Problem 5

Prepare journal entries for each of the following transactions:

On July 1, 20X7, Ching received a 5%, 1-year, note receivable from Harris. This note was issued in payment for a $36,000 outstanding account receivable.

On July 31, 20X7, Ching recorded an end-of-year adjusting entry to record accrued interest on the note receivable.

On June 30, 20X8, Harris paid Ching the full amount due on the note receivable.

How would the June 30 entry differ if Harris defaulted on the payment?

Worksheet 5

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
July 1			
	To record issuance of 5%, 1-year note, in exchange for outstanding receivable		
July 31			
	To accrued interest on note ($36,000 X 5% X 1/12)		
June 30			
	To record interest income (11 months) and collection of note receivable and previously accrued interest		

Solution 5

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
July 1	Notes Receivable	36,000	
	Accounts Receivable		36,000
	To record issuance of 5%, 1-year note, in exchange for outstanding receivable		
July 31	Interest Receivable	150	
	Interest Income		150
	To accrued interest on note ($36,000 X 5% X 1/12)		
June 30	Cash	37,800	
	Accounts Receivable		1,650
	Interest Receivable		150
	Notes Receivable		36,000
	To record interest income (11 months) and collection of note receivable and previously accrued interest		

If Harris did not make payment on November 30, but Ching still anticipated collecting the amount due, then the debit would be to Accounts Receivable rather than Cash.