Glencoe Accounting

Chapter 26: Notes Payable and Receivable

I-Summary

In this chapter, you learned how to account for notes payable and receivable. Companies like AMD often issue notes to obtain cash for expansions. You learned how interest plays a role in notes payable and receivable and how to record journal entries for these transactions.

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I-Quiz

1. What is a promissory note?

A. a written promise to pay an amount
B. a formal document that is evidence of credit granted or received
C. both of these

2. What is the interest deducted in advance called on a non-interest-bearing note?

A. maturity value
B. proceeds
C. bank discount

3. When a company receives interest income from a note receivable, what does the journal entry include?

A. a credit to Interest Income
B. a debit to Notes Receivable
C. a credit to Cash in Bank

4. When a company records a payment for an interest-bearing note payable, which account is debited?

A. Notes Payable
B. Interest Expense
C. both of these

5. The interest rate on a promissory note is based on which three factors?

A. principal, proceeds, and bank discount
B. principal, interest rate, and term of the note
C. principal, interest rate, and bank discount

Answer Key

1. C
2. C
3. A
4. C
5. B