LO 8-3

**M8-10 Using the Interest Formula to Compute Interest**

Complete the following table by computing the missing amounts (?) for the following independent cases.

| Principal Amount on Note Receivable | Annual Interest Rate | Time Period | Interest Earned |
|---|---|---|---|
| a. $100,000 | 10% | 6 months | ? |
| b. $50,000 | ? | 9 months | $3,000 |
| c. ? | 10% | 12 months | $4,000 |

LO 8-3

**M8-11 Recording Note Receivable Transactions**

Nova Corporation hired a new product manager and agreed to provide her a $20,000 relocation loan on a six-month, 7 percent note. Prepare journal entries to record the following transactions for Nova Corporation. Rather than use letters to reference each transaction, use the date of the transaction.

*a.* The company loans the money on January 1, 2013.
*b.* The new employee pays Nova the full principal and interest on its maturity date.

LO 8-3

**M8-12 Recording Note Receivable Transactions**

RecRoom Equipment Company received an $8,000, six-month, 6 percent note to settle an $8,000 unpaid balance owed by a customer. Prepare journal entries to record the following transactions for RecRoom. Rather than use letters to reference each transaction, use the date of the transaction.

*a.* The note is accepted by RecRoom on November 1, 2012, causing the company to increase its Notes Receivable and decrease its Accounts Receivable.
*b.* RecRoom adjusts its records for interest earned to December 31, 2012.
*c.* RecRoom receives the principal and interest on the note's maturity date.

LO 8-2, 8-3
Caterpillar, Inc.

**M8-13 Reporting Accounts and Notes Receivable in a Classified Balance Sheet**

Caterpillar, Inc., reported the following accounts and amounts (in millions) in its December 31, 2010, year-end financial statements. Prepare the current assets section of a classified balance sheet. Assume that the Allowance for Doubtful Accounts relates to Accounts Receivable rather than Notes Receivable.

| | | | |
|---|---|---|---|
| Accounts Payable | $ 5,856 | Long-Term Debt | $30,675 |
| Accounts Receivable | 17,149 | Long-Term Notes Receivable | 12,057 |
| Accumulated Depreciation | 12,367 | Notes Receivable—Current | 931 |
| Allowance for Doubtful Accounts | 357 | Other Current Assets | 908 |
| Cash and Cash Equivalents | 3,592 | Other Current Liabilities | 12,239 |
| Inventories | 9,587 | Other Noncurrent Assets | 7,614 |
| Loans Payable—Current | 3,925 | Property, Plant, and Equipment | 24,906 |

LO 8-4

**M8-14 Determining the Effects of Credit Policy Changes on Receivables Turnover Ratio and Days to Collect**

Indicate the most likely effect of the following changes in credit policy on the receivables turnover ratio and days to collect (+ for increase, − for decrease, and NE for no effect).

*a.* Granted credit with shorter payment deadlines.
*b.* Granted credit to less creditworthy customers.
*c.* Increased effectiveness of collection methods.

LO 8-4

**M8-15 Evaluating the Effect of Factoring on the Receivables Turnover Ratio and Computing the Cost of Factoring**

After noting that its receivables turnover ratio had declined, Imperative Company decided for the first time in the company's history to sell $500,000 of receivables to a factoring company. The factor charges a factoring fee of 3 percent of the receivables sold. How much cash does Imperative receive on the sale? Calculate the factoring fee and describe how it is reported by Imperative Company. All else equal, how will this affect Imperative's receivables turnover ratio in the future?