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Notes Payable

STUDY GUIDE QUESTIONS

PART 1 True/False

For each of the following statements, circle T if the statement is true and F if the statement is false.

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| T | F | 1. The normal balance of the Discount on Notes Payable account is on the credit side. |
| T | F | 2. The amount of interest for an interest-bearing note is not included in the face amount of the note. |
| T | F | 3. The adjusting entry for accrued interest on note payable is a debit to Interest Payable and a credit to Interest Expense. |
| T | F | 4. The Notes Payable account is classified as a current asset on a balance sheet. |
| T | F | 5. On an income statement, Interest Expense is classified as Other Expense. |
| T | F | 6. The maturity date of a note is the date on which the note is due. |
| T | F | 7. The maturity value of a note is principal plus interest. |
| T | F | 8. The party who signs a promissory note is the maker. |
| T | F | 9. The discount on notes payable is classified as an operating expense. |
| T | F | 10. The amount on the face of the note is called the principal. |

PART 2 Completion—Language of Business

Complete each of the following statements by writing the appropriate word(s) in the spaces provided.

1. When the life of a note payable extends into the next fiscal period, the interest from the date of issue of the note to the end of the fiscal period is called _____.
2. The amount of dollars stated on a promissory note is referred to as the _____.
3. The borrower on a promissory note is called the _____ of the note.
4. In computing interest, unless otherwise stated, a year is considered to consist of _____ days.
5. The party who receives the money from a promissory note is the _____.

6. Interest deducted at the time a note is written is referred to as the _____.
7. A contra-liability account related to Notes Payable is _____.
8. _____ is a charge made for the use of money.
9. The record for gathering and recording information about notes payable is called a(n) _____.
10. When the maker of a note pays only the interest on a matured note, cancels the old note, and signs a new note, the note is said to have been _____.

PART 3 Calculations

Complete each of the following calculations.

1. On December 31, the amount of accrued interest on a 45-day, 10 percent note in the amount of \$5,000, dated November 25, is _____.
2. A 60-day note dated January 10 will be due on _____.
3. The proceeds of a 30-day, \$12,600 loan from a bank on which the discount rate is 12 percent is _____.
4. The interest on an \$850 note at 10 percent for 45 days is _____.
5. The maturity value of a \$6,000 note due in 180 days at 11 percent is _____.
6. A 60-day note dated October 2 will be due on _____.
7. The interest on a \$1,800 note at 10.5 percent for 90 days is _____.
8. The maturity value of a \$1,000 note due in 120 days at 11 percent is _____.
9. A 3-month note dated March 31 will have a maturity date of _____.
10. A \$3,000, 10 percent, 30-day note payable is due. The maker pays the interest only, which amounts to _____.