Note #1 $60,000 3 year installment note with annual payments and 10% market rate of interest. Note made May 1, 2009.

Date	Payment	Interest Expense	Principal	Loan Balance
5/1/09				$60,000
5/1/10	24,127	6,000	18,127	41,873
5/1/11	24,127	4,873	19,940	21,934
5/1/12	24,127	2,194	21,934	0

5/1/09	(DR) Cash	60,000
	(CR) Note payable	60,000
12/31/09	(DR) Interest expense	4,000
	(CR) Interest payable	4,000
	Current liabilities:	
	Interest payable	4,000
	Note payable	18,127
	Long term liabilities:	
	Note payable	41,873
5/1/11	DR) Interest expense	2,000
	(DR) Interest payable	4,000
	(DR) Note payable	18,127
	(CR) Cash	24,127

Note #2 Want to borrow $60,000 by issuing a three year noninterest-bearing note. The market interest rate is 10% and the note will be date May 1, 2009.

PV = $60,000 r = 10% c = 1 n = 3 FV = ? = 79,860

Date	Cash Payment	Interest Expense	Discount	(Face Value-Discount) Carrying Value
5/1/09			19,860	$60,000
5/1/10	0	6,000	13,860	66,000
5/1/11	0	6,600	7,260	72,600
5/1/12	0	7,260	0	79,860

5/1/09	(DR) Cash	60,000
	(DR) Discount on N/P	19,860
	(CR) Note payable	79,860
12/31/09	(DR) Interest expense	4,000
	(CR) Discount on N/P	4,000

CV = Face value – Discount
= [79,860 – (19,860 – 4,000)] = 64,000
= Note of $60,000 plus interest of $4,000

Long term liabilities:

Note payable	79,860
Less: Discount	15,860
	64,000

12/31/10	(DR) Interest expense	6,400
(CR)	Discount on N/P	6,400

6,400 = (6,000 x 4/12) + (6,600 x 8/12)

Note #3 Three-year note with a $60,000 face value and a 8% face rate that is paid annually. The market rate of interest on the day the note is issued (May 1, 2009) is 10%.

FV = 60,000 PMT = 4,800 r = 10% c = 1 n = 3 PV = ?

Cash flows:

$4,800 x 3 years, plus

$60,000

Date	Cash Interest	Interest Expense	Discount Amortization	Discount	Carrying Value
5/1/09				2,984	57,016
5/1/10	4,800	5,702	902	2,082	57,918
5/1/11	4,800	5,792	992	1,090	58,909
5/1/12	4,800	5,891	1,090	0	60,000
	14,400	17,384	2,984		

	Cost of borrowing:	
	Cash paid	74,400 = [(4,800 x 3) + 60,000]
	Cash received	57,016
		17,384
5/1/09	(DR) Cash	57,016
	(DR) Discount on N/P	2,984
	(CR) Note payable	60,000
12/31/09	(DR) Interest expense	3,801 (5,702 x 8/12)
	(CR) Discount on N/P	600 (901 x 8/12)
	(CR) Interest payable	3,200 (4,800 x 8/12)
	Current liabilities:	
	Interest payable	3,200
	Long term liabilities:	
	Note payable	60,000
	Less: Discount	2,383
		57,617
5/1/10	(DR) Interest expense	1,901 (5,702 x 4/12)
	(DR) Interest payable	3,200 (4,800 x 4/12)
	(CR) Discount on N/P	301 (901 x 4/12)
	(CR) Cash	4,800

Note #4 Three-year note with a $60,000 face value and a 8% face rate that is paid annually. The market rate of interest on the day the note is issued (May 1, 2009) is 6%.
FV = 60,000 PMT = 4,800 r = 6% c = 1 n = 3 PV = ?

Cash flows:
$4,800 x 3 years, plus
$60,000

Date	Cash Interest	Interest Expense	Premium Amortization	Premium	Carrying Value
5/1/09				3,207	63,208
5/1/10	4,800	3,792	1,008	2,200	62,200
5/1/11	4,800	3,732	1,068	1,132	61,132
5/1/12	4,800	3,668	1,132	0	60,000
	14,400	11,192	3,208		

	Cost of borrowing:	
	Cash paid	74,400 = [(4,800 x 3) + 60,000]
	Cash received	63,208
		11,192
5/1/09	(DR) Cash	63,208
	(CR) Premium on N/P	3,208
	(CR) Note payable	60,000
12/31/09	(DR) Interest expense	2,528 (3,792 x 8/12)
	DR) Premium on N/P	672 (1,008 x 8/12)
	(CR) Interest payable	3,200 (4,800 x 8/12)
	<u>Current liabilities:</u>	
	Interest payable	3,200
	<u>Long term liabilities:</u>	
	Note payable	60,000
	Plus: Premium	2,536
		62,536
5/1/10	(DR) Interest expense	1,264 (3,792 x 4/12)
	(DR) Interest payable	3,200
	(DR) Premium on N/P	336 (1,008 x 4/12)
	(CR) Cash	4,800