Notes Receivable & Notes Payable Master Study Guide

Promissory Notes, Simple Interest (I=PRT), Discounting Notes with Recourse & Year-End Accruals

1. PROMISSORY NOTE CORE EQUATIONS & MATURITY DATES

Term & Component	Calculation Formula & Equation	Accounting Application Example
Simple Interest Formula	**Interest (I) = Principal (P) × Annual Rate (R) × Time (T)** Time fraction: Days / 360 (or 365) or Months / 12.	$10,000 note @ 6% for 90 days: I = $10,000 × 0.06 × (90 / 360) = **$150.00**
Maturity Value (MV)	**Maturity Value = Principal + Total Maturity Interest**	MV = $10,000 + $150 = **$10,150.00** paid at maturity.
Year-End Accrued Interest Adjusting Entry	If issued Nov 1 and fiscal year ends Dec 31 (60 days elapsed): I = $10,000 × 6% × (60 / 360) = $100.	**Dr. Interest Receivable ..... $100** Cr. Interest Revenue $100

2. DISCOUNTING NOTES RECEIVABLE & DISHONORED NOTES

Transaction Scenario	Computational Mechanism	Journal Entry & Recourse Liability
Discounting Note at Bank Before Maturity	1. Compute Maturity Value (MV). 2. Bank Discount = MV × Bank Discount Rate × Remaining Days/360. 3. **Cash Proceeds = MV - Bank Discount**.	**Dr. Cash (Proceeds)** **Dr. Interest Expense (if Proceeds < Principal)** Cr. Notes Receivable (Face Amount) Cr. Interest Revenue (if Proceeds > Principal) *Note: Contingent liability if with recourse!*
Dishonored Note at Maturity	Customer fails to pay note upon maturity date. Note is converted back to Accounts Receivable including interest.	**Dr. Accounts Receivable (Principal + Interest)** Cr. Notes Receivable (Principal) Cr. Interest Revenue (Earned Interest)