**What is the Promissory note?**

It is an evidence note which our company received from the customers or borrowers. This evidence guarantees that the borrower promises to pay back the face amount of the note plus interest at its maturity date.

**Dang Co.,** Ltd. received a promissory note from **ABC Co., Ltd**.

Date: December 1,2019 Promissory Note (IOU)

We, ABC Co., Ltd. borrowed 20,000 Baht from Dang Co., Ltd. on the date specified, and we, ABC Co., agreed to pay back the face amount plus interest rate 8% per year to Dang Co., Ltd. within 3 months.

Signed by Mr. A, on behalf of ABC Co., Ltd.

2019 2020

Dec 1, 2019 Jan 1, 2020 Feb 1, 2020 March 1,

What is the maturity date of this note, if the life of the note is 3 months?

March 1, 2020

What is the maturity date of this note, if the period (life) of the note is 90 days?

Feb 29, 2020

How to get Feb 29, 2020?

Dec, 2019 30 days (31-1)

Jan, 2020 31 days

Feb, 2020 29 days

Total 90 days

Feb 29, 2020 is the maturity date.

How to calculate interest if the life of note is number of days, let you use one-year equals to 360 days. If the life of note is 3 months, you use one year = 12 months.

Interest = Face amount x interest rate/year x Time (3/12)

= 20,000 x 0.08 x ¼

= 400

When this note comes to the maturity date, ABC (the one who issued the note) will pay back to Dang Co., Ltd, 20,400 Baht (the maturity value of this note).

What is the issuing date of this note: Dec 1, 2019.

The maker of this note is ABC Co., Ltd.

The Payee of this note is Dang Co., Ltd.

What is the maturity date of this note?

March 1, 2020

What is the total interest of this note?

20,000 x 0.08 x 3/12 = 400

20,000x 8% x 90/360 = 400

What is the maturity value of this note?

20,000 + 400 = 20,400

On Dec 1, 2019; Dang Co., Ltd. gave a loan to ABC Company in exchange for a promissory note from ABC Co., Ltd. How did Dang Co., will record the transaction?

Dr. Notes Receivable 20,000

Cr. Cash 20,000

Dec 31, 2019, the end of our accounting year period, Dang Co., needed to record adjusting entry for accrued interest from holding the note.

Dr. Interest Receivable 133.33

Cr. Interest Revenue 133.33

Accrued interest = 20,000 x 8/100 x 1/12 = 133.33

Through adjusting entry, we can recognize interest revenue, 133.33 for the year 2019

What is the Interest Receivable account?

Interest Receivable is a current asset account.

When it came to the maturity date of this note, Mar 1, 2020, we (Dang Co., Ltd.) will receive money from this note. **This note is honored**. How do you record transaction on Mar 1, 2020?

Dr. Cash 20,400

Cr. Notes Receivable 20,000

Interest Receivable 133.33

Interest Revenue (400 – 133.33) 266.67

We recognize the interest revenue for the year 2020 = (400 – 133.33 = 266.67) or

20,000 x 8% x 2/12 = 266.67

How did you record the transaction when this note comes to the maturity date, and the **note is dishonored**, and **we still expect collection** from the maker of this note in the future,

March 1, 2020:

Dr. Accounts Receivable 20,400

Cr. Notes Receivable 20,000

Interest Receivable 133.33

Interest Revenue 266.67

**The note is dishonored**, and **we do not expect collection** from the maker of this note. We have to write-off the note (similar to write-off the actual uncollectible account).

Dr. Allowances for Doubtful Accounts 20,000

Cr. Notes Receivable 20,000

We can receive notes from our customers in 3 ways:

* We received note from our borrower:

Dr. Notes Receivable xxx

Cr. Cash xxx

* We received note in exchange for accounts receivable

Dr. Notes Receivable xxx

Cr. Accounts Receivable xxx

* We received note directly from credit sales

Dr. Notes Receivable xxx

Cr. Sales Revenue xxx

End of Notes Receivable and Interest Receivable