

Notes receivables

[Economics](#), [Money](#)



NOTES RECEIVABLE * Represents claims for which formal instruments of credit are issued as evidence of debt, such as promissory note. The credit instrument normally requires the debtor to pay interest and extends for time periods of 30 days or longer. Notes receivables are considered current asset if they are to be paid within 1 year and non-current if they are expected to be paid after one year. NEGOTIABLE PROMISSORY NOTES * Unconditional promise in writing made by one person to another, signed by the maker, engaging to pay in demand or at the fixed determinable future time a sum certain in money to order or to bearer.

An entity owned a tract of land costing P 800, 000 and sold the land for P1, 000, 000. On January 1, 2011 the entity received a 1- year note for 1, 000, 000 plus interest of 12% compounded annually. Journal Entry: First year:
Note receivable 1, 000, 000 Land 800, 000 Gain on sale of land 200, 000 #
DISHONORED NOTES * Promissory note matures and is not paid. * When the maker of a note fails to pay on the due date, the note receivable is considered to be dishonored. A dishonored note is no longer negotiable. Journal Entry: 2012 Jan. 1 Accounts receivable 1, 120, 000 Notes receivable 1, 000, 000

Interest income 120, 000 # INITIAL MEASUREMENT * Conceptually, notes receivable shall be measured initially at PRESENT VALUE. * However, SHORT TERM NOTES are measured at FACE VALUE. * The initial measurements of LONG TERM NOTES will depend on whether the notes are INTEREST-BEARING or NONINTEREST-BEARING. INTEREST-BEARING LONG TERM NOTES are measured at FACE VALUE which is actually the present value upon issuance. NONINTEREST-BEARING LONG TERM NOTES are measured at

PRESENT VALUE which is the discounted value of the future cash flow using the effective interest rate. SUBSEQUENT MEASUREMENT

Amortized Cost * the amount at which the note receivable is measured initially minus principal repayment, plus or minus the cumulative amortization of any difference between the initial carrying amount and the principal maturity amount minus reduction for impairment or uncollectibility.

For long-term noninterest-bearing notes: Amortized Cost = present value + amortization of the discount Or Amortized Cost = face value - unamortized unearned interest income Accordingly, only long-term notes receivable will be discussed in conjunction with the present value concept under the following situations: . interest-bearing note b. noninterest bearing note

Problem 7-2 “ FATHOM COMPANY” (INTEREST- BEARING NOTE) 2011 Jan. 1Cash1, 000, 000 Notes Receivable6, 000, 000 Land5, 000, 000 Gain on sale of land2, 000, 000 # Dec. 31 Accrued Interest Receivable720, 000 Interest Income720, 000 (6, 000, 000 x 12%) # 2012 Dec 31 Accrued Interest Receivable806, 400 Interest Income806, 400 # 6, 000, 000| +| 720, 000| =| 6, 720, 000| | | *| 12%| | | | 806, 400| 2013 Jan. 1Cash7, 526, 400 Notes Receivable6, 000, 000 Accrued Interest Receivable? 1, 526, 400 #

Accrued interest receivable? 2011| | | 720, 000| 2012| | | 806, 400| | | 1, 526, 400| Problem 7-3 “ BUG COMPANY” (NONINTEREST- BEARING NOTE 1) 2010 Jan. 1Note receivable600, 000 Sales540, 000 Unearned interest income 60, 000 # DATE| NOTES RECEIVABLE BALANCE| FRACTION| INTEREST INCOME| Dec. 31, 2010| 600, 000| 1/2| 30, 000| Dec. 31, 2011| 400, 000| 1/3| 20, 000| Dec. 31, 2012| 200, 000| 1/6| 10, 000| | 1, 200, 00| | | Dec.

31Cash200, 000 Notes receivable200, 000 # Unearned interest income30, 000 Interest income30, 000 # 2011 Dec. 31Cash200, 000

Notes receivable200, 000 # Unearned interest income20, 000 Interest income20, 000 # 2012 Dec. 31Cash200, 000 Note receivable200, 000 # Unearned interest income10, 000 Interest income10, 000 # PROBLEM 7-4 “IMPRESS COMPANY” (NONINTEREST- BEARING NOTE 2) 2010 Jan. 1Cash100, 000 Note receivable900, 000 Sale? 820, 540 Unearned interest income? 179, 460 # Face value900, 000 Present value $(300, 000 \times 2.4018)$ 720540 Unearned interest income? 179, 460 Present value720, 540 Cash received100, 000 Sales price? 820, 540

DATE	ANNUAL COLLECTION	INTEREST INCOME	PRINCIPAL	CARRYING AMOUNT
Jan. 1, 2010			720, 540	
Dec. 31, 2010			300, 000	86, 465
	213, 535	507, 005		
Dec. 31, 2011		300, 000	60, 841	239, 159
	267, 846			
Dec. 31, 2012		300, 000	32, 154	267, 846
	?			

Dec. 31Cash300, 000 Unearned interest income 86, 465 Note receivable300, 000 Interest income 86, 465 # 2011 Dec. 31Cash300, 000 Unearned interest income 60, 841 Note receivable300, 000 Interest income 60, 841 # 2012 Dec. 31Cash300, 000 Unearned interest income 32, 154 Note receivable300, 000 Interest income 32, 154 #