

Illustrations of APB No. 21
Interest on Receivables and Payables

Case 1

John Company borrowed \$70,843 and issued a four year, non interest bearing note for \$100,000.

Case 2

John Company borrowed \$72,095 and issued a 3 year, 2% note with a face value of \$90,000.
(Hint: The 2% interest rate is unrealistic.)

Case 3

John Company acquired machinery, issuing a 30 percent, 3 year note, face value \$40,000. The 30 percent rate is considered unrealistic; the current market rate for similar notes is 12 percent.

Case 4

John Company acquired machinery by issuing a 4 year, \$100,000 non interest bearing note. The machinery could have been acquired for \$73,503 cash payment. John Company feels that it would have to pay 10 percent interest if it borrowed funds to acquire the asset.

Case 5

John Company borrowed \$20,000 from Smith Company, its major customer and issued a \$20,000 non interest bearing note payable in 3 years. In return, John Company agrees to sell to Smith Company products at a discount from normal selling prices. If John had borrowed at the bank, it would have paid 15 percent interest. The sales to Smith, at a discount, will be made more or less evenly over the three year period.

Required: For the five cases outlined above, prepare all entries for John Company for each year the note is outstanding. Show all supporting computations in good form.