Receivable and Sales

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Topics

Topics

1.0 Credit Sales and Accounts Receivable
2.0 Net Revenues
3.0 Valuing Accounts Receivable
4.0 Notes Receivable

Credit Sales and Account Receivable

Credit Sales and Account Receivable

1.1 Credit Sales

Credit Sales and Account Receivable

1.1 Credit Sales

- Credit sales transactions are also known as sales on account. Similarly, credit services transactions are also called service on account.
- Credit sales transfer products and/or services to a customer today while bearing the risk of collecting payment from that customer in the future.

Credit Sales and Account Receivable

1.1 Credit Sales

- Credit sales typically include an informal credit agreement supported by an invoice.
- They require payment within 30 to 60 days after the sale, as indicated in the invoice.

Credit Sales and Account Receivable

1.2 Account Receivable

Credit Sales and Account Receivable

1.2 Account Receivable

- Even though the seller does not receive cash at the time of the credit sale, the firm records revenue immediately once goods or services are provided to the customer **and** future collection form the customer is probable.

Credit Sales and Account Receivable

1.2 Account Receivable

- Along with the recognized revenue, at the time of the sale the seller also obtains a legal right to receive cash for the buyer.
- The legal right to receive cash is valuable and represents an **asset** of the company. This asset is referred to as accounts receivable, and the company records it at the time of a credit sale.

Credit Sales and Account Receivable

1.2 Account Receivable

- **EXAMPLE 1**: On December 21, 2017 the corporation provided music classes to customer on account, $2,700.

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 21	Accounts Receivable		2,700	
	Service Revenue			2,700
	(Provided services on account)			

Credit Sales and Account Receivable

1.3 Other Type of Receivable

Credit Sales and Account Receivable

1.3 Other Type of Receivable

- Other type of receivable, also known as "nontrade receivable" are receivable that originate form sources other than customers.
- They include:
  1. Tax refund claims
  2. Interest receivable
  3. Loans receivable (other entities, stockholders, employees)

Credit Sales and Account Receivable

1.3 Other Type of Receivable

- Sometimes a formal credit arrangement is made with a written debt instrument or note (referred to as a note receivable).

Net Revenue

Net Revenue

2.1 Introduction

Net Revenue

2.1 Introduction

- Net revenues refer to a company's total revenues less any amount for discounts, returns, and allowances.

Net Revenue

2.2 Trade Discount

Net Revenue

2.2 Trade Discount

- Trade discounts represents a reduction in the listed price of a product or service.
- Companies typically use trade discounts to provide incentives to larger customers or consumers groups to purchase from the company.

Net Revenue

2.2 Trade Discount

- When recording a transactions, companies do not recognize trade discounts directly. Instead, they recognize trade discounts indirectly by recording the sale at the discounted price.

Net Revenue

2.2 Trade Discount

- **EXAMPLE 2**: On January 2, 2018, Vienna School offers a 25% discount on a particular music class to any of its regular clients during the month of January. The school typically charges $400 for this class. One client of the school takes advantage of the special discount and have his class for only $300 on account.

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Jan. 2	Accounts Receivable		300	
	Service Revenue			300
	(*Make credit sale of $400 with 20% trade discount.*)			

Net Revenue

2.3 Sales Discount

Net Revenue

2.3 <u>Sales Discount</u>

- Unlike a trade discount, a sales discount represents a reduction, not in the selling price of a product or service, but in the moment to be paid by a credit customer if payment is made within a specific period of time.
- It’s a discount intended to provide incentive for quick payment.

Net Revenue

2.3 Sales Discount

- Discount terms, such as 2/10, n/30, are a shorthand way to communicate the amount of the discount and the time period which it's available.
- The term "2/10" indicates the customer will receive a 2% discount if the amount owed is paid within 10 days. The term "n/30" means that if the customer does not take the discount, full payment is due within 30 days.

Net Revenue

2.3 Sales Discount

- When a customer pays during the discount period, the entity records the discount at the moment the payment is received.
- The discount is recorded in an account name “Sales Discount” and this account is a “contra-account” of Revenue.

Net Revenue

2.3 Sales Discount

- The reason we use a contra revenue account is to be able to keep the total revenue separate from the reduction in that revenue due to quick payment.

Net Revenue

2.2 Trade Discount

- **EXAMPLE 3**: Refer to **Example 2**, assume Vienna School offered its client a discount term of 2/10, n/30. The client paid the amount due on January 11.
- Since the client paid within the 10-day discount period, the amount due is reduced by 2% ($300 x 2% = $6).

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Jan. 2	Cash		294	
	Sales Discount		6	
	Accounts Receivable			300

Net Revenue

2.2 Trade Discount

- **EXAMPLE 3**: A partial income statement, to see the relationship between the Service Revenue and related contra accounts, after Examples 2 and 3, follows:

Vienna School Income Statement (partial)	
Service Revenue	$300
Less: Sales Discount	(6)
Net Service Revenue	**$294**

Net Revenue

2.4 <u>Sales Return and Sales Allowances</u>

Net Revenue

2.4 Sales Return and Sales Allowances

- In some cases, customers may not be satisfied with a product or service purchased. If a customer returns a product, we call that a sales return.
- After a sales return:
  1. We reduce the customer's account balance if the sale was on account, or
  2. We issue a cash refund if the sales was for cash.
- The sales return account is a contra revenue account.

Net Revenue

2.4 Sales Return and Sales Allowances

- In other cases, the customer does not return the product or service, but the seller reduces the customer's balance owed to provide at least a partial adjustment of the amount the customer owes. This adjustment is called a sales allowance.
- The sales allowance account is a contra revenue account.

Net Revenue

2.4 Sales Return and Sales Allowances

- **EXAMPLE 4**: Refer to **Example 3**, assume the client found that other school is offering the same class in $25 less than Vienna School price. The client brought this to Vienna attention and the school offered its client to reduce the price by $25. Due to the fact the account receivable had been collected, the School returned $25 to the client.

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Jan. xx	Sales Allowance		25	
	Cash			25
	(Provide sales allowance for previous sales.)			

Net Revenue

2.4 Sales Return and Sales Allowances

- **EXAMPLE 4**: A partial income statement, to see the relationship between the Service Revenue and related contra accounts, after the Examples 2, 3 and 4, follows:

Vienna School Income Statement (partial)	
Service Revenue	$300
Less: Sales Discount	(6)
Sales Allowance	(25)
Net Service Revenue	**$269**

Net Revenue

2.5 Adjustment for Contra Revenues

Net Revenue

2.5 <u>Adjustment for Contra Revenues</u>

- The revenue recognition standard (ASU No. 2014-09) issued in 2014 requires a company to report revenues equal to the amount of cash the company "expect to be entitled to receive."
- Consequently, a company with an accounting year ending December 31, 2018, at the end of 2018 the <u>company must estimate any additional discounts, returns, and allowances</u> that <u>will occur during 2019</u> as a result of sales transactions in <u>**2018**</u>.

Net Revenue

2.6 Summary

Net Revenue

2.6 Summary

- The important points to understand the concept of “Net Revenue” are:
  1. Revenues are reported for the amount of cash a company expects to be entitled to receive from customers for providing goods or services.
  2. Total revenues are reduced by sales discounts, sales returns, and sales allowances that occur during the year.

Net Revenue

2.6 Summary

- The important points to understand the concept of "Net Revenue" are:

    3. Total revenues are further reduced by an adjusting entry at the end of the year for the estimate of additional sales discounts, sales returns, and sales allowances expected to occur in the future but that relate to the current year.

Valuing Accounts Receivable

Valuing Accounts Receivable

3.1 Net Realizable Value

- The companies must report accounts receivable on the balance sheet at their net realizable value.
- Net Realizable Value is the net amount the company expects to receive in cash.
- At each financial statement date, companies estimate uncollectible accounts and net realizable value using information about past and current events as well as forecasts of future collectibility. [**Kieso**]

Valuing Accounts Receivable

3.2 Estimating Uncollectible Accounts

Valuing Accounts Receivable

3.2 Estimating Uncollectible Accounts

- Generally Accepted Accounting Principles (GAAP) require that we account for uncollectible accounts using the allowance method.
- This method involves allowing for the possibility that some accounts will be uncollectible at some point in the future.
- Using the allowance method, we account for events (customers' bad debts) that have not yet occurred but that are likely to occur.

Valuing Accounts Receivable

3.2 Estimating Uncollectible Accounts

- Therefore, under the allowance method, **companies are required to estimate future uncollectible accounts and record those estimates in the current year**.

Valuing Accounts Receivable

3.3 Recording the Uncollectible Accounts

Valuing Accounts Receivable

3.3 Recording the Uncollectible Accounts

- When a company estimates uncollectible accounts, an adjusting entry is recorded using the following accounts:
    1. **Allowance for Doubtful Accounts**
    2. **Bad Debt Expense**

Valuing Accounts Receivable

3.3 Recording the Uncollectible Accounts

1. **Allowance for Doubtful Accounts:**
   - The allowance for doubtful account is a contra asset account the represents the amount of accounts receivable we do not expect to collect.
   - The allowance for doubtful account provide a way to reduce accounts receivable indirectly, rather than decreasing the accounts receivable balance itself.

Valuing Accounts Receivable

3.3 Recording the Uncollectible Accounts

1. **Allowance for Doubtful Accounts:**
   - We report the allowance for uncollectible accounts in the asset section of the balance sheet, but it represents a reduction in the balance of accounts receivable.
   - The difference between total accounts receivable and the allowance for uncollectible accounts is referred to as net accounts receivable.

Valuing Accounts Receivable

3.3 Recording the Uncollectible Accounts

1. **Allowance for Doubtful Accounts:**
   - **Example 5**: As of December 31, 2018, Vienna School accounts receivable balance is $100,000 with an allowance for uncollectible accounts of $20,000. These accounts will appear on the balance sheet as follows: (see next page)

Valuing Accounts Receivable

3.3 Recording the Uncollectible Accounts

1. **Allowance for Doubtful Accounts:**

- **Example 5**:

Vienna School **Balance Sheet (partial)** **December 31, 2018**	
Current Assets	
Accounts Receivable	$100,000
Less: Allowance	(20,000)
Net account receivable	**$80,000**

Valuing Accounts Receivable

3.3 Recording the Uncollectible Accounts

2. Bad Debt Expense:

- Bad debt expense represents the cost of the estimated future bad debts.
- We include this expense in the income statement of the same period with which these bad debts are associated. By doing so, we properly "match" expenses (bad debts) with the revenues (credit sales) they help to generate.

Valuing Accounts Receivable

3.3 Recording the Uncollectible Accounts

- **Example 6**: Assume a company estimates $15,000 as uncollectible accounts for the year ending December 31, 2018. The following adjusting entry is recorded on books:

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 31	Bad Debt Expense		15,000	
	Allowance for Doubtful Accounts			15,000
	(*Record uncollectible accounts of 2017.*)			

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

- There are three methods for estimating the uncollectible accounts:
  1. Percentage of Receivable Method
  2. Aging Method
  3. Percentage of Credit Sales Method

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

1. **Percentage of Receivable Method:**
   - Percentage of receivable method estimates uncollectible accounts based on the percentage of accounts receivable expected not to be collected.
   - This method sometimes is referred to as the balance sheet method, because we base the estimate of bad debts on a balance sheet amount: accounts receivable.

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

- **Example 7**: Vienna School accounts receivable as of December 31, 2018 amounts $100,000. The company estimates that 25% of its accounts receivable likely will never be collected, or $25,000 ($100,000 x 25%).

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 31	Bad Debt Expense		25,000	
	Allowance for Doubtful Accounts			25,000
	(*Estimate bad debts $100,000 x 25% for 2018.*)			

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

2. **Aging Method:**

- Unlike the percentage of receivable method using a single estimated percentage of total accounts receivable, the aging method considers various ages of individual accounts receivable, using a higher percentage for "old" accounts than for "new" accounts.
- The older the account, the less likely it is to be collected.
- The Account Receivable Ledger of Vienna School as of December 31, 2018 is shown on next page.

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

2. Aging Method:

Clients	Not Yet Due	1-60 Days	61-120 Days	More than 120 Days	Total
Client A		$3,500			$3,500
Client B	$5,000				5,000
Client C	4,500				4,500
Client D				$2,000	2,000
Other clients	45,000	22,000	$11,500	6,500	85,000
Total	$54,500	$25,500	$11,500	$8,500	$100,000

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

- **Example 8**: Vienna School estimated percent uncollectible follows:
  - Not Yet Due: 5%
  - 1 – 60 days: 25%
  - 61 – 120 days: 50%
  - More that 120: 80%

What is the estimated amount uncollectible of Vienna School as of December 31, 2018?

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

Example 8:

Clients	Not Yet Due	1-60 Days	61-120 Days	More than 120 Days	Total
Client A		$3,500			$3,500
Client B	$5,000				5,000
Client C	4,500				4,500
Client D				$2,000	2,000
Other clients	45,000	22,000	$11,500	6,500	85,000
Total	$54,500	$25,500	$11,500	$8,500	$100,000
% Uncollectible	5%	25%	50%	80%	
Est. Amount Uncollectible	**$2,725**	**$6,375**	**$5,750**	**$6,800**	**$21,650**

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

- **Example 8**: Using the aging method, Vienna School estimated amount uncollectible is $21,650 as of December 31, 2018. The adjusting entry follows:

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 31	Bad Debt Expense		21,650	
	Allowance for Doubtful Accounts			21,650
	(*Estimate future bad debts.*)			

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

3. Percentage of Credit Sales Method:

- We can estimate uncollectible accounts based on the percentage of credit sales for the year, referred to as the percentage of credit sales method or the income statement method, because we base the estimate of bad debts on an income statement amount: credit sales.

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

- **Example 9**: Assume Vienna School estimates uncollectible using a percentage of credit sales method. The credit sales for the year 2018 amounts $250,000 and the company expects 15% of credit sales to be uncollectible. Consequently, $37,500 is estimated as uncollectible accounts.

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 31	Bad Debt Expense		37,500	
	Allowance for Doubtful Accounts			37,500
	(*Estimate future bad debts.*)			

Valuing Accounts Receivable

3.4 Methods for Estimating Uncollectible Accounts

3. Percentage of Credit Sales Method:

- The current emphasis on better measurement of assets (balance sheet focus) outweighs the emphasis on better measurement of net income (income statement focus).
- This is why the percentage of receivable method (balance sheet method) is the preferable method, while the percentage of credit sales method (income statement method) is allowed only if amounts do not differ significantly from estimates using the percentage of receivable method.

Valuing Accounts Receivable

3.5 Writing Off Accounts Receivable

Valuing Accounts Receivable

3.5 Writing Off Accounts Receivable

- When companies have exhausted all means of collecting a past-due account and collection appears impossible, the company should write off the account.
- When a company write off an account, the account is eliminated from the account receivable ledger.

Valuing Accounts Receivable

3.5 Writing Off Accounts Receivable

- **Example 10**: Assume the management of Vienna School authorizes a write-off of the $2,000 balance owed by **Client D** on January 31, 2019 (*see Account Receivable Ledger as of 12/31/2018 on next page*). The entry to record the write-off is:

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Jan. 31	Allowance for Doubtful Accounts		2,000	
	Accounts Receivable			2,000
	(*Write off Client D account.*)			

Valuing Accounts Receivable

3.5 Writing Off Accounts Receivable

Clients	Not Yet Due	1-60 Days	61-120 Days	More than 120 Days	Total
Client A		$3,500			$3,500
Client B	$5,000				5,000
Client C	4,500				4,500
Client D				**$2,000**	**2,000**
Other clients	45,000	22,000	$11,500	6,500	85,000
Total	$54,500	$25,500	$11,500	$8,500	$100,000
% Uncollectible	5%	25%	50%	80%	
Est. Amount Uncollectible	**$2,725**	**$6,375**	**$5,750**	**$6,800**	**$21,650**

Valuing Accounts Receivable

3.5 Writing Off Accounts Receivable

- **Example 10**:
  - Notice the entry to record the write off of an uncollectible account reduces both Accounts Receivable and Allowance for Doubtful Accounts.
  - In addition, the write-off of the account receivable has no effect on total amounts reported in the balance sheet or in the income statement.

Valuing Accounts Receivable

3.5 Writing Off Accounts Receivable

- **Example 10**:
  - Assuming Vienna School adopted the aging method and its accounts receivable balance as of 1/31/2019 is the same as 12/31/2018 before the write off, notice there is not change in the total net accounts receivable before or after the write-off:

December 31, 2018 (before write-off)		January 31, 2019 (after write-off)	
Accounts Receivable	$100,000	Accounts Receivable	$98,000
Less: Allowance	(21,650)	Less: Allowance	(19,650)
Net accounts receivable	**$78,350**	**Net accounts receivable**	**$78,350**

Valuing Accounts Receivable

3.5 Writing Off Accounts Receivable

- **Example 10**:
  - As you can see, a write off neither decrease the total assets nor decrease the net income.
  - There is no decrease, because the decrease was previously recorded when the bad debt expense was recorded (referred to **Example 8**). Recording a bad debt expense decreases net income, and recording an increase in the allowance for doubtful account decreases the assets (account receivable).

Valuing Accounts Receivable

3.6 Collection of Accounts Receivable Previously Written Off

Valuing Accounts Receivable

3.6 Collection of Accounts Receivable Previously Written Off

- Occasionally, a company collects from a customer after it has written off the account as uncollectible.
- In that case, the company makes two entries to record the recovery of a bad debt:
  1. Reverse the entry made in writing off the account. This reinstates the customer's account.
  2. Journalizes the collection in the usual manner. [**Kieso**]

Valuing Accounts Receivable

3.6 Collection of Accounts Receivable Previously Written Off

- **Example 11**: Refer to **Example 10**. Assume that on March 1, 2019, **Client D** pays the $2,000 amount that Vienna School had written off on January 31, 2019. These are the entries:

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Mar. 01	Account Receivable		2,000	
	Allowance for Doubtful Accounts			2,000
	(*To reverse write off of Client D account*.)			
Mar. 01	Cash		2,000	
	Account Receivable			2,000
	(*Collection of account*.)			

Valuing Accounts Receivable

3.6 Collection of Accounts Receivable Previously Written Off

- **Example 11**:
  - The two entries above could have been recorded as a single entry by debiting Cash and crediting Allowance for Doubtful Accounts.
  - Finally, collecting a cash on an account previously written off also has no effect on total assets and no effect on net income.

Valuing Accounts Receivable

3.7 Estimating Uncollectible Accounts in the Following Year

Valuing Accounts Receivable

3.7 Estimating Uncollectible Accounts in the Following Year

- Remember that every time an account receivable is written off, the Allowance for Doubt Accounts balance is decreased.
- Therefore, a company estimating the allowance at the end of the accounting period must take into consideration any balance in the Allowance for Doubtful Accounts to calculate the appropriate adjustment to the allowance account and to the Bad Debt Expense.

Valuing Accounts Receivable

3.7 Estimating Uncollectible Accounts in the Following Year

Example 12

- Assume the Allowance for Doubtful Accounts of Vienna School as of January 1, 2019 is $25,000 (credit balance).
- During the year 2019, $22,000 accounts receivable were written off (a debit to the Allowance for Doubtful Accounts). Consequently, at year end the allowance account balance is $3,000.

Allowance for Doubtful Account

2019	$22,000	1/1/19	$25,000
		12/31/19	$ 3,000

Valuing Accounts Receivable

3.7 Estimating Uncollectible Accounts in the Following Year

Example 12

- Now assume that Vienna School estimates as of December 31, 2019 uncollectible accounts of $20,000.
- In that case, the company need to take into consideration the balance of the Allowance of Doubtful Accounts as of 12/31/2019 before recording the expense of the year.

Valuing Accounts Receivable

3.7 Estimating Uncollectible Accounts in the Following Year

Example 12

- The balance as of 12/31/19 follows:

Allowance for Doubtful Account

	12/31/19 $ 3,000

- Based on the fact Vienna estimates that the allowance for uncollectible accounts should be $20,000, this means the allowance account needs to be increase from its current balance of $3,000 to the estimated ending balance of $20,000, or an adjustment of $17,000.

Valuing Accounts Receivable

3.7 Estimating Uncollectible Accounts in the Following Year

Example 12:

- The balance as of 12/31/19 is increased by $17,000 as follows:

Allowance for Doubtful Account

Debit	Credit
	12/31/19 $ 3,000
	Adjustment 17,000
	12/31/19 $20,000

GENERAL JOURNAL J - __

Date	Account Title	Ref.	Debit	Credit
Jan. 31	Bad Debt Expense		17,000	
	Allowance for Doubtful Accounts			17,000
	(*Estimate future bad debts.*)			

Valuing Accounts Receivable

3.7 Estimating Uncollectible Accounts in the Following Year

- Notice that a credit balance in the Allowance for Doubtful Accounts before adjustment indicates that the estimate of uncollectible accounts at the beginning of the year (or end of last year) may have been too high.
- And a debit balance before adjustment indicates that the estimate at the beginning of the year was too low.

Notes Receivable

Notes Receivable

4.1 Definition

Notes Receivable

4.1 Definition

- Note receivable are similar to accounts receivable but are more formal credit arrangements evidenced by a written debt instrument, or note.
- Note receivable typically arise from loans to other entities; loans to stockholders and employees; and occasionally the sale of merchandise, other assets, or services.

Notes Receivable

4.2 Description of a Note

Notes Receivable

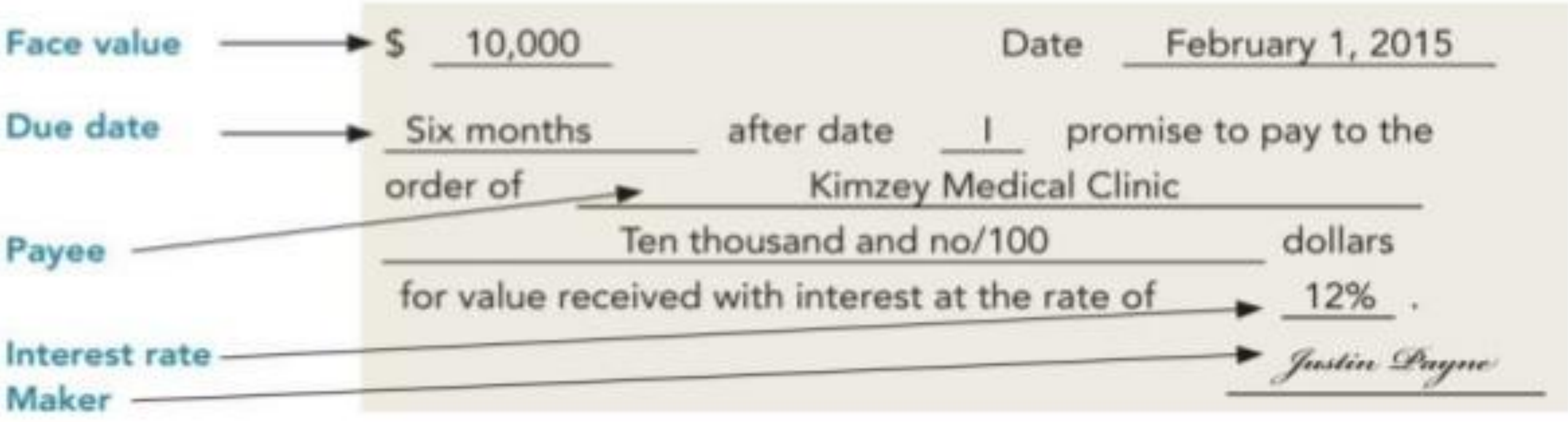
4.2 Description of a Note

- A typical note receivable includes these four elements:
  1. Face value (principal amount)
  2. Due date
  3. Payee (*the person collecting the money*)
  4. Interest rate
  5. Maker (*the person promising to pay the money*)

- See an example of a note receivable on next page.

Notes Receivable

- Similar to accounts receivable but are more formal
- Evidenced by a written debt instrument, or note
- Classified as either current or noncurrent asset



Notes Receivable

4.3 Examples of Notes Receivable

Notes Receivable

4.3 Examples of Notes Receivable

- **Example 13**: As of June 15, 2018, Vienna School accepts a six-month, 12% promissory note of $5,000 from a client as a way to increase the likelihood of eventually receiving the payment. The entry to record this transaction follows:

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Jun. 15	Note Receivable		5,000	
	Service Revenue			5,000
	(*Accept a 6 month, 12% note receivable*.)			

Notes Receivable

4.3 Examples of Notes Receivable

- **Example 14**: As of June 30, 2018, Vienna School accepts a three-month, 10% promissory note of $8,000 from a client with an account receivable from the same amount as a way to secure the collection. The entry to record this transaction follows:

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Jun. 30	Note Receivable		8,000	
	Account Receivable			8,000
	(*Accept a 3 month, 10% note receivable*.)			

Notes Receivable

4.3 Examples of Notes Receivable

- **Example 15**: Refer to **Example 14**. The client pays the note receivable and the interests as of September 30, 2018. The interest from June 30 to September 30, 2018 is $200 ($8,000 x 10% x 3/12).

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Jun. 30	Cash		8,200	
	Note Receivable			8,000
	Interest Revenue			200
	(*Collect note receivable and interests.*)			

Notes Receivable

4.4 Accrued Interest

Notes Receivable

4.4 Accrued Interest

- If frequently happens that a note is issued in one year and the maturity date occurs in the following year.
- In that situation, the payee record interest earned on notes receivable but not yet collected by the end of the year as interest receivable and interest income.

Notes Receivable

4.4 Accrued Interest

- **Example 16**: As of August 1, 2018, Vienna School accepts a one-year, 12% promissory note of $5,000 from a stockholders. At year end, the accrued interest receivable is $250 ($5,000 x 12% x 5/12).

GENERAL JOURNAL				J - __
Date	**Account Title**	**Ref.**	**Debit**	**Credit**
Dec. 31	Interest Receivable		250	
	Interest Revenue			250
	(*Accrued interest revenue on note receivable*.)			