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 x 5\% x 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 x 5\% x 2/12 = $50 Jan. and Feb. interest expense