NOTES RECEIVABLES

NOTES RECEIVABLE: Non-interest-Bearing Note (Installment Collection of Principal)

PROBLEM:

On January 01, 2024, Sky company gave XYZ company a promissory note. The note presents 3 year, Php 1,500,000 non-interest-bearing note. The prevailing interest rate is 10%.

The principal amount of the note is to be paid in 3 equal annual installment every December 31.

SOLUTION:

Present Value of Principal = 1,243,450
(500,000 x 2.4869)

Php 500,000 is the collection of principal every end of the year, therefore we will use the Present Value of Ordinary Annuity of 1.

Amortization is computed by the difference between the principal collection and the Interest Income

AMORTIZATION				
DATE	PRINCIPAL	INTEREST INCOME	AMORTIZATION	PRESENT VALUE
01/01/2024				1,243,450
12/31/2024	500,000	124,345	375,655	867,795
12/31/2025	500,000	86,780	413,221	454,575
12/31/2026	500,000	45,457	454,543	0

All of the Principal amount (500,000 per year) is already collected therefore the present value should be zero at the end of the 3rd year.