

A 60-day, 9% Note For \$10,800, Dated May 1, Is Received From A customer On Account. The Maturity Value

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When a business extends credit to a customer through a promissory note, understanding how to compute the maturity value is essential for accurate financial recording and analysis. In this context, a note dated May 1, with a term of 60 days and an interest rate of 9%, for the amount of \$10,800, will reach its maturity at a specific date, and its value at that time includes both the principal and the accrued interest. This article explores the detailed process of calculating the maturity value of such a note, along with relevant concepts, accounting entries, and best practices.

Understanding the Components of the Note

Before diving into calculations, it is crucial to comprehend the fundamental elements involved in this note:

Principal Amount

- The original amount loaned or receivable is \$10,800.
- This is the face value of the note, also called the principal.

Interest Rate

- The annual interest rate specified is 9%.
- This rate determines how much interest accrues over the note's term.

Term of the Note

- The duration is 60 days.
- The note is dated May 1, indicating the start date for interest calculation.

Issue Date and Maturity Date

- Issue Date: May 1.
- Maturity Date: Adding 60 days to May 1 results in July 1, which is the date when the note matures and the final payment is due.

Calculating the Maturity Value of the Note

The maturity value of a note includes both the principal and the interest accrued over the term. To compute it, follow these steps:

Step 1: Determine the Time Period in Terms of Years

Since interest rates are typically annual, convert the note's term into a fraction of a year:

- Number of days: 60 days.
- Assuming a 360-day year (common in financial calculations), the time period in years is:

$$\text{Time in years} = \frac{60}{360} = \frac{1}{6} \approx 0.1667 \text{ years}$$

Alternatively, some calculations use 365 days, but for simplicity and standard practice in finance, 360 days are often used.

Step 2: Calculate the Interest

Use the simple interest formula:

$$\text{Interest} = \text{Principal} \times \text{Interest Rate} \times \text{Time}$$

Substituting the known values:

$$\text{Interest} = 10,800 \times 0.09 \times \frac{60}{360}$$

Calculations:

- $(10,800 \times 0.09 = 972)$
- $(972 \times \frac{1}{6} = 162)$

Thus, the interest accrued over 60 days is \$162.

Step 3: Compute the Maturity Value

The maturity value is the sum of the principal and the interest:

$$\text{Maturity Value} = \text{Principal} + \text{Interest}$$

$$\text{Maturity Value} = 10,800 + 162 = \boxed{\$10,962}$$

This is the amount the customer will pay on the maturity date, July 1.

Accounting for the Note and Interest

Proper recording of the receipt and settlement of the note involves journal entries at various stages.

Initial Receipt of the Note

When the note is received from the customer on account:

- Debit: Notes Receivable for \$10,800.
- Credit: Accounts Receivable for \$10,800.

This reflects that the business now holds a note receivable instead of a regular account receivable.

Journal Entry:

Account	Debit	Credit
Notes Receivable	\$10,800	
Accounts Receivable		\$10,800

Accruing Interest (Optional for Financial Statements)

If financial statements are prepared before the note matures, accrue interest:

- Debit: Interest Receivable for \$162.
- Credit: Interest Revenue for \$162.

Journal Entry:

Account	Debit	Credit
Interest Receivable	\$162	
Interest Revenue		\$162

This recognizes the earned interest even if not yet received.

Maturity Date - Collection of the Note

On July 1, when the note matures:

- Debit: Cash for \$10,962.
- Credit: Notes Receivable for \$10,800.
- Credit: Interest Revenue (or Interest Income) for \$162.

Final Settlement Entry:

Account	Debit	Credit
Cash	\$10,962	
Notes Receivable		\$10,800
Interest Revenue		\$162

If interest was accrued earlier, the actual entry might include Interest Receivable instead of Interest Revenue.

Additional Considerations in Note Transactions

Understanding the nuances of note transactions helps in proper financial reporting and management.

1. Discounting the Note

- Sometimes, notes are discounted before maturity, leading to different cash flows and accounting treatments.
- Discounting involves selling the note at a discount, and interest is recognized over time.

2. Handling Partial Payments

- If the customer makes a partial payment before maturity, the note's principal and accrued interest are adjusted accordingly.

3. Impact on Financial Statements

- Notes Receivable are classified as current or non-current assets based on their maturity.
- Interest income is recognized over the period, affecting net income.

4. Tax Implications

- Interest income is taxable and must be reported accurately.

- Proper timing of income recognition is crucial for tax compliance.

Summary of Key Points

- The note in question is a 60-day, 9% promissory note for \$10,800.
- The interest accrued over 60 days at 9% annual rate is \$162.
- The total maturity value to be received on July 1 is \$10,962.
- Proper accounting involves recording the note receipt, accruing interest if necessary, and settling the note at maturity.
- Understanding these concepts ensures accurate financial reporting and effective cash flow management.

Conclusion

Calculating the maturity value of a note, such as the 60-day, 9% note for \$10,800 dated May 1, involves a straightforward application of simple interest formulas and attentive accounting entries. By accurately determining the interest accrued over the specified period and recording transactions properly, businesses can maintain precise financial records and ensure compliance with accounting standards. Whether for internal management, financial reporting, or tax purposes, mastering the calculation and handling of notes receivable is an essential skill for accountants and financial professionals.

Keywords: Note receivable, maturity value, interest calculation, promissory note, accounting for notes, interest revenue, financial statements, short-term notes, business finance, accounting entries

Frequently Asked Questions

What is the maturity value of a 60-day, 9% note for \$10,800 dated May 1?

The maturity value is \$10,890, calculated as the principal plus interest ($\$10,800 + \$10,800 \times 9\% \times 60/360$).

How do you calculate the interest on a 60-day, 9% note for \$10,800?

Interest = Principal x Rate x Time; so, $\$10,800 \times 9\% \times (60/360) = \162 .

When is the note received from the customer considered a receivable?

The note is considered a receivable on the date it is received, which is May 1 in this case, and is recorded as an Accounts Receivable or Notes Receivable.

What journal entry is made when the note is received from the customer?

Debit Notes Receivable \$10,800; credit Accounts Receivable \$10,800.

How is the maturity value of the note reported at the end of 60 days?

The maturity value (\$10,890) is recorded when the note matures, typically through a journal entry debiting Cash and crediting Notes Receivable for the maturity amount.

Additional Resources

Understanding the Maturity Value of a 60-Day, 9% Note for \$10,800 Dated May 1

When managing accounts receivable and short-term notes, understanding the intricacies of note calculations is essential for accurate financial reporting and effective cash flow management. A specific scenario—receiving a 60-day, 9% note for \$10,800 from a customer on account—serves as an excellent case study to dive deeply into how maturity value is determined, what it signifies, and how it impacts both the issuer and the holder of the note. This article explores this scenario in comprehensive detail, explaining the key concepts, calculations, and implications involved.

Introduction to Notes Receivable and Their Components

Notes receivable are written promises from customers or debtors to pay a specified amount of money at a certain date or over a certain period. Unlike accounts receivable, which are usually due within a short period and do not carry explicit interest terms, notes are formalized with interest provisions, due dates, and sometimes collateral.

Key components of a note:

- Principal (Face Value): The amount of money loaned or owed—in this case, \$10,800.
- Interest Rate: The annual percentage rate (APR) applied to the principal—in this case, 9%.
- Term: The length of time until maturity—in this case, 60 days.
- Dated Date: The date on which the note is issued or written—here, May 1.
- Maturity Date: The date when the note is due for payment—calculated based on the term.

Understanding these components is crucial because they form the basis for calculating the maturity value, which is the total amount due at the end of the note's term, comprising both the principal and the interest earned over that period.

Fundamentals of the 60-Day, 9% Note

Scenario at a Glance:

- Date of issuance: May 1
- Principal (Face Value): \$10,800
- Interest Rate: 9% per annum
- Term: 60 days
- Purpose: Received from a customer on account, likely as a formalized payment promise.

This type of note is typical in business transactions where a seller extends credit but wants formal assurance of payment, often with interest to compensate for the delay and risk.

Why Use Notes Instead of Accounts Receivable?

- Formality and Documentation: Notes provide legal evidence of debt obligations.
- Interest Income: Notes accrue interest, providing additional income.
- Clear Terms: Maturity date and interest rate are explicitly defined.
- Flexibility: They serve as short-term financing tools for businesses.

Calculating the Maturity Value

The maturity value of a note is the sum of the principal and the interest accrued over the note's term. To determine it, two main calculations are involved:

1. Interest Calculation
2. Total Maturity Value

Let's examine each step thoroughly.

Step 1: Calculating Interest

The general formula for interest (using simple interest) is:

$$\text{Interest} = \text{Principal} \times \text{Rate} \times \text{Time}$$

Where:

- Principal: \$10,800
- Rate: 9% per year (or 0.09 as a decimal)
- Time: expressed in years

Since the note is only for 60 days, we need to convert days into a fraction of a year.

Calculating Time in Years:

Assuming a 360-day year (common in financial calculations):

$$\text{Time} = \frac{\text{Number of days}}{360} = \frac{60}{360} = \frac{1}{6} \text{ year}$$

Alternatively, some calculations use 365 days, but 360 is standard in many financial contexts for simplicity.

Interest Calculation:

$$\begin{aligned} \text{Interest} &= 10,800 \times 0.09 \times \frac{60}{360} \\ &= 10,800 \times 0.09 \times \frac{1}{6} \\ &= 10,800 \times 0.09 \times 0.1667 \\ &= 10,800 \times 0.015 \\ &= 162 \end{aligned}$$

Result: The interest accrued over 60 days is \$162.

Step 2: Determining the Maturity Value

The maturity value is simply the sum of the principal and the interest:

$$\text{Maturity Value} = \text{Principal} + \text{Interest} = 10,800 + 162 = \boxed{\$10,962}$$

Therefore, the total amount due from the customer on the maturity date (July 1) is \$10,962.

Implications for the Business: Recognition and Recording

Proper accounting for this note involves recognizing both the note receivable at its face value and the interest income at the appropriate times.

Initial Recording on May 1

When the note is received:

- Debit: Notes Receivable \$10,800
- Credit: Accounts Receivable (or Sales, depending on context) \$10,800

This records the formalization of the receivable.

Recognizing Interest Income

Interest accrues over time, so at the end of each accounting period (or at the date of financial statement preparation), businesses recognize accrued interest:

- Debit: Interest Receivable \$162
- Credit: Interest Revenue \$162

At maturity (July 1), the business receives the total amount:

- Debit: Cash \$10,962
- Credit: Notes Receivable \$10,800
- Credit: Interest Receivable \$162
- Credit: Interest Revenue (if not previously accrued) \$162

This ensures that all interest earned is properly reflected and the receivable is settled.

Understanding the Broader Financial Context

While the calculations are straightforward, several broader considerations influence how such notes impact financial statements and business decision-making.

1. Interest Rate Significance

A 9% annual interest rate on a short-term note reflects a reasonable premium over typical bank rates, which may vary depending on economic conditions. It compensates for the time value of money and potential risk.

2. Time Frame and Discounting

Short-term notes like this are often used to bridge temporary gaps or extend credit. They are not usually discounted unless the note is sold before maturity, which introduces considerations of present value and market rate.

3. Risk Factors

While the note is formalized, the business must assess the debtor's creditworthiness to mitigate the risk of default, especially since the note carries interest.

4. Tax Implications

Interest earned from notes is taxable income, and proper documentation ensures compliance with tax laws.

Practical Applications and Common Scenarios

This example is representative of many real-world situations, including:

- Business loans: Companies lending money to customers or other businesses.
- Employee advances: Short-term notes issued to employees with interest.
- Inter-company loans: For corporate finance management.
- Trade credit arrangements: Formalized via notes for clarity and legal enforceability.

List of Key Takeaways:

- Always convert days into years using a consistent basis (360 or 365 days).
- Recognize interest as it accrues, even if not yet received.
- Record total maturity value to reflect the full cash inflow expected.
- Understand the role of notes in financial reporting and cash flow planning.

Conclusion: The Significance of Maturity Value in Business Finance

Calculating the maturity value of a note, such as the 60-day, 9% note for \$10,800, is fundamental for accurate financial management. It ensures that businesses can correctly anticipate cash inflows, recognize interest income appropriately, and maintain precise records for both internal and external reporting.

By understanding each component—from the principal and interest rate to the calculation methods and accounting entries—business professionals and financial analysts can evaluate the true cost and benefit of short-term notes receivable. In this scenario, the total maturity value of \$10,962 encapsulates the principal and the compensation for the time value of money, providing a clear

picture of the expected cash inflow and the note's profitability.

In essence, mastering these calculations enhances financial literacy, supports sound decision-making, and ensures compliance with accounting standards—cornerstones of effective financial management in any enterprise.

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