

Ex. 11-3

- a. $\$240,000 \times 8\% \times 60/360 = \$3,200$ for each alternative.
- b. (1) $\$240,000$ simple-interest note: $\$240,000$ proceeds
 (2) $\$240,000$ discounted note: $\$240,000 - \$3,200$ interest = $\$236,800$ proceeds
- c. Alternative (1) is more favorable to the borrower. This can be verified by comparing the effective interest rates for each loan as follows:

Situation (1): 8% effective interest rate

$$(\$3,200 \times 360/60)/\$240,000 = 8\%$$

Situation (2): 8.11% effective interest rate

$$(\$3,200 \times 360/60)/\$236,800 = 8.11\%$$

The effective interest rate is higher for the second loan because the creditor lent only $\$236,800$ in return for $\$3,200$ interest over 60 days. In the simple-interest loan, the creditor must lend $\$240,000$ for 60 days to earn the same $\$3,200$ interest.

Ex. 11-4

a. Accounts Payable.....	60,000	
Notes Payable.....		60,000
b. Notes Payable	60,000	
Interest Expense.....	200*	
Cash		60,200

* $\$60,000 \times 4\% \times 30/360$

Ex. 11-5

a. Accounts Payable.....	44,550	
Interest Expense.....	450*	
Notes Payable.....		45,000

* $\$45,000 \times 6\% \times 60/360$

b. Notes Payable	45,000	
Cash		45,000