000 x 0.10 x 90 / 360 )</i>				7
8							8
9	<i>Nov.</i>	<i>5</i>	<i>Equipment</i>		<i>12,800.00</i>		9
10			<i>Notes Payable</i>			<i>12,800.00</i>	10
11			<i>Bought two generators from Riley</i>				11
12			<i>Compay; issued a 60-day, 10 percent</i>				12
13			<i>note, dated November 5.</i>				13
14							14
15	<i>Dec.</i>	<i>3</i>	<i>Cash</i>		<i>6,045.00</i>		15
16			<i>Discount on Notes Payable</i>		<i>155.00</i>		16
17			<i>Notes Payable</i>			<i>6,200.00</i>	17
18			<i>Discounted our 90-day, non-interest-</i>				18
19			<i>bearing note at the bank, discount rate</i>				19
20			<i>10 percent, dated December 3.</i>				20
21			<i>( \$6,200 x 0.10 x 90 / 360 )</i>				21
22							22
23			<i>Adjusting Entries</i>				23
24		<i>31</i>	<i>Interest Expense</i>		<i>199.11</i>		24
25			<i>Interest Payable</i>			<i>199.11</i>	25
26			<i>( \$12,800 x 0.10 x 56 / 360 )</i>				26
27							27
28		<i>31</i>	<i>Interest Expense</i>		<i>48.22</i>		28
29			<i>Discount on Notes Payable</i>			<i>48.22</i>	29
30			<i>( \$6,200 x 0.10 x 28 / 360 )</i>				30
31							31
32	<i>Year</i>	<i>2</i>	<i>Reversing Entry</i>				32
33	<i>Jan.</i>	<i>1</i>	<i>Interest Payable</i>		<i>199.11</i>		33
34			<i>Interest Expense</i>			<i>199.11</i>	34
35							35
36							36
37							37

**SOLUTION (continued)**

GENERAL JOURNAL

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	<i>Year</i>	2					1
2	<i>Jan.</i>	4	<i>Notes Payable</i>		<i>12,800.00</i>		2
3			<i>Interest Expense</i>		<i>213.33</i>		3
4			<i>Cash</i>			<i>13,013.33</i>	4
5			<i>Paid note to Riley Company dated</i>				5
6			<i>November 5.</i>				6
7			<i>( \$12,800 x 0.10 x 60 / 360 )</i>				7
8							8
9	<i>Mar.</i>	3	<i>Notes Payable</i>		<i>6,200.00</i>		9
10			<i>Cash</i>			<i>6,200.00</i>	10
11			<i>Paid Barton State Bank the 90-day,</i>				11
12			<i>non-interest-bearing note, dated</i>				12
13			<i>December 3, and discounted at</i>				13
14			<i>10 percent.</i>				14
15							15
16		3	<i>Interest Expense</i>		<i>106.78</i>		16
17			<i>Discount on Notes Payable</i>			<i>106.78</i>	17
18			<i>( \$6,200 x 0.10 x 62 / 360 )</i>				18
19			<i>or</i>				19
20			<i>( \$155 - \$48.22 )</i>				20
21							21
22							22
23							23
24							24
25							25
26							26
27							27
28							28
29							29
30							30
31							31
32							32
33							33
34							34
35							35
36							36
37							37

## SOLUTION (continued)

### NOTES PAYABLE REGISTER

PAGE 5

DATE		PAYEE	AMOUNT	TIME	RATE	INTEREST	DUE DATE	DATE PAID	REMARKS
<i>Year</i>	<i>1</i>								
<i>May</i>	<i>1</i>	<i>Aston Company</i>	<i>8,200.00</i>	<i>60 days</i>	<i>11%</i>	<i>150.33</i>	<i>6/30</i>	<i>renewed</i>	<i>Open account.</i>
<i>June</i>	<i>30</i>	<i>Aston Company</i>	<i>7,000.00</i>	<i>30 days</i>	<i>11%</i>	<i>64.17</i>	<i>7/30</i>	<i>7/30</i>	<i>Renewed 5/1</i>
									<i>note, paid interest,</i>
									<i>part principal.</i>
<i>July</i>	<i>21</i>	<i>Barton State</i>	<i>4,000.00</i>	<i>90 days</i>	<i>10%</i>	<i>100.00</i>	<i>10/19</i>	<i>10/19</i>	<i>Borrowed, full</i>
		<i>Bank</i>							<i>face value.</i>
<i>Nov.</i>	<i>5</i>	<i>Riley Co.</i>	<i>12,800.00</i>	<i>60 days</i>	<i>10%</i>	<i>213.33</i>	<i>1/4</i>	<i>1/4</i>	<i>Bought equipment.</i>
<i>Dec.</i>	<i>3</i>	<i>Barton State</i>	<i>6,200.00</i>	<i>90 days</i>	<i>10%</i>	<i>155.00</i>	<i>3/3</i>	<i>3/3</i>	<i>Borrowed,</i>
		<i>Bank</i>							<i>discounted value.</i>

#### Due date calculations:

##### Aston Company

(60-day note)

*May (31 – 1) = 30 days left in May*  
*June (60 – 30) = 30th day of June (due date)*  
60 Total

##### Aston Company

(30-day note)

*June (30 – 30) = 0 days left in June*  
*July (30 – 0) = 30th day of July (due date)*  
30 Total

##### Barton State Bank

(90-day note)

*July (31 – 21) = 10 days left in July*  
*August = 31 days*  
*September = 30 days*  
*71 days so far*  
*October (90 – 71) = 19th day of October (due date)*  
90 Total

##### Riley Company

(60-day note)

*November (30 – 5) = 25 days left in November*  
*December = 31 days*  
*56 days so far*  
*January (60 – 56) = 4th day of January (due date)*  
60 Total

##### Barton State Bank

(90-day note)

*December (31 – 3) = 28 days left in December*  
*January = 31 days*  
*February = 28 days*  
*87 days so far*  
*March (90 – 87) = 3rd day of March (due date)*  
90 Total