

SHORT TERM NOTE PAYABLE

On August 20th, ABC Company borrowed \$60,000 at 10% for 60 days. The principal and interest are repayable at the end of the term.

Required:

1. Prepare the journal entry on August 20th for receiving the cash.
2. Prepare the journal entry on August 31st for 12 days of accrued interest.
3. Prepare the journal entry on September 30th for 30 days of accrued interest.
4. Prepare the journal entry on October 18th for the repayment of the principal and interest.

Working Paper:

DATE	ACCOUNT	PUZZLE	DEBIT	CREDIT
Aug 20				
	Explain:			
Aug 31				
	Explain:			
Sept 30				
	Explain:			
Oct 18				
	Explain:			

Answer:

DATE	ACCOUNT	PUZZLE	DEBIT	CREDIT
Aug 20	Cash in Bank	Asset	60,000.00	
	Short Term Note Payable	Liability		60,000.00
	Explain: Receive \$60,000 from the bank			
Aug 31	Interest Expense	Expense	197.26	
	Interest Payable	Liability		197.26
	Explain: $\$60,000 \times 10\% \times 12 \text{ days} / 365$			
Sept 30	Interest Expense	Expense	493.15	
	Interest Payable	Liability		493.15
	Explain: $\$60,000 \times 10\% \times 30 \text{ days} / 365$			
Oct 18	Short Term Note Payable	Liability	60,000.00	
	Interest Payable	Liability	690.41	
	Interest Expense	Expense	295.89	
	Cash in Bank	Asset		60,986.30
	Explain: Repayment of Short Term Note and Interest			