

# [Difference between line of credit and short-term notes payable essay sample](https://assignbuster.com/difference-between-line-of-credit-and-short-term-notes-payable-essay-sample/)

A line of credit is the advancement of loan at any time for any purpose up to a certain limited amount.  A line of credit is also called a credit line or a credit limit. Lines of credit are normally an extension similar to a pre-established loan with a specific borrowing limit. This is usually extended by a lending institution or n individual.

The line of credit allows borrowers to obtain a number of loans without reapplying each time as long as the total borrowed funds when settled against the payments made do not exceed the credit limit. An example of a line of credit is a credit card where there is a dollar limit to the amount that can be borrowed to make purchases. This amount is not to be exceeded and payments can be made to an account to settle this credit. Some lines of credit require monthly payments of interests only while others might require some principle payments as well.

Short-term notes are a form of short term liability. They are usually used to secure bank loans, pay suppliers and obtain other types of credit. The interest charges on them are stated either separately on the face of the note or deducted in advance from the face value of the note. Short-term notes payable are interest-bearing debts that are accompanied by specific borrowing terms and conditions.  This is a written promise to pay a specified amount on a defined future date set within one fiscal year.

The difference between the line of credit and the short-term notes payable is that in line of credit an extension of the loan can be obtained. In short-term notes this is not possible, that is no additional advances can be made on the loan. Another characteristic of the short term notes payable is that it can be transferred from party to party by endorsement

Bibliography

1. What is a Line of Credit, available at: http://www. wisegeek. com/what-is-a-line-of-credit. htm