

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. In a transaction involving a discounted note receivable, the amount of the proceeds may be more than the face value of the note. |
| T | F | 2. The maker of a note is the party who receives the interest income. |
| T | F | 3. When a company receives an interest-bearing note from a charge customer, it should debit Notes Receivable for only the amount of the principal. |
| T | F | 4. Since the renewal of a note receivable does not involve any change in the status of the balance sheet, no journal entry is necessary when such a note is renewed. |
| T | F | 5. The reversing entry for accrued interest on notes receivable involves a debit to Interest Income. |
| T | F | 6. On a company's income statement, the amount of interest income is included in the income from operations. |
| T | F | 7. When a non-interest-bearing note receivable is discounted at a bank, the proceeds are equal to the maturity value of the note. |
| T | F | 8. The maturity value of a note is the principal of the note plus the maturity value. |
| T | F | 9. When an interest-bearing note receivable is paid, the firm should debit Accounts Receivable for the amount of the principal plus interest. |
| T | F | 10. Contingent liabilities may not become actual liabilities and need not be noted in financial statements. |

PART 2 Completion—Language of Business

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

- When a note is discounted by the endorser, there is a possible future obligation known as _____.
- A supplementary record in which a firm lists details of notes received is called a _____.
- The principal of a note plus interest from the date of the note to the due date is called the _____.

4. The formula for calculating interest on a note is _____.
5. When a note receivable is renewed, the journal entry includes a credit to Notes Receivable and a debit to _____.
6. On the income statement, the Interest Income account is classified as _____.
7. On the balance sheet, the Interest Receivable account is classified as a(n) _____.
8. In the case of a promissory note, the party receiving payment is the _____.
9. When the time period of an interest-bearing note overlaps into the next fiscal period, an adjusting entry is necessary to record the _____.
10. The net amount available to a customer when a note receivable is discounted is referred to as the _____.

PART 3 Formula for Computing the Cash to be Received from a Discounted Note Receivable

0. Principal
1. + _____
2. = _____
3. - _____
4. = _____

PART 4 Calculations

1. The amount of accrued interest on a 45-day, \$13,000 note, dated December 10, bearing interest at 9 percent is _____.
2. The due date of a 120-day note dated May 1 is _____.
3. The maturity value of a 30-day, \$9,000 note bearing interest at 9 percent is _____.
4. A 90-day note dated April 5 is discounted at a bank on May 6. The number of days in the discount period is _____.
5. The proceeds of a 60-day, \$7,500 note, dated August 5, bearing interest at 9.5 percent and discounted at a bank on September 14, assuming the bank charges a discount rate of 9 percent, are _____.