


Accounting II - Simplified for You

Notes Payable



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Short term notes payable

Short term notes payable – promissory note

07/01 -Borrowed \$5,000 from Bank of New York

Journal

Date	Account Description	Debit	Credit
07/01/14	Cash	5,000	
	Notes Payable, BNY		5,000
To record receipt of cash borrowed. Terms 10% due in 90 days			

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Short term notes payable

Interest Expense = Principal x Interest x Time

Interest = \$5,000 x 10% x 90/360 = \$125

Journal

Date	Account Description	Debit	Credit
09/30/14	Notes Payable, BNY	5,000	
	Interest Expense	125	
	Cash		5,125
To record payment of note			

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Discounted Note


• Characteristics

– Interest rate is referred to as Discount rate

– Interest is deducted from the loan upfront

– Borrower receives proceeds

• Proceeds = Principal - Discount



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Discounted Notes Payable

07/01 - Borrowed \$5,000 from Bank of New York with a discount rate 10% due in 90 days.

Journal			
Date	Account Description	Debit	Credit
07/01/14	Cash	4,875	
	Interest Expense	125	
	Notes Payable, BNY		5,000
To record receipt of cash borrowed. Discount rate 10% due in 90 days			

Journal			
Date	Account Description	Debit	Credit
09/30/14	Notes Payable, BNY	5,000	
	Cash		5,000
To record payment of note			

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