

Notes Payable – Journal Entries (practice problem)

On November 1, 2010, ELM Management Inc. signed a \$6000.00, 5%, 4 month note with Jackson National Bank.

Requirements:

- A. Prepare the Journal entry for the signing of the note.
- B. Prepare the journal entry for the accrual of interest on December 31.
- C. Prepare the journal entry for the payment of the note at maturity.

See Answers on the back

Answers

A) Cash	\$6000	
Notes Payable		\$6000

(To record the signing of the note)

B) Interest Expense	\$50	
Interest payable		\$50

(To record the interest accrual)

Calculation: $\$6000 \times 5\% \times 2/12 = \50 interest for Nov. and Dec.

C) Notes Payable	\$6000	
Interest Expense (Jan, Feb.)	\$50	
Interest Payable (Nov, Dec)	\$50	
Cash		\$6100

(To record the repayment of the note)

Calculation: $\$6000 \times 5\% \times 2/12 = \50 Jan. and Feb. interest expense