

Instructional Scenario



Using Notes Payable to Finance Slow Seasons

Course/Duty Area: Accounting, Advanced / Analyzing Notes/Accounts Payable and Receivable

Scenario: Brain Freeze Ice Cream Shop is working through a slow period in its business occurring between January and March. Despite adapting its offerings to include treats that people would want during that time, there is a decline in sales. The owner is looking at converting some of the business's various accounts payable into notes payable.

Big Question: In what ways will having accounts payable converted into notes payable affect the business financially? Affect its reputation with creditors?

Focused Questions:

- How are accounts payable converted to notes payable?
- How should Brain Freeze Ice Cream Shop approach its creditors about the need for extensions to maintain their business relationship?
- How will the due dates of the notes and the payment of interest and principal potentially affect profits in the spring and summer of the year?
- What practices should Brain Freeze Ice Cream Shop consider to avoid this scenario in the future?

Student Project or Outcome: Students will describe the process a business would use to convert accounts payable to notes payable and the resulting effect on profits of the business.

Project-Based Assessment: Students will work in groups to develop a plan/presentation that details the considerations and steps Brain Freeze Ice Cream Shop will follow to convert accounts payable to notes payable.

The presentation should include

- hypothetical financial data that would illustrate how the interest paid on notes payable would impact the profits of the business during the spring months of the year
- alternative ideas and solutions for this business to utilize in preparing for future slow periods of business.

Scenario submitted by Carrie Laffoon, Millbrook High School, Frederick County Public Schools