**Exercise 7:**

Mailey Company had the following selected transactions:

May 1, 2020 Accepted Dianne Co.’s 12-month, 12% note in settlement of a $16,000 account receivable.

July 1, 2020 Loaned $25,000 cash to Sam Davis on a 9-month, 10% note.

Dec 31, 2020 Accrued interest on all notes receivable.

Apr. 1, 2021 Sam Davis dishonored its note; Mailey expects it will be eventually collected.

May 1, 2021 Received principal plus interest on the Dianne’s note (Note is honored).

Instructions: Prepare Journal entries for above transactions.

**2020**

May 1: Dr. Notes Receivable - Diann 16,000

Cr. Accounts Receivable 16,000

July 1: Dr. Notes Receivable – Sam 25,000

Cr. Cash 25,000

Dec 31: Dr. Interest Receivable 2,530

Cr. Interest Revenue 2,530

Dian note: 16,000 x 12/100 x 8/12 = 1,280

Sam note: 25,000 x 10/100 x 6/12 = 1,250

Total accrued interest in 2020: 2,530

**2021**

April 1: Dr. Accounts Receivable – Sam Davis 26,875

Cr. Notes Receivable – Sam Davis 25,000

Interest Receivable 1,250

Interest Revenue 625

(Interest revenue in 2021 for Sam Davis note = 25,000 x 10/100 x 3/12 = 625)

May 1: Dr. Cash 17,920

Cr. Notes Receivable – Dianne 16,000

Interest Receivable 1,280

Interest Revenue (1920 – 1,280) 640

*Maturity value of this note: face amount + total interest*

*16,000 + (16,000 x 12% x 12/12)*

*16,000 + 1,920*

*17,920*