Uniform Supply accepted a $4,800, 90-day, 10% note from Tracy Janitorial on October 17. What entry should Uniform Supply make on January 15 of the next year when the note is paid?   
 

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| A. | Debit Notes Receivable $4,800; debit Interest Receivable $120; credit Sales $4,920. |

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| --- | --- |
| B. | Debit Cash $4,920; credit Notes Receivable $4,920. |

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| C. | Debit Cash $4,920; credit Interest Revenue $100; credit Interest Receivable $20; credit Notes Receivable $4,800. |

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| **D.** | Debit Cash $4,920; credit Interest Revenue $20; credit Interest Receivable $100; credit Notes Receivable $4,800. |

|  |  |
| --- | --- |
| E. | Debit Cash $4,920; credit Interest Revenue $120; credit Notes Receivable $4,800. |

Cash received is $4,920 [$4,800 + interest of $ 120 ($480 \* (90/360))]

Interest accrued (interest receivable) for 75 days of year 1 is ((75/90)\*120) = $100

Interest revenue for the 15 days of year 2 is the remaining $20

Therefore, “D” is the correct answer.

If, however, you assume that the company does not close their books on December 31, then choice “E” would also be appropriate.

If you marked either “D” or “E”, you will receive full credit.