

SOLUTIONS

Learning Goal 7

Reinforcement Problems

LG 7-1.

	Name of the Item
a. A formal written promise by someone else to pay cash to our business	Note receivable
b. Amounts owing suppliers or service providers, usually due in 30–90 days	Accounts payable
c. Items needed for the daily operation of a business and consumed in a year or less	Supplies
d. Money that is collectible in addition to a note receivable	Interest receivable
e. Currency on hand, plus amounts in checking and savings accounts	Cash
f. A formal written promise by our business to pay someone else	Note payable
g. Amounts owed to us by our customers, usually due in 30–90 days	Accounts receivable
h. Money that is owed because of item (f), above, but is not yet paid	Interest payable
i. A payment to a provider of services or goods before they are received	Prepaid expense
j. The receipt of a prepayment from a customer before providing goods or services to that customer	Unearned revenue

LG 7-2. An *account receivable* is money that is receivable from a customer as a result of making a sale and is normally due in 30–90 days. A *note receivable* is a formal written promise to pay money to your business by someone else. A note receivable is normally due any time from several months to many years depending on the terms of the particular note. Interest is the cost of borrowing money. (You could think of it as the “rental” charge for money.) *Interest receivable* is the interest that the holder of the note is expecting to receive from the borrower for the use of the money for a particular period of time that has elapsed.

LG 7-3. Office supplies are assets that are consumed quickly (in less than a year) in the normal course of business (such as paper, pens and pencils, paper clips, and copy machine toner). Office equipment is a category of assets that have a much longer useful life (greater than a year) and are used up slowly (such as desks, file cabinets, and computers).