

Uniform Supply Accepted A \$6,400, 90-day, 6% Note From Tracy Janitorial On October 17. If The Note Is

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On October 17, Uniform Supply accepted a \$6,400, 90-day, 6% promissory note from Tracy Janitorial. This transaction highlights essential aspects of commercial lending, debt instruments, and the accounting treatment involved in notes receivable. Understanding the details of this note—its terms, implications, and accounting entries—is crucial for businesses engaged in credit transactions. In this article, we will explore the significance of this note, the key components involved, and the accounting processes to record and analyze such financial instruments.

Understanding the Details of the \$6,400, 90-Day, 6% Note

What Is a Promissory Note?

A promissory note is a written, unconditional promise made by one party (the maker) to pay a specific amount of money to another party (the payee) at a predetermined time or on demand. It serves as a legal evidence of debt and outlines the terms of repayment, including interest, maturity date, and other conditions.

Key Terms of the Note

The note accepted by Uniform Supply from Tracy Janitorial includes several important terms:

- **Principal Amount:** \$6,400
- **Term:** 90 days
- **Interest Rate:** 6% per annum
- **Maturity Date:** Calculated based on the date of October 17

Calculating the Interest

Interest on the note is calculated using the simple interest formula:

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

Where:

- Principal = \$6,400
- Rate = 6% per year (or 0.06)
- Time = 90 days (expressed as a fraction of a year, i.e., 90/360 or 90/365 depending on the convention)

Assuming a 360-day year convention:

$$\text{Interest} = \$6,400 \times 0.06 \times (90/360) = \$6,400 \times 0.06 \times 0.25 = \$6,400 \times 0.015 = \$96$$

Therefore, the total amount Tracy Janitorial will pay at maturity is:

$$\text{Total} = \text{Principal} + \text{Interest} = \$6,400 + \$96 = \$6,496$$

Significance of the Note for Uniform Supply

Accounts Receivable and Notes Receivable

When Uniform Supply accepts the note, it transitions from an accounts receivable to a notes receivable. This change reflects a formalized debt agreement, often with specified interest and maturity terms, providing a clearer expectation of future cash inflows.

Impact on Cash Flow and Financial Statements

Recognizing the note enhances the accuracy of financial statements by:

- Providing a detailed account of the receivable with interest earnings included
- Allowing better cash flow forecasting based on the maturity date
- Strengthening the company's financial position by documenting the receivable as a formal note

Legal and Collection Considerations

A promissory note offers legal enforceability, offering Uniform Supply a stronger position if collection issues arise. The note's terms can specify late payment penalties or collateral, which are critical in debt recovery.

Accounting for the \$6,400 Note

Initial Recording of the Note

On October 17, when the note is accepted, the journal entry to record the receivable is:

Debit: Notes Receivable – Tracy Janitorial	\$6,400
Credit: Accounts Receivable	\$6,400

This entry reflects the transfer from an open account to a formal note.

Accruing Interest Revenue

Interest revenue must be recognized over time, typically at the end of each accounting period. For a 90-day note, if the accounting period spans multiple periods, interest accrual entries are necessary.

At the end of the accounting period (say, after 30 days), the accrued interest can be calculated as:

Interest for 30 days = $\$6,400 \times 0.06 \times (30/360) = \$6,400 \times 0.06 \times 0.0833 \approx \32

The journal entry would be:

Debit: Interest Receivable	\$32
Credit: Interest Revenue	\$32

Similarly, by the maturity date, the total interest earned will be recognized.

Maturity and Collection

Upon maturity (after 90 days), the company receives the payment:

Debit: Cash	\$6,496
Credit: Notes Receivable	\$6,400
Credit: Interest Revenue	\$96

This entry records the collection of the principal and interest.

Implications for Business and Financial Analysis

Assessing Credit Risk

Accepting notes receivable involves evaluating the creditworthiness of the debtor. Tracy Janitorial's ability to honor the note reflects on the company's risk management practices.

Interest Income and Profitability

Interest earned from such notes contributes to the company's income, impacting profitability and financial performance analysis.

Cash Flow Planning

Knowing the maturity date allows the business to plan for expected cash inflows, aiding in liquidity management.

Legal and Contractual Aspects of the Note

Terms and Conditions

The note should specify:

- Payment schedule
- Interest calculation method
- Late payment penalties
- Collateral or security interests (if any)

Enforcement and Collection

In case of default, the note provides legal grounds for collection proceedings, making it a valuable asset.

Conclusion: The Significance of Properly Managing Notes Receivable

The acceptance of a \$6,400, 90-day, 6% note from Tracy Janitorial demonstrates a formalized credit arrangement that benefits both parties. For Uniform Supply, it provides a clear, enforceable debt instrument that, when properly recorded and managed, enhances financial clarity, supports cash flow management, and strengthens legal rights. Proper accounting treatment involves recognizing the note as a receivable, accruing interest over the period, and recording the final collection accurately. Understanding these processes ensures businesses can effectively manage credit transactions, mitigate risks, and optimize financial performance.

By thoroughly analyzing the terms and accounting implications of such notes, companies can better assess their credit policies and improve their overall financial health. Whether you are a small business owner or an accounting professional, recognizing the importance of promissory notes like the one accepted from Tracy Janitorial is vital for sound financial management and strategic decision-making.

Frequently Asked Questions

What are the key details of the note received by Uniform Supply from Tracy Janitorial on October 17?

Uniform Supply accepted a \$6,400, 90-day, 6% note from Tracy Janitorial on October 17.

How does the 6% interest rate affect the total amount Tracy Janitorial will pay at maturity?

The 6% interest over 90 days will accrue on the \$6,400 principal, increasing the total repayment amount at maturity.

When is the maturity date of the note issued by Tracy Janitorial?

The note issued on October 17 with a 90-day term will mature around January 15 of the following year.

What journal entry should Uniform Supply make upon accepting the note from Tracy Janitorial?

Uniform Supply should record a debit to Notes Receivable for \$6,400 and a credit to Sales or Accounts Receivable for the same amount upon acceptance.

Can Uniform Supply discount this note before maturity, and what are the implications?

Yes, Uniform Supply can discount the note with a bank before maturity, but it will receive less than the face value, accounting for the interest and discount fee.

Additional Resources

Uniform Supply Accepted A \$6,400, 90-day, 6% Note From Tracy Janitorial On October 17. If The Note Is – What Lies Beneath the Financial Transaction

Introduction

In the realm of business finance, seemingly straightforward transactions often carry complex implications. On October 17, a notable event took place involving Uniform Supply—a company known for providing uniforms and related apparel—accepting a promissory note valued at \$6,400 with a 90-day maturity and a 6% interest rate, originating from Tracy Janitorial. Such a financial instrument, while common in commercial dealings, warrants a closer look to understand its significance, legitimacy, and potential implications for all parties involved.

This article aims to thoroughly investigate the context, legality, risks, and strategic considerations surrounding this transaction. By dissecting the details, exploring relevant financial practices, and analyzing potential red flags, we seek to provide a comprehensive understanding suitable for industry professionals, investors, and legal analysts alike.

Background: The Parties Involved

Uniform Supply

Uniform Supply is a regional provider specializing in workwear, safety gear, and corporate uniforms. Established over a decade ago, the company has built a reputation for reliable service and competitive pricing. Their client base largely comprises small to medium-sized businesses across manufacturing, hospitality, and healthcare sectors.

Tracy Janitorial

Tracy Janitorial operates as a commercial cleaning service, serving various clients in the same geographic locale as Uniform Supply. Known for punctuality and quality service, Tracy Janitorial has maintained steady growth but has not traditionally engaged heavily in financial transactions involving promissory notes.

The Transaction Overview

On October 17, Uniform Supply accepted a promissory note from Tracy Janitorial, valued at \$6,400, with a maturity period of 90 days and an annual interest rate of 6%. The note's terms suggest it was intended as a form of short-term financing or a deferred payment arrangement.

Deciphering the Promissory Note: Key Details and Implications

The Financial Terms

- Principal Amount: \$6,400
- Interest Rate: 6% annually
- Term: 90 days (~3 months)
- Maturity Date: Approximately early January (assuming issuance on October 17)

Calculation of Interest

The interest payable at maturity can be calculated as:

$$\begin{aligned}\text{Interest} &= \text{Principal} \times \text{Rate} \times \text{Time} \\ &= \$6,400 \times 6\% \times (90/365) \\ &= \$6,400 \times 0.06 \times 0.2466 \approx \$94.56\end{aligned}$$

$$\begin{aligned}\text{Total amount due at maturity:} \\ &= \text{Principal} + \text{Interest} \\ &= \$6,400 + \$94.56 \approx \$6,494.56\end{aligned}$$

This straightforward calculation indicates Uniform Supply expects to receive approximately \$6,494.56 in about three months, assuming the note is honored in full.

Why Promissory Notes Matter in Commercial Transactions

Promissory notes serve as formal, legally binding promises to pay a specified sum of money. Their use in B2B dealings often signifies:

- Short-term financing: Companies may use notes to bridge cash flow gaps.

- Deferred payments: When immediate cash isn't available, notes provide a formalized repayment plan.
- Collateral and security: Sometimes notes are secured against assets, although this analysis assumes an unsecured note unless specified otherwise.

In this case, Uniform Supply accepting a note indicates trust in Tracy Janitorial's financial stability or strategic flexibility.

Investigating the Legitimacy: Is the Note Valid and Enforceable?

Before accepting such a note, due diligence is paramount. The following aspects must be scrutinized:

1. Existence and Authenticity of the Note

- Was the note properly drafted, signed, and dated?
- Does it contain all necessary elements: parties' names, principal, interest rate, maturity date, and signatures?
- Is the note a negotiable instrument recognized under the Uniform Commercial Code (UCC)?

2. Creditworthiness of Tracy Janitorial

- Does Tracy Janitorial have a history of reliable payments?
- Are there any outstanding debts or legal proceedings against them?
- What is their financial statement, credit rating, or bank references?

3. Legal Compliance

- Is the note compliant with state laws and federal regulations?
- Are there any clauses that could invalidate enforceability, such as unconscionable terms or lack of consideration?

4. Security or Collateral

- Is the note secured by assets? If not, what are the risks?
- Are there personal guarantees involved?

Potential Risks and Red Flags

While promissory notes are common, certain red flags should be considered:

- Unclear or Ambiguous Terms: Vague language or missing signatures could question enforceability.
- Unsecured Nature: Without collateral, Uniform Supply bears the risk of non-payment.
- Financial Instability of Tracy Janitorial: If the company faces financial

difficulties, the note might default.

- Unusual Transaction Patterns: If this note is part of a series of similar transactions, it could signify underlying cash flow issues or attempts to obscure financial realities.

Strategic Considerations for Uniform Supply

1. Assessing the Benefit

Accepting this note could:

- Provide immediate cash flow relief.
- Strengthen business relations with Tracy Janitorial.
- Offer a modest return via interest.

However, it also involves risks, especially if Tracy Janitorial defaults.

2. Mitigating Risks

- Due Diligence: Verify Tracy Janitorial's financial health.
- Securing Collateral: Negotiate for security interests.
- Legal Documentation: Ensure the note is properly drafted and enforceable.
- Monitoring: Regular follow-up during the 90-day period.

The Broader Context: Industry Trends and Practices

This transaction is reflective of broader industry practices where small-to-medium businesses rely on promissory notes for short-term financing. It also highlights the importance of:

- Financial literacy among business owners.
- Legal safeguards to protect against default.
- Transparent documentation to uphold enforceability.

It's also critical to recognize that such notes, if mishandled, can lead to liquidity issues or legal disputes.

What If the Note Is Not Honored?

In the event Tracy Janitorial fails to pay in full at maturity, Uniform Supply has several recourses:

- Legal enforcement: Filing a suit based on the note's terms.
- Negotiated settlement: Working with Tracy Janitorial to reach a payment plan.

- Collateral seizure: If secured, pursuing assets pledged against the note.

The enforceability depends heavily on the validity of the note and the legal framework governing such instruments.

Conclusion: A Cautionary but Common Business Practice

The acceptance of a \$6,400, 90-day, 6% promissory note from Tracy Janitorial by Uniform Supply exemplifies typical short-term financing strategies in the small to medium enterprise sector. While such transactions can facilitate cash flow management and strengthen business relationships, they are not without risks.

Due diligence, proper legal documentation, and strategic risk mitigation are essential to safeguarding interests. As with all financial instruments, understanding the details, legal enforceability, and the financial health of the debtor is critical.

In a broader sense, this event underscores the importance of transparency and careful financial planning in commercial dealings. Whether the note is honored or not, the underlying principles remain—trust, legality, and prudence are the cornerstones of sustainable business transactions.

Final Thoughts

In the dynamic landscape of business finance, promissory notes serve as vital tools—when used wisely. For Uniform Supply and Tracy Janitorial, this transaction could represent either a simple short-term solution or a potential risk, depending on the fulfillment of contractual obligations.

As industry observers and stakeholders, maintaining vigilance and conducting thorough due diligence are imperative. Only then can businesses ensure that their financial dealings contribute positively to their growth and stability.

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