

# Problem 1

On October 1, 20X4, River Woods purchased land by giving \$200,000 in cash and executing a \$800,000 note payable to the former owner. The note bears interest at 8% per annum, with interest being payable annually on September 30 of each year. Rojas is also required to make a \$200,000 payment toward the note's principal on every September 30.

- a) Prepare the appropriate journal entry to record the land purchase on October 1, 20X4.
- b) Prepare the appropriate journal entry to record the year-end interest accrual on December 31, 20X4.
- c) Prepare the appropriate journal entry to record the payment of interest and principal on September 30, 20X5.
- d) Prepare the appropriate journal entry to record the year-end interest accrual on December 31, 20X5.
- e) Prepare the appropriate journal entry to record the payment of interest on September 30, 20X6.

Worksheet 1

(a), (b), (c), (d), (e)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
1-Oct			
31-Dec			
30-Sep			
31-Dec			
30-Sep			

## Solution 1

(a), (b), (c), (d), (e)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
1-Oct	Land	1,000,000	
	Cash		200,000
	Note Payable		800,000
	<i>To record purchase of land for cash and 8% note payable</i>		
31-Dec	Interest Expense	16,000	
	Interest Payable		16,000
	<i>To record accrued interest for 3 months (\$800,000 X 8% X 3/12)</i>		
30-Sep	Interest Expense	48,000	
	Interest payable	16,000	
	Note Payable	200,000	
	Cash		264,000
	<i>To record repayment of note and interest (\$800,000 X 8% X 9/12)</i>		
31-Dec	Interest Expense	12,000	
	Interest Payable		12,000
	<i>To record accrued interest for 3 months (\$600,000 X 8% X 3/12)</i>		
30-Sep	Interest Expense	36,000	
	Interest payable	12,000	
	Note Payable	200,000	
	Cash		248,000
	<i>To record repayment of note and interest (\$600,000 X 8% X 9/12)</i>		