

**DEMONSTRATION PROBLEM**

Longhurst's Garden Supply had the following transactions:

**Year 1**

- Feb. 2 Sold merchandise on account to J.M. Wood Company; 2/10, n/30; \$1,680.
- Mar. 4 Received a 30-day, 12 percent note from J.M. Wood Company, dated March 4, to settle its account due today.
- Apr. 3 Received \$696.80 from J.M. Wood Company as part payment on the note dated March 4: \$680 on the principal and \$16.80 as interest on \$1,680 for 30 days at 12 percent. Received a new 60-day, 12 percent note for \$1,000, dated April 3.
- 15 Discounted the note received from J.M. Wood Company at the McKinley Bank; discount rate, 14 percent.
- Oct. 4 Sold merchandise on account to Sebastian and Sons; 2/10, n/30, \$1,200.
- Nov. 3 Received \$300 as partial payment on account from Sebastian and Sons and a 60-day, 10 percent note for \$900, dated November 3.
- Dec. 31 Made the adjusting entry.

**Year 2**

- Jan. 2 Made the reversing entry (assume closing entries were made)
- 2 Received a check from Sebastian and Sons for the amount owed on the note of November 3.

**Instructions**

1. Record the transactions in the general journal (pages 27–29).
2. Immediately after each journal entry, record each note receivable in the notes receivable register (page 8).
  - a. All notes are payable at McKinley Bank
  - b. Fill in the date paid after journalizing the receipt of payment of the note, or fill in “renewed” or “discounted” when appropriate.
  - c. Show the calculation of each due date in the space provided below the notes receivable register.

**SOLUTION**

GENERAL JOURNAL

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	<i>Year</i>	<i>1</i>					1
2	<i>Feb.</i>	<i>2</i>	<i>Accounts Receivable, J. M. Wood Company</i>		<i>1,680.00</i>		2
3			<i>Sales</i>			<i>1,680.00</i>	3
4			<i>Sold merchandise on account to J. M.</i>				4
5			<i>Wood Company; 2/10, n/30.</i>				5
6							6
7	<i>Mar.</i>	<i>4</i>	<i>Notes Receivable</i>		<i>1,680.00</i>		7
8			<i>Accounts Receivable, J. M. Wood Company</i>			<i>1,680.00</i>	8
9			<i>Received a 30-day, 12 percent note from</i>				9
10			<i>J. M. Wood Company, dated March 4,</i>				10
11			<i>in settlement of its open account.</i>				11
12							12
13	<i>Apr.</i>	<i>3</i>	<i>Cash</i>		<i>696.80</i>		13
14			<i>Notes Receivable</i>			<i>680.00</i>	14
15			<i>Interest Income</i>			<i>16.80</i>	15
16			<i>J. M. Wood Company's note dated</i>				16
17			<i>March 4, payment of interest and</i>				17
18			<i>partial payment of principal.</i>				18
19			<i>( \$1,680 × 0.12 × 30 / 360 )</i>				19
20							20

**SOLUTION (continued)**

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	Year	1					1
2	Apr.	3	Notes Receivable		1,000.00		2
3			Notes Receivable			1,000.00	3
4			Renewal of part of J. M. Wood				4
5			Company's note dated March 4;				5
6			new 60-day, 12 percent note, dated				6
7			April 3.				7
8							8
9		15	Cash		1,000.96		9
10			Notes Receivable			1,000.00	10
11			Interest Income			0.96	11
12			Discounted J. M Wood Co. note dated				12
13			April 3 at McKinley Bank; discount				13
14			rate, 14 percent.				14
15			( \$1,000 x 0.12 x 60 / 360 =				15
16			\$20 interest )				16
17			( \$1,000 + \$20 = \$1,020				17
18			maturity value )				18
19			( \$1,020 x 0.14 x 48 / 360 =				19
20			\$19.04 discount )				20
21			( \$1,020 - \$19.04 =				21
22			\$1,000.96 proceeds )				22
23			( \$1,000.96 - \$1,000 =				23
24			\$0.96 interest income )				24
25							25
26	Oct.	4	Accounts Receivable, Sebastian and Sons		1,200.00		26
27			Sales			1,200.00	27
28			Sold merchandise on account to				28
29			Sebastian and Sons; 2/10, n/30.				29
30							30
31	Nov.	3	Cash		300.00		31
32			Notes Receivable		900.00		32
33			Accounts Receivable, Sebastian and Sons			1,200.00	33
34			Received partial payment from				34
35			Sebastian and Sons and the firm's				35
36			60-day, 10 percent note, dated				36
37			November 3.				37
38							38

**SOLUTION (continued)**

GENERAL JOURNAL

	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1		<i>Adjusting Entry</i>				1
2	<i>Dec. 31</i>	<i>Interest Receivable</i>		<i>14.50</i>		2
3		<i>Interest Income</i>			<i>14.50</i>	3
4		<i>( \$900 x 0.10 x 58 / 360 )</i>				4
5						5
6		<i>Reversing Entry</i>				6
7	<i>Year 2</i>					7
8	<i>Jan. 2</i>	<i>Interest Income</i>		<i>14.50</i>		8
9		<i>Interest Receivable</i>			<i>14.50</i>	9
10						10
11		<i>2 Cash</i>		<i>915.00</i>		11
12		<i>Notes Receivable</i>			<i>900.00</i>	12
13		<i>Interest Income</i>			<i>15.00</i>	13
14		<i>( \$900 x 0.10 x 60 / 360 )</i>				14
15						15

**SOLUTION (continued)**

NOTES PAYABLE REGISTER

DATE		MAKER	WHERE PAYABLE	AMOUNT	TIME	RATE	INTEREST	DUE DATE	DISCOUNTED		DATE PAID	REMARKS
									BANK	DATE		
<i>Year</i>	<i>1</i>											
<i>Mar.</i>	<i>4</i>	<i>J. M. Wood Co.</i>	<i>McKinley Bank</i>	<i>1,680.00</i>	<i>30 days</i>	<i>12%</i>	<i>16.80</i>	<i>4/3</i>			<i>Renewed</i>	<i>Open account.</i>
<i>Apr.</i>	<i>3</i>	<i>J. M. Wood Co.</i>	<i>McKinley Bank</i>	<i>1,000.00</i>	<i>60 days</i>	<i>12%</i>	<i>20.00</i>	<i>6/2</i>	<i>McKinley Bank</i>	<i>4/15</i>	<i>Dis-counted</i>	<i>Partial payment and paid interest on 4/3 note, renewed.</i>
<i>Nov.</i>	<i>3</i>	<i>Sebastian and Sons</i>	<i>McKinley Bank</i>	<i>900.00</i>	<i>60 days</i>	<i>10%</i>	<i>15.00</i>	<i>1/2</i>			<i>1/2</i>	<i>Partial payment.</i>

**SOLUTION** (concluded)

Due date calculations:

J. M. Wood Co.	March ( 31 - 4 )	=	27	days left in March
(30-day note)	April ( 30 - 27 )	=	<u>3</u>	rd day of April (due date)
			<u>30</u>	Total

J. M. Wood Co.	April ( 30 - 3 )	=	27	days left in April
(60-day note)	May		<u>31</u>	days in May
			58	days so far
	June ( 60 - 58 )	=	<u>2</u>	nd day of June (due date)
			<u>60</u>	Total

Sebastian and Sons	November ( 30 - 3 )	=	27	days left in November
(60-day note)	December		<u>31</u>	days in December
			58	days so far
	January ( 60 - 58 )	=	<u>2</u>	nd day of January (due date)
			<u>60</u>	Total