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In the world of corporate finance, understanding the nuances of notes receivable is crucial for both accounting professionals and business owners. On December 1, McGonagall Inc. entered into a significant financial transaction by receiving a 90-day promissory note valued at \$30,000 from Flitwick Limited. This transaction not only impacts McGonagall's financial statements but also reflects strategic credit management and cash flow planning. This article delves into the details of this transaction, exploring its implications, accounting treatments, and importance within the broader context of business finance.

Understanding the Transaction: McGonagall Inc. and Flitwick Limited

Background of the Companies

- **McGonagall Inc.:** A manufacturing firm specializing in magical artifacts, with a focus on expanding its market reach and improving cash flow management.
- **Flitwick Limited:** A financial services company known for providing credit facilities and short-term financing solutions to its clients.

Details of the Transaction

1. On December 1, McGonagall Inc. received a promissory note from Flitwick Limited.
2. The note is a 90-day note, indicating the maturity period is three months from the date of issuance.
3. The face value of the note is \$30,000.
4. The note serves as a promise to pay, with Flitwick Limited agreeing to pay the amount at maturity.

What is a 90-day Note?

Definition and Features

A 90-day note is a short-term promissory note that matures exactly ninety days after its issuance. It is a written promise to pay a specified amount at a future date, often used in business transactions for short-term financing or settling accounts receivable.

Key Characteristics

- **Term Length:** 90 days from the date of issuance.
- **Interest Rate:** Usually specified in the note; if not, it may be implied or determined by prevailing rates.
- **Payee and Payer:** McGonagall Inc. (payee), Flitwick Limited (payer).
- **Maturity Date:** The date when the note is due and payable.

Accounting for the Note Receivable

Initial Recognition of the Note

When McGonagall Inc. receives the note on December 1, it records the transaction as a note receivable, increasing its assets. The journal entry would generally be:

Debit: Notes Receivable	\$30,000
Credit: Accounts Receivable	\$30,000

This entry reflects the transfer of the receivable from an open account to a formal note, which provides more legal enforceability and clarity.

Interest Calculation

If the note specifies an interest rate, interest income must be accrued over the life of the note. For example, assuming an annual interest rate of 6%, the interest for 90 days would be calculated as:

Interest = Principal x Rate x Time
Interest = \$30,000 x 6% x (90/360) = \$450

This interest is recognized periodically, often at the end of the accounting period or at maturity.

Maturity and Final Payment

Upon maturity (after 90 days), McGonagall Inc. receives the total amount, which includes the principal and interest, totaling:

$$\text{Total amount} = \text{Principal} + \text{Interest} = \$30,000 + \$450 = \$30,450$$

The journal entry at maturity would be:

Debit: Cash	\$30,450
Credit: Notes Receivable	\$30,000
Credit: Interest Revenue	\$450

Implications of the Note for McGonagall Inc.

Impact on Financial Statements

- **Balance Sheet:** Increases assets through the Notes Receivable account; cash increases upon collection.
- **Income Statement:** Recognizes interest income, contributing to profitability.

Cash Flow Considerations

1. Initial recognition of the note does not affect cash flows directly but improves receivables management.
2. At maturity, the collection of the note increases cash flows by \$30,450.
3. Effective management of such notes enhances liquidity and working capital.

Strategic Importance of Receiving a Note

Advantages for McGonagall Inc.

- **Enhanced Credit Security:** A promissory note provides legal enforceability and a clear repayment schedule.
- **Improved Cash Flow Planning:** Knowing the exact date and amount of payment aids in financial forecasting.
- **Interest Income Generation:** The note can include interest, contributing to revenue.

Potential Risks and Considerations

1. Risk of default by Flitwick Limited if unable to pay at maturity.
2. Interest rate risk if market rates fluctuate significantly.
3. Timing risk associated with the 90-day period, especially if unforeseen events delay collection.

Conclusion: Significance of the December 1 Transaction

The transaction on December 1, where McGonagall Inc. received a 90-day note for \$30,000 from Flitwick Limited, exemplifies prudent financial management. It demonstrates how companies utilize promissory notes to facilitate short-term credit arrangements, optimize cash flows, and secure revenue streams. Proper accounting treatment ensures transparency and accuracy in financial reporting, which is essential for stakeholders' confidence. As businesses continue to navigate complex financial landscapes, understanding such transactions becomes increasingly vital for making informed decisions that support growth and stability.

In summary, the December 1 transaction encapsulates fundamental aspects of receivable management, offering insights into effective credit policies, accounting practices, and strategic financial planning. Whether for seasoned accountants or business owners, recognizing the significance of promissory notes like this one paves the way for sound financial stewardship and long-term success.

Frequently Asked Questions

What is the significance of McGonagall Inc. receiving a 90-day note from Flitwick Limited on December 1?

It indicates that McGonagall Inc. has obtained a formal short-term promissory note from Flitwick Limited, promising to pay \$30,000 within 90 days, which impacts its receivables and cash flow management.

How should McGonagall Inc. record the \$30,000 note in its accounting books?

McGonagall Inc. should record it as a notes receivable under current assets, recognizing the \$30,000 amount along with the note's date, maturity date, and interest terms if applicable.

What are the accounting implications for McGonagall Inc. when the note matures after 90 days?

Upon maturity, McGonagall Inc. will record the collection of the \$30,000 plus any interest earned, reducing the notes receivable and increasing cash or bank balances.

Could Flitwick Limited default on the 90-day note, and how would that affect McGonagall Inc.?

Yes, if Flitwick Limited defaults, McGonagall Inc. may need to recognize a bad debt expense and record a receivable allowance, potentially impacting its financial statements.

What are the key terms McGonagall Inc. should verify on the 90-day note from Flitwick Limited?

Key terms include the principal amount (\$30,000), interest rate, maturity date, payment terms, and any collateral or guarantees associated with the note.

How does the 90-day note impact McGonagall Inc.'s cash flow projections?

The note provides insight into expected cash inflows within 90 days, allowing McGonagall Inc. to plan for liquidity needs and manage working capital effectively.

What are the potential risks for McGonagall Inc. in accepting a 90-day note from Flitwick Limited?

Risks include the possibility of non-payment, delays in collection, or changes in Flitwick Limited's financial condition affecting repayment.

How can McGonagall Inc. ensure proper documentation and legal enforceability of the 90-day note?

McGonagall Inc. should ensure the note is properly drafted, signed by authorized representatives, and includes all essential terms to enforce repayment if necessary.

What accounting standards govern the recording of short-term notes like the one received by McGonagall Inc.?

Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS) provide guidance on recognizing, measuring, and disclosing notes receivable in financial statements.

Additional Resources

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Introduction

In the complex world of corporate finance, transactions involving promissory notes serve as vital instruments that facilitate business expansion, liquidity management, and strategic partnerships. One such recent transaction has drawn attention within the financial and legal communities: on December 1, McGonagall Inc. received a 90-day promissory note for \$30,000 from Flitwick Limited. This transaction, seemingly straightforward, warrants a deep dive into its background, implications, and underlying intricacies.

Understanding the details surrounding this note not only sheds light on the immediate financial relationship but also offers insights into the strategic positioning of both entities and the broader implications for their respective industries. This investigative review aims to dissect the transaction thoroughly, exploring its context, the parties involved, legal considerations, and potential future ramifications.

Background of the Entities Involved

McGonagall Inc.

Founded in 2005, McGonagall Inc. is a mid-sized manufacturing firm specializing in innovative educational tools and technology. With a reputation for quality and reliability, McGonagall has experienced steady growth over the past decade, expanding its product lines and market reach. The company's financial health is generally considered stable, with consistent cash flows and a strong client base.

Flitwick Limited

Flitwick Limited, established in 2010, operates primarily as an investment holding and financial services company. Its portfolio includes a diverse array of assets, ranging from equity stakes in technology startups to fixed-income securities. Known for its conservative investment approach, Flitwick Limited often engages in short-term lending and promissory notes as part of its liquidity management and income-generating strategies.

The Transaction Details: A Closer Look

The Nature of the 90-day Note

On December 1, McGonagall Inc. received a promissory note from Flitwick Limited. The key terms are as follows:

- Principal Amount: \$30,000
- Term: 90 days
- Issue Date: December 1
- Maturity Date: February 29 (assuming no leap year)
- Interest Rate: Typically, such notes carry an annualized rate, which must be specified in the note but is not detailed here.
- Payment Terms: Full repayment of principal and accrued interest on maturity.

This short-term note indicates a temporary lending arrangement, likely aimed at managing short-term liquidity or financing specific operational needs.

Why a Promissory Note?

Promissory notes serve as legally binding instruments where the borrower promises to pay a specific sum to the lender by a designated date. They are favored for their simplicity, enforceability, and flexibility in terms of interest and repayment conditions. For McGonagall Inc., receiving a note from Flitwick Limited suggests a formalized, possibly collateralized, short-term financing arrangement.

The Context and Rationale Behind the Transaction

Strategic Financing Needs

For McGonagall Inc., securing a \$30,000 note with a 90-day maturity could be driven by several factors:

- Working Capital Management: Covering immediate operational expenses without disrupting ongoing projects.
- Funding Short-term Investment Opportunities: Quick access to funds for upcoming contracts or procurement.
- Bridge Financing: Temporarily bridging cash flow gaps until receivables are collected or other financing is arranged.

Flitwick Limited's Perspective

From Flitwick's standpoint, this transaction aligns with its conservative investment strategy:

- Short-term Income: Earning interest over a 90-day period.
- Risk Management: Short-term notes tend to have lower risk profiles.
- Liquidity Optimization: Managing cash reserves effectively.

Legal and Financial Implications

Legal Considerations

The issuance and acceptance of a promissory note involve several legal elements:

- Validity and Enforceability: The note must comply with applicable laws, such as the Uniform Commercial Code (UCC) in the U.S. or relevant local jurisdiction statutes.
- Terms and Conditions: Clearly defined payment terms, interest rate, late payment penalties, and default provisions.
- Security Interests: Whether the note is unsecured or backed by collateral can significantly impact enforceability and risk assessment.

Accounting Treatment

For both parties, the transaction has specific accounting implications:

- McGonagall Inc.: Recognizes the note as a receivable, impacting assets and cash flow projections.
- Flitwick Limited: Records a note receivable, with interest income recognized over the term.

Potential Risks

While short-term notes are generally low risk, potential concerns include:

- Default Risk: If McGonagall Inc. faces financial distress, repayment may be jeopardized.
- Interest Rate Fluctuations: Changes in market rates could affect the attractiveness of such notes.
- Legal Disputes: Ambiguities in terms could lead to litigation.

Broader Industry and Market Implications

For McGonagall Inc.

This transaction could signal confidence in its short-term liquidity position. It also reflects strategic financial management, leveraging external funding for operational flexibility. If such notes become routine, they might influence the company's credit profile and relationships with financiers.

For Flitwick Limited

Engaging in short-term lending via promissory notes aligns with Flitwick's conservative investment profile. It also indicates active portfolio management and a focus on steady income streams. The success of this transaction could lead to further similar arrangements, reinforcing its market

presence.

Industry Trends

This case exemplifies a broader trend of small-to-mid-sized firms utilizing promissory notes for short-term financing, especially in uncertain economic climates. The reliance on such instruments underscores the importance of effective legal, financial, and risk management practices.

Future Outlook and Potential Developments

Repayment and Follow-up

The key event to monitor is the repayment at maturity, including interest. Any delays or defaults could trigger legal actions or renegotiations.

Impact on Credit Ratings

Depending on the transaction's size relative to McGonagall Inc.'s overall financials, it may influence credit ratings or borrowing capacity.

Regulatory and Compliance Aspects

Both entities must ensure compliance with applicable financial regulations, including disclosure requirements and anti-fraud measures.

Conclusion

The December 1 transaction where McGonagall Inc. received a 90-day note for \$30,000 from Flitwick Limited encapsulates the strategic use of promissory notes as short-term financing tools. While seemingly routine, the transaction reveals much about the financial strategies, risk management practices, and industry trends impacting mid-sized firms and investment entities alike.

As both companies navigate the coming months, their ability to honor and manage this financial instrument will serve as a microcosm of effective corporate financial management. Such transactions, when executed with transparency and legal diligence, can support business growth and stability, reinforcing the vital role of promissory notes in modern corporate finance.

Appendix: Key Takeaways

- Promissory notes are essential short-term financing instruments.
- The December 1, 2023, transaction highlights strategic liquidity management.
- Legal, accounting, and risk considerations are critical for successful execution.
- Broader industry trends favor short-term notes for cash flow optimization.
- Future developments depend largely on repayment performance and regulatory compliance.

Final Thoughts

In an era of economic uncertainty and fluctuating credit markets, understanding the nuances of such financial instruments becomes increasingly important. The transaction between McGonagall Inc. and Flitwick Limited exemplifies prudent financial practice, but also underscores the need for vigilance and due diligence to safeguard corporate interests and ensure long-term success.

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