

Rodriguez Oil and Gas borrowed \$1,000,000 from a local bank to obtain funds needed for the construction of a new drilling rig. This "construction" loan was represented by a 2-year, 7%, promissory note, dated April 1, 20X3. Interest (only) is payable on March 31, 20X4, and again at maturity. The \$1,000,000 principal is due on March 31, 20X5. Rodriguez repaid the promissory note on March 31, 20X5, as agreed.

On April 1, 20X5, Rodriguez secured permanent equipment financing via a \$1,200,000, 5-year loan. This loan was at 6% per annum, and requires level quarterly payments so that the loan will be completely repaid at its maturity.

- (a) Prepare journal entries for the \$1,000,000 loan to record the loan's issuance (April 1, 20X3); accrued interest at December 31, 20X3; the interest payment on March 31, 20X4; accrued interest at December 31, 20X4; and the final payment at maturity (March 31, 20X5).
- (b) Calculate the required quarterly payment for the 5-year loan.
- (c) Prepare journal entries to record the 5-year loan, and its first two quarterly payments.
- (d) Optional: Use an electronic spreadsheet to prepare a 20-quarter amortization schedule, showing how the loan will be fully amortized by its maturity.