Ex. 11–3

a. $240,000 × 8% × 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 × 360/60)/$240,000 = 8%

Situation (2): 8.11% effective interest rate

($3,200 × 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 × 4% × 30/360**

Ex. 11–5

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

***$45,000 × 6% × 60/360**

b.	**Notes Payable**	**45,000**	
	Cash		**45,000**