

Current Liabilities

You are the controller of a local general contracting company. The company uses AI to assist with accounting computations as well as recording journal entries. As controller, it is ultimately your responsibility for the accuracy of the company's accounting records, and therefore, you decide to review AI work for errors (hallucinations). Following is a chat between you (controller) and AI.

Controller: The company borrowed \$60,000 cash on May 1 by signing a 90-day, 8%, \$60,000 note. Compute how much interest the company owes on the note's maturity date.

AI Chatbot: To compute interest owed, use the following formula:

Principal	x	Interest Rate	x	Time	=	Interest Owed
\$60,000	x	8%	x	60 / 360	=	\$800

Controller: Prepare the entry to record the payment of the note and interest owed at maturity.

AI Chatbot:

Date	General Journal	Debit	Credit
July 30	Interest Expense	800	
	Notes Payable	60,000	
	Cash		60,800

Question 1

We discover a hallucination in the AI response. How do we correct it?

- Interest Payable should be entered as a credit.
- Interest Expense is incorrectly computed.
- Cash should be entered as a debit.
- Interest Expense should be entered as a credit.
- There is no error (hallucination) in the AI response.

Question 2

What amount of interest expense should be correctly recorded at the note's maturity?

Question 3

Prepare the correct journal entry to record payment of the note and interest at maturity.