

Problem 6

Following are selected borrowing transactions by University Life Housing Corporation.

- 01-Jun University Life Housing purchased new furniture in exchange for a \$250,000 promissory note. The note was due in 6 months and bears interest at 10% per annum.
- 01-Jul Borrowed cash of \$45,000, giving a \$50,000 one-year note. The interest is implicit in the difference between the cash borrowed and the note's \$50,000 maturity value.
- 01-Oct University Life Housing was experiencing a temporary cash flow crunch. The company issued a \$20,000 one-year note in settlement of an outstanding account payable. The note bears interest at 6% per annum. The agreement with the creditor was that University Life Housing would repay the note as soon as possible, and the total interest would be allocated to each month based on the "rule of 78."
- 31-Oct University Life Housing paid the note and accrued interest resulting from the October 1 transaction.
- 01-Nov Borrowed \$50,000 cash from a local bank by issuing a 2-year, 8% promissory note. The interest is to be calculated based on actual days, using a 365-day year assumption.
- 01-Dec University Life Housing paid the note and accrued interest resulting from the June 1 transaction.
- Prepare journal entries necessary to record the above transactions.
 - Prepare year-end adjusting journal entries pertinent to the above borrowing transactions.

Worksheet 6

a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit

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Jane, Chinese architect

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Solution 6

a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
1-Jun	Furniture	250,000	
	Note Payable		250,000
	<i>Record note payable, 10%</i>		
1-Jul	Cash	45,000	
	Discount on Note Payable	5,000	
	Note Payable		50,000
	<i>Record one-year note payable</i>		
1-Oct	Accounts Payable	20,000	
	Note Payable		20,000
	<i>Record note payable, 6%</i>		
31-Oct	Note Payable	20,000	
	Interest Expense	185	
	Cash		20,185
	<i>Record note payoff (\$20,000 X 6% X 12/78 = \$185)</i>		
1-Nov	Cash	50,000	
	Note Payable		50,000
	<i>Record 8% note payable</i>		
1-Dec	Note Payable	250,000	
	Interest Expense	12,500	
	Cash		262,500
	<i>Record note payoff (\$250,000 X 10% X 6/12 = \$20,000)</i>		

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
31-Dec	Interest Expense	2,500	
	Discount on Note Payable		2,500
	<i>To amortize discount on note</i>		
31-Dec	Interest Expense	668	
	Interest Payable		668
	<i>To accrue interest</i> <i>(\$50,000 X 8% X 61/365 = \$668)</i>		

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