Notes Receivable

On January 1st, Moe sold Larry $1,000 of merchandise on Credit. Larry did not pay for 4 months, and Moe called Larry in to work out a deal on collecting on the money Larry owed to Moe. On May 1st, Moe was given a $1,000, 8%, 6 month note receivable from Larry because Larry needed more time to pay. On November 1st, Larry honored his note, and paid it in full.

Instructions:

Part A: Prepare Journal entries for Moe to record the Notes Receivable, and its collection assuming that Moe prepares his financial statements December 31st.

When setting up a note receivable, we need to Debit Notes Receivable, since it is an asset, and Credit Accounts Receivable, since we are eliminating it and replacing it with the notes receivable.

| May 1 | Note Receivable | 1000 | |
| | Accounts Receivable | | 1000 |

When Larry pays Moe, he will have to pay the $1,000 for the Notes receivable and $40 in interest (1000*.08*6/12=40)

Nov. 1	Cash	1040	
	Note Receivable		1000
	Interest Receivable		40

Part B: Assume that Moe has to prepare financial statements on August 1st instead of December 31st. Prepare the Journal entries to both Accrue the interest, and then account for the collection on November 1st.

Since Moe is preparing his financial statements on August 1st, he will only be able to accrue the interest for the 3 months he has had the note. This means he will only be able to claim $20 in interest (1000*.08*3/12=20)

Aug 1	Interest Receivable	20	
	Interest Revenue		20

When Moe collects the note, he will only claim interest Revenue on the last 3 months that he has not been paid, instead of the whole 6 months. This means that his entry will be a credit to the Notes Receivable for $1,000 and interest revenue of $20. That being said, When Larry pays him, he will also have to remove his $20 from interest receivable, since he is receiving it. We do this through a credit for 20 as well.

Nov. 1	Cash	1040	
	Note Receivable		1000
	Interest Receivable		20
	Interest Revenue		20