

CHAPTER 7 RECEIVABLES

CLASS DISCUSSION QUESTIONS

1. Receivables are normally classified as (1) accounts receivable, (2) notes receivable, or (3) other receivables.
2. Transactions in which merchandise is sold or services are provided on credit generate accounts receivable.
3.
 - a. Current assets
 - b. Investments
4. Examples of other receivables include interest receivable, taxes receivable, and receivables from officers or employees.
5. The principle of separation of operations and accounting is violated. (*Note to Instructors:* This weakness in internal control may permit embezzlement. For example, the accounts receivable clerk may misappropriate cash receipts and cover the misappropriation by a process called lapping. In lapping, the cash receipts from one account are taken and the cash received on a subsequent account is used to cover the shortage. The receipts on another account are then used to cover the shortage in this latter customer's account, etc. This lapping generally continues until the records are falsified to correct for the shortage, the cash is returned by the clerk, or the embezzlement is discovered.)
6. The allowance method
7. Contra asset, credit balance
8. The accounts receivable and allowance for doubtful accounts may be reported at a net amount of \$759,900 (\$883,150 – \$123,250) in the Current Assets section of the balance sheet. In this case, the amount of the allowance for doubtful accounts should be shown separately in a note to the financial statements or in parentheses on the balance sheet. Alternatively, the accounts receivable may be shown at the gross amount of \$883,150 less the amount of the allowance for doubtful accounts of \$123,250, thus yielding net accounts receivable of \$759,900.
9.
 1. The percentage rate used is excessive in relationship to the volume of accounts written off as uncollectible; hence, the balance in the allowance is excessive.
 2. A substantial volume of old uncollectible accounts is still being carried in the accounts receivable account.
10. An estimate based on analysis of receivables provides the most accurate estimate of the current net realizable value.
11. The advantages of a claim evidenced by a note are (1) the debt is acknowledged, (2) the payment terms are specified, (3) it is a stronger claim in the event of court action, and (4) it is usually more readily transferable to a creditor in settlement of a debt or to a bank for cash.
12.
 - a. Ellsworth Company
 - b. Notes Receivable
13. The interest will amount to \$6,300 only if the note is payable one year from the date it was created. The usual practice is to state the interest rate in terms of an annual rate, rather than in terms of the period covered by the note.
14. Debit Accounts Receivable
Credit Notes Receivable
Credit Interest Revenue
15.

Cash.....	20,806	
Accounts Receivable		20,600
Interest Revenue.....		206
		(\$20,600 × 30/360 × 12% = \$206)
16. Current assets

EXERCISES

Ex. 7-1

- a. **Inappropriate.** Since Fridley has a large number of credit sales supported by promissory notes, a notes receivable ledger should be maintained. Failure to maintain a subsidiary ledger when there are a significant number of notes receivable transactions violates the internal control procedure that mandates proofs and security. Maintaining a notes receivable ledger will allow Fridley to operate more efficiently and will increase the chance that Fridley will detect accounting errors related to the notes receivable. (The total of the accounts in the notes receivable ledger must match the balance of notes receivable in the general ledger.)
- b. **Inappropriate.** The procedure of proper separation of duties is violated. The accounts receivable clerk is responsible for too many related operations. The clerk also has both custody of assets (cash receipts) and accounting responsibilities for those assets.
- c. **Appropriate.** The functions of maintaining the accounts receivable account in the general ledger should be performed by someone other than the accounts receivable clerk.
- d. **Appropriate.** Salespersons should not be responsible for approving credit.
- e. **Appropriate.** A promissory note is a formal credit instrument that is frequently used for credit periods over 45 days.

Ex. 7–2

a. Hotel accounts and notes receivable:

$$\$3,256,000 \div \$75,796,000 = 4.3\%$$

b. Casino accounts receivable:

$$\$6,654,000 \div \$26,334,000 = 25.3\%$$

c. Casino operations experience greater bad debt risk than do hotel operations, since it is difficult to control the creditworthiness of customers entering the casino. In addition, individuals who may have adequate creditworthiness may overextend themselves and lose more than they can afford if they get caught up in the excitement of gambling.

Ex. 7–3

<u>Account</u>	<u>Due Date</u>	<u>Number of Days Past Due</u>
Bear Creek Body Shop	June 8	53 (22 + 31)
First Auto	July 3	28
Kaiser Repair	March 20	133 (11 + 30 + 31 + 30 + 31)
Master's Auto Repair	May 15	77 (16 + 30 + 31)
Richter Auto	June 18	43 (12 + 31)
Sabol's	April 12	110 (18 + 31 + 30 + 31)
Uptown Auto	May 8	84 (23 + 30 + 31)
Westside Repair & Tow	May 31	61 (30 + 31)

Ex. 7-4

a.

<u>Customer</u>	<u>Due Date</u>	<u>Number of Days Past Due</u>
Janzen Industries	August 29	93 days (2 + 30 + 31 + 30)
Kuehn Company	September 3	88 days (27 + 31 + 30)
Mauer Inc.	October 21	40 days (10 + 30)
Pollack Company	November 23	7 days
Simrill Company	December 3	Not past due

b.

**Aging of Accounts Receivables
November 30**

Customer	Balance	Not Past Due	<u>Days Past Due</u>			
			1-30	31-60	61-90	Over 90
Aaker Brothers Inc.	2,000	2,000				
Aitken Company	1,500		1,500			
~~~~~						
Zollo Company	<u>5,000</u>			5,000		
Subtotals	972,500	640,000	180,000	78,500	42,300	31,700
Janzen Industries	40,000					40,000
Keuhn Company	8,500				8,500	
Mauer Inc.	18,000			18,000		
Pollack Company	6,500		6,500			
Simrill Company	<u>7,500</u>	<u>7,500</u>				
<b>Totals</b>	<u><b>1,053,000</b></u>	<u><b>647,500</b></u>	<u><b>186,500</b></u>	<u><b>96,500</b></u>	<u><b>50,800</b></u>	<u><b>71,700</b></u>

Ex. 7-5

	Balance	Not Past Due	Days Past Due			
			1-30	31-60	61-90	Over 90
Total receivables	\$1,053,000	\$647,500	\$186,500	\$96,500	\$50,800	\$71,700
Percentage Uncollectible		1%	4%	8%	20%	40%
Allowances for Doubtful Accounts	<u>\$60,495</u>	<u>\$6,475</u>	<u>\$7,460</u>	<u>\$7,720</u>	<u>\$10,160</u>	<u>\$28,680</u>

Ex. 7-6

Nov. 30	Uncollectible Accounts Expense .....	53,315*	
	Allowances for Doubtful Accounts.....		53,315
	* \$60,495 - \$7,180 = \$53,315		

Ex. 7-7

Age Interval	Estimated Uncollectible Accounts		
	Balance	Percent	Amount
Not past due .....	\$450,000	2%	\$ 9,000
1-30 days past due .....	110,000	4	4,400
31-60 days past due .....	51,000	6	3,060
61-90 days past due .....	12,500	20	2,500
91-180 days past due .....	7,500	60	4,500
Over 180 days past due .....	<u>5,500</u>	80	<u>4,400</u>
Total .....	<u>\$636,500</u>		<u>\$27,860</u>

Ex. 7-8

2006			
Dec. 31	Uncollectible Accounts Expense .....	29,435*	
	Allowance for Doubtful Accounts.....		29,435
	* \$27,860 + \$1,575 = \$29,435		

**Ex. 7–9**

- a. \$17,875                      c. \$35,750
- b. \$13,600                     d. \$41,450

**Ex. 7–10**

a.	Allowance for Doubtful Accounts .....	7,130	
	Accounts Receivable .....		7,130
b.	Uncollectible Accounts Expense .....	7,130	
	Accounts Receivable .....		7,130

**Ex. 7–11**

Feb.	20	Accounts Receivable—Darlene Brogan.....	12,100	
		Sales.....		12,100
	20	Cost of Merchandise Sold.....	7,260	
		Merchandise Inventory .....		7,260
May	30	Cash.....	6,000	
		Accounts Receivable—Darlene Brogan.....		6,000
	30	Allowance for Doubtful Accounts .....	6,100	
		Accounts Receivable—Darlene Brogan.....		6,100
Aug.	3	Accounts Receivable—Darlene Brogan.....	6,100	
		Allowance for Doubtful Accounts.....		6,100
	3	Cash.....	6,100	
		Accounts Receivable—Darlene Brogan.....		6,100

**Ex. 7–12**

July	6	Accounts Receivable—Dr. Jerry Jagers .....	18,500	
		Sales.....		18,500
	6	Cost of Merchandise Sold.....	11,100	
		Merchandise Inventory .....		11,100
Sept.	12	Cash.....	9,000	
		Accounts Receivable—Dr. Jerry Jagers ....		9,000
	12	Uncollectible Accounts Expense .....	9,500	
		Accounts Receivable—Dr. Jerry Jagers ....		9,500
Dec.	20	Accounts Receivable—Dr. Jerry Jagers .....	9,500	
		Uncollectible Accounts Expense.....		9,500
	20	Cash.....	9,500	
		Accounts Receivable—Dr. Jerry Jagers ....		9,500

**Ex. 7–13**

**\$223,900 [ $\$212,800 + \$112,350 - (\$4,050,000 \times 2 \frac{1}{2}\%$ )]**

**Ex. 7–14**

**a.  $\$257,100$  [ $\$262,300 + \$114,800 - (\$4,800,000 \times 2 \frac{1}{2}\%$ )]**

**b.  $\$-5,900$  Dr. [ $(\$101,250 - \$112,350) + (\$120,000 - \$114,800)$ ]**

**Ex. 7–15**

	<u>Due Date</u>	<u>Interest</u>
a.	Aug. 31	\$120
b.	Dec. 28	480
c.	Nov. 30	250
d.	May 5	150
e.	July 19	100

**Ex. 7–16**

a.	August 8		
b.	\$24,480		
c.	(1) Notes Receivable .....	24,000	
	Accounts Rec.—Magpie Interior Decorators....		24,000
	(2) Cash .....	24,480	
	Notes Receivable .....		24,000
	Interest Revenue .....		480

**Ex. 7–17**

1. Sale on account.
2. Cost of merchandise sold for the sale on account.
3. A sales return or allowance.
4. Cost of merchandise returned.
5. Note received from customer on account.
6. Note dishonored and charged maturity value of note to customer's account receivable.
7. Payment received from customer for dishonored note plus interest earned after due date.

**Ex. 7–18**

**2005**

Dec. 13	Notes Receivable .....	25,000	
	Accounts Receivable—Visage Co. ....		25,000
31	Interest Receivable .....	75*	
	Interest Revenue .....		75
31	Interest Revenue .....	75	
	Income Summary .....		75

**2006**

Apr. 12	Cash .....	25,500	
	Notes Receivable .....		25,000
	Interest Receivable .....		75
	Interest Revenue .....		425

$*\$25,000 \times 0.06 \times 18/360 = \$75$

**Ex. 7–19**

July 8	Notes Receivable .....	30,000	
	Accounts Receivable—Pennington Co. ....		30,000
Oct. 6	Accounts Receivable—Pennington Co. ....	30,600	
	Notes Receivable .....		30,000
	Interest Revenue .....		600
Nov. 5	Cash .....	30,855	
	Accounts Receivable—Pennington Co. ....		30,600
	Interest Revenue .....		255*

$*\$30,600 \times 0.10 \times 30/360 = \$255$

**Ex. 7–20**

<b>Mar. 1</b>	<b>Notes Receivable .....</b>	<b>15,000</b>	
	<b>    Accounts Receivable—Absaroka Co. ....</b>		<b>15,000</b>
<b>18</b>	<b>Notes Receivable .....</b>	<b>12,000</b>	
	<b>    Accounts Receivable—Sturgis Co. ....</b>		<b>12,000</b>
<b>Apr. 30</b>	<b>Accounts Receivable—Absaroka Co. ....</b>	<b>15,125</b>	
	<b>    Notes Receivable .....</b>		<b>15,000</b>
	<b>    Interest Revenue .....</b>		<b>125</b>
<b>June 16</b>	<b>Accounts Receivable—Sturgis Co. ....</b>	<b>12,270</b>	
	<b>    Notes Receivable .....</b>		<b>12,000</b>
	<b>    Interest Revenue .....</b>		<b>270</b>
<b>July 11</b>	<b>Cash .....</b>	<b>15,367</b>	
	<b>    Accounts Receivable—Absaroka Co. ....</b>		<b>15,125</b>
	<b>    Interest Revenue .....</b>		<b>242*</b>
	<b>*\$15,125 × 0.08 × 72/360 = \$242</b>		
<b>Oct. 12</b>	<b>Allowance for Doubtful Accounts .....</b>	<b>12,270</b>	
	<b>    Accounts Receivable—Sturgis Co. ....</b>		<b>12,270</b>

**Ex. 7–21**

1. The interest receivable should be reported separately as a current asset. It should not be deducted from notes receivable.
2. The allowance for doubtful accounts should be deducted from accounts receivable.

A corrected partial balance sheet would be as follows:

**PEMBROKE COMPANY**  
**Balance Sheet**  
**July 31, 2006**

Assets

Current assets:

Cash .....		\$ 43,750
Notes receivable.....		300,000
Accounts receivable .....	\$576,180	
Less allowance for doubtful accounts .....	<u>71,200</u>	504,980
Interest receivable.....		18,000

**Ex. 7–22**

- a. 2003:  $53.0 \{ \$9,953,530 \div [ (\$216,200 + \$159,477) \div 2 ] \}$   
2002:  $44.8 \{ \$9,518,231 \div [ (\$159,477 + \$265,515) \div 2 ] \}$

- b. The accounts receivable turnover indicates a increase in the efficiency of collecting accounts receivable by increasing from 44.8 to 53.0, a favorable trend. Before reaching a more definitive conclusion, the ratios should be compared with industry averages and similar firms.

**Ex. 7–23**

- a. 2003: 7.9 days [ $\$216,200 \div (\$9,953,530 \div 365)$ ]  
2002: 6.1 days [ $\$159,477 \div (\$9,518,231 \div 365)$ ]
- b. The number of days' sales in receivables indicates a decrease in the efficiency of collecting accounts receivable by increasing from 6.1 days to 7.9 days, an unfavorable trend. Before reaching a more definitive conclusion, the ratios should be compared with industry averages and similar firms.

**Ex. 7–24**

- a. 2002: 108.2 { $\$9,363,000 \div [(\$79,000 + \$94,000) \div 2]$ }  
2001: 99.6 { $\$10,105,000 \div [(\$94,000 + \$109,000) \div 2]$ }
- b. 2002: 3.1 days [ $\$79,000 \div (\$9,363,000 \div 365)$ ]  
2001: 3.4 days [ $\$94,000 \div (\$10,105,000 \div 365)$ ]
- c. The accounts receivable turnover indicates a slight increase in the efficiency of collecting accounts receivable by increasing from 99.6 to 108.2, a favorable trend. The number of days' sales in receivables decreased from 3.4 days to 3.1 days, also indicating a favorable trend in collections of receivables. Before reaching a more definitive conclusion, both ratios should be compared with those of past years, industry averages, and similar firms.

**Note to Instructors:** The high accounts receivable turnover and low number of days' sales in receivables suggests that most of The Limited's sales are cash sales, such as those from MasterCard and VISA.

**Appendix Ex. 7–25**

- a. \$20,300
- b. 60 days
- c. \$271 ( $\$20,300 \times 0.08 \times 60/360$ )
- d. \$20,029 ( $\$20,300 - \$271$ )

e. Cash.....	20,029	
Interest Revenue .....		29
Notes Receivable .....		20,000

**Appendix Ex. 7–26**

June 1	Notes Receivable .....	60,000	
	Accounts Receivable—Rhodes Co.....		60,000
July 1	Cash.....	60,344*	
	Notes Receivable .....		60,000
	Interest Revenue .....		344
	* $\$60,800 - (\$60,800 \times 0.09 \times 30/360) = \$60,344$		
31	Accounts Receivable—Rhodes Co. ....	61,000	
	Cash .....		61,000
Aug. 30	Cash.....	61,610*	
	Accounts Receivable—Rhodes Co.....		61,000
	Interest Revenue .....		610
	* $\$61,000 + (\$61,000 \times 0.12 \times 30/360) = \$61,610$		

## PROBLEMS

### Prob. 7-1A

2.

2006

Mar.	15	Cash .....	11,100	
		Accounts Receivable—Bimba Co. ....		11,100
	15	Allowance for Doubtful Accounts .....	7,400	
		Accounts Receivable—Bimba Co. ....		7,400
Apr.	16	Accounts Receivable—Tom Miner .....	5,782	
		Allowance for Doubtful Accounts.....		5,782
	16	Cash .....	5,782	
		Accounts Receivable—Tom Miner .....		5,782
July	20	Allowance for Doubtful Accounts .....	5,500	
		Accounts Receivable—Martz Co. ....		5,500
Oct.	31	Accounts Receivable—Two Bit Saloon Co. ....	6,100	
		Allowance for Doubtful Accounts.....		6,100
	31	Cash .....	6,100	
		Accounts Receivable—Two Bit Saloon Co.		6,100
Dec.	31	Allowance for Doubtful Accounts .....	9,250	
		Accounts Receivable—Asche Co. ....		950
		Dorsch Co. ....		4,600
		Krebs Distributors		2,500
		J. J. Levi .....		1,200
	31	Uncollectible Accounts Expense .....	11,918	
		Allowance for Doubtful Accounts.....		11,918
	31	Income Summary .....	11,918	
		Uncollectible Accounts Expense.....		11,918

**Prob. 7-1A Concluded**

1. and 2.

**Allowance for Doubtful Accounts**

115

Date	Item	Dr.	Cr.	Balance	
				Dr.	Cr.
<b>2006</b>					
Jan. 1	Balance .....	.....	.....	.....	12,050
Mar. 15	.....	7,400	.....	.....	4,650
Apr. 16	.....	.....	5,782	.....	10,432
July 20	.....	5,500	.....	.....	4,932
Oct. 31	.....	.....	6,100	.....	11,032
Dec. 31	.....	9,250	.....	.....	1,782
31	.....	.....	11,918	.....	13,700

**Income Summary**

313

**2006**

Dec. 31	.....	11,918	.....	11,918	.....
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**Uncollectible Accounts Expense**

718

**2006**

Dec. 31	.....	11,918	.....	11,918	.....
31	.....	.....	11,918	—	—

3. **\$522,050 (\$535,750 – \$13,700)**

4. a. **\$15,500 (\$3,100,000 × 0.005)**

b. **\$17,282 (\$15,500 + \$1,782)**

c. **\$518,468 (\$535,750 – \$17,282)**

**Prob. 7–2A**

**1.**

<u>Customer</u>	<u>Due Date</u>	<u>Number of Days Past Due</u>
Able Sports & Flies	June 15, 2006	199 days (15 + 31 + 31 + 30 + 31 + 30 + 31)
Red Tag Sporting Goods	July 28, 2006	156 days (3 + 31 + 30 + 31 + 30 + 31)
Highlite Flies	Sept. 11, 2006	111 days (19 + 31 + 30 + 31)
Midge Co.	Sept. 30, 2006	92 days (31 + 30 + 31)
Snake River Outfitters	Oct. 7, 2006	85 days (24 + 30 + 31)
Pheasant Tail Sports	Oct. 27, 2006	65 days (4 + 30 + 31)
Big Sky Sports	Oct. 30, 2006	62 days (1 + 30 + 31)
Ross Sports	Nov. 18, 2006	43 days (12 + 31)
Sawyer's Pheasant Tail	Nov. 26, 2006	35 days (4 + 31)
Tent Caddis Outfitters	Nov. 29, 2006	32 days
Wulff Company	Dec. 10, 2006	21 days
Zug Bug Sports	Jan. 6, 2007	Not past due

Prob. 7-2A Concluded

2. and 3.

**Aging of Accounts Receivable  
December 31, 2006**

Customer	Balance	Not Past Due	Days Past Due				Over 120
			1-30	31-60	61-90	91-120	
Alpha Fishery	5,000	5,000					
Brown Trout Sports	6,400			6,400			
~~~~~							
Zinger Sports	2,900		2,900				
Subtotals	580,000	248,600	147,250	98,750	33,300	29,950	22,150
Able Sports & Flies	3,500						3,500
Red Tag Sporting Goods	4,000						4,000
Highlite Flies	2,500					2,500	
Midge Co.	3,100					3,100	
Snake River Outfitters	4,500				4,500		
Pheasant Tail Sports	1,600				1,600		
Big Sky Sports	2,000				2,000		
Ross Sports	500			500			
Sawyer's Pheasant Tail	2,800			2,800			
Tent Caddis Outfitters	3,500			3,500			
Wulff Company	1,000		1,000				
Zug Bug Sports	6,200	6,200					
Totals	<u>615,200</u>	254,800	148,250	105,550	41,400	35,550	29,650
Percentage Uncollectible		1%	4%	8%	25%	40%	80%
Estimate of Doubtful							
Accounts	<u>65,212</u>	2,548	5,930	8,444	10,350	14,220	23,720

4. Uncollectible Accounts Expense	68,012*	
Allowance for Doubtful Accounts		68,012
*\$65,212 + \$2,800		

Prob. 7-3A

1.

Year	<u>Uncollectible Accounts Expense</u>			Balance of Allowance Account, End of Year
	Expense Actually Reported	Expense Based on Estimate	Increase (Decrease) in Amount of Expense	
1st	\$3,500	\$ 6,375	\$2,875	\$ 2,875
2nd	3,250	7,200	3,950	6,825
3rd	6,300	9,000	2,700	9,525
4th	8,400	13,500	5,100	14,625

2. Yes. The actual write-offs of accounts originating in the first two years are reasonably close to the expense that would have been charged to those years on the basis of 3/4% of sales. The total write-off of receivables originating in the first year amounted to \$6,200 (\$3,500 + \$1,900 + \$800), as compared with uncollectible accounts expense, based on the percentage of sales, of \$6,375. For the second year, the comparable amounts were \$7,650 (\$1,350 + \$4,500 + \$1,800) and \$7,200.

Prob. 7-4A

1.

Note	(a) Due Date	(b) Interest Due at Maturity
(1)	May 6	\$240
(2)	July 18	126
(3)	Dec. 28	204
(4)	Dec. 30	405
(5)	Jan. 18	120
(6)	Jan. 22	120

2.

Dec. 28	Accounts Receivable.....	10,404	
	Notes Receivable		10,200
	Interest Revenue		204

3.

Dec. 31	Interest Receivable	116	
	Interest Revenue		116
	$\$12,000 \times 0.06 \times 42/360 = \$ 84$		
	$\$16,000 \times 0.09 \times 8/360 = \underline{32}$		
	Total		<u>\$116</u>

4.

Jan. 18	Cash.....	12,120	
	Notes Receivable		12,000
	Interest Receivable		84
	Interest Revenue		36
22	Cash.....	16,120	
	Notes Receivable		16,000
	Interest Receivable		32
	Interest Revenue		88

Prob. 7–5A

June	4	Notes Receivable	18,800	
		Accounts Receivable		18,800
July	15	Notes Receivable	27,000	
		Accounts Receivable		27,000
Aug.	3	Cash	19,082	
		Notes Receivable		18,800
		Interest Revenue		282
Sept.	1	Notes Receivable	24,000	
		Accounts Receivable		24,000
Oct.	31	Cash	24,360	
		Notes Receivable		24,000
		Interest Revenue		360
Nov.	5	Notes Receivable	9,600	
		Accounts Receivable		9,600
	12	Cash	27,900	
		Notes Receivable		27,000
		Interest Revenue		900
	30	Notes Receivable	15,000	
		Accounts Receivable		15,000
Dec.	5	Cash	9,656	
		Notes Receivable		9,600
		Interest Revenue		56
	30	Cash	15,125	
		Notes Receivable		15,000
		Interest Revenue		125

Prob. 7–6A

Jan. 10	Notes Receivable	12,000	
	Cash		12,000
Feb. 4	Accounts Receivable—Emerson and Son	24,000	
	Sales		24,000
4	Cost of Merchandise Sold	14,400	
	Merchandise Inventory		14,400
12	Accounts Receivable—Gwyn Co.	25,000	
	Sales		25,000
12	Cost of Merchandise Sold	15,000	
	Merchandise Inventory		15,000
Mar. 6	Notes Receivable	24,000	
	Accounts Receivable—Emerson and Son .		24,000
14	Notes Receivable	25,000	
	Accounts Receivable—Gwyn Co.		25,000
Apr. 10	Notes Receivable	12,000	
	Cash	240	
	Notes Receivable		12,000
	Interest Revenue		240
May 5	Cash	24,240	
	Notes Receivable		24,000
	Interest Revenue		240
13	Accounts Receivable—Gwyn Co.	25,500	
	Notes Receivable		25,000
	Interest Revenue		500
June 12	Cash	25,755	
	Accounts Receivable—Gwyn Co.		25,500
	Interest Revenue		255
	($\$25,500 \times 0.12 \times 30/360 = \255)		
July 9	Cash	12,270	
	Notes Receivable		12,000
	Interest Revenue		270

Prob. 7–6A Continued

Aug. 24	Accounts Receivable—Haggerty Co.....	10,200	
	Sales.....		10,200
24	Cost of Merchandise Sold.....	6,000	
	Merchandise Inventory		6,000
Sept. 3	Cash.....	10,098	
	Sales Discounts	102	
	Accounts Receivable—Haggerty Co.		10,200

Prob. 7–6A Continued

This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.

RIMROCK CO.
Income Statement
For the Year Ended December 31, 20—

Revenue from sales:		
Sales.....	\$219,200	105.44
Less: Sales returns & allowance	-10,000	-4.81
Sales discounts	<u>-1,302</u>	-0.63
Net sales	\$207,898	100.00
Cost of merchandise sold	<u>84,413</u>	40.60
Gross profit.....	\$123,485	59.40
Operating expenses:		
Sales salaries expense.....	\$ 40,500	19.48
Advertising expense	8,000	3.85
Miscellaneous selling expense	500	0.24
Office salaries expense	16,500	7.94
Rent expense.....	12,250	5.89
Miscellaneous administrative expense	<u>200</u>	0.10
Total operating expenses	<u>77,950</u>	37.49
Net income from operations.....	\$ 45,535	21.90
Other revenue:		
Interest revenue.....	<u>1,505</u>	0.72
Net income.....	<u>\$ 47,040</u>	22.63

Prob. 7–6A Concluded

This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.

RIMROCK CO.
Retained Earnings Statement
For the Year Ended December 31, 20—

Retained earnings (beg. of year).....		\$80,000
Net income for the year	\$47,040	
Less dividends	<u>30,000</u>	
Increase in retained earnings.....		<u>17,040</u>
Retained earnings (end of year).....		<u>\$97,040</u>

RIMROCK CO.
Balance Sheet
December 31, 20—

Assets

Cash		\$ 98,940
Accounts receivable		24,500
Merchandise inventory		<u>28,600</u>
Total assets		<u>\$152,040</u>

Liabilities

Accounts payable.....		\$ 35,000
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Stockholders' Equity

Capital stock.....	\$20,000	
Retained earnings	<u>97,040</u>	
Sophia Dubra, capital		<u>117,040</u>
Total liabilities and stockholders' equity		<u>\$152,040</u>

Prob. 7–1B

2.

2006

Feb. 24	Accounts Receivable—Dina Ibis	1,025	
	 Allowance for Doubtful Accounts.....		1,025
24	Cash.....	1,025	
	 Accounts Receivable—Dina Ibis.....		1,025
Mar. 29	Allowance for Doubtful Accounts	7,500	
	 Accounts Receivable—Hoxsey Co.		7,500
July 10	Cash.....	4,800	
	 Accounts Receivable—Foust Co.		4,800
10	Allowance for Doubtful Accounts	7,200	
	 Accounts Receivable—Foust Co.		7,200
Sept. 8	Accounts Receivable—Louis Sabo.....	1,200	
	 Allowance for Doubtful Accounts.....		1,200
8	Cash.....	1,200	
	 Accounts Receivable—Louis Sabo		1,200
Dec. 31	Allowance for Doubtful Accounts	20,905	
	 Accounts Receivable—Emery Co.		8,050
	 Darigold Co.		6,260
	 Zheng Furniture. ...		3,775
	 Carey Wenzel		2,820
31	Uncollectible Accounts Expense	35,380	
	 Allowance for Doubtful Accounts.....		35,380
31	Income Summary	35,380	
	 Uncollectible Accounts Expense.....		35,380

Prob. 7-1B Concluded

1. and 2.

Allowance for Doubtful Accounts

115

Date	Item	Dr.	Cr.	Balance	
				Dr.	Cr.
2006					
Jan. 1	Balance .....	.....	.....	.....	28,500
Feb. 24	1,025	.....	29,525
Mar. 29	7,500	.....	.....	22,025
July 10	7,200	.....	.....	14,825
Sept. 8	1,200	.....	16,025
Dec. 31	20,905	4,880
31	35,380	30,500

Income Summary

313

2006

Dec. 31	35,380	35,380
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Uncollectible Accounts Expense

718

2006

Dec. 31	35,380	35,380
31	35,380	—	—

3. \$857,050 (\$887,550 – \$30,500)

4. a. \$31,875 (\$12,750,000 × 0.0025)

b. \$26,995 (\$31,875 – \$4,880)

c. \$860,555 (\$887,550 – \$26,995)

Prob. 7–2B

1.

<u>Customer</u>	<u>Due Date</u>	<u>Number of Days Past Due</u>
Allison's Uniquely Yours	July 6, 2006	178 days (25 + 31 + 30 + 31 + 30 + 31)
Western Designs	Aug. 10, 2006	143 days (21 + 30 + 31 + 30 + 31)
Treat's	Sept. 6, 2006	116 days (24 + 31 + 30 + 31)
Nicole's Beauty Store	Sept. 29, 2006	93 days (1 + 31 + 30 + 31)
Ginburg Supreme	Oct. 10, 2006	82 days (21 + 30 + 31)
Jeremy's Hair Products	Oct. 20, 2006	72 days (11 + 30 + 31)
Hairy's Hair Care	Oct. 31, 2006	61 days (30 + 31)
Southern Images	Nov. 18, 2006	43 days (12 + 31)
Lopez's Blond Bombs	Nov. 23, 2006	38 days (7 + 31)
Josset Ritz	Nov. 30, 2006	31 days
Cool Designs	Dec. 4, 2006	27 days
Buttram Images	Jan. 3, 2007	Not past due

Prob. 7–2B Concluded

2. and 3.

**Aging of Accounts Receivable
December 31, 2006**

Customer	Balance	Not Past Due	Days Past Due				Over 120
			1–30	31–60	61–90	91–120	
Adams Beauty	8,000	8,000					
Barkell Wigs	7,500			7,500			
~~~~~							
Zimmer’s Beauty	2,900		2,900				
<b>Subtotals</b>	<b>880,000</b>	<b>498,600</b>	<b>197,250</b>	<b>88,750</b>	<b>43,300</b>	<b>29,950</b>	<b>22,150</b>
Allison’s Uniquely Yours	1,000						1,000
Western Designs	2,500						2,500
Treat’s	1,800					1,800	
Nicole’s Beauty Store	4,000					4,000	
Ginburg Supreme	1,500				1,500		
Jeremy’s Hair Products	600				600		
Hairy’s Hair Care	2,000				2,000		
Southern Images	1,200			1,200			
Lopez’s Blond Bombs	1,800			1,800			
Josset Ritz	3,500			3,500			
Cool Designs	1,000		1,000				
Buttram Images	5,200	5,200					
<b>Totals</b>	<b><u>906,100</u></b>	<b>503,800</b>	<b>198,250</b>	<b>95,250</b>	<b>47,400</b>	<b>35,750</b>	<b>25,650</b>
Percentage Uncollectible Estimate of Doubtful Accounts		<u>1%</u>	<u>4%</u>	<u>6%</u>	<u>15%</u>	<u>30%</u>	<u>70%</u>
<b>Accounts</b>	<b><u>54,473</u></b>	<b><u>5,038</u></b>	<b><u>7,930</u></b>	<b><u>5,715</u></b>	<b><u>7,110</u></b>	<b><u>10,725</u></b>	<b><u>17,955</u></b>

4. Uncollectible Accounts Expense .....	46,123*	
Allowance for Doubtful Accounts .....		46,123

*\$54,473 – \$8,350

**Prob. 7–3B**

1.

Year	<u>Uncollectible Accounts Expense</u>			Balance of Allowance Account, End of Year
	Expense Actually Reported	Expense Based on Estimate	Increase (Decrease) in Amount of Expense	
1st	\$1,000	\$ 3,250	\$2,250	\$2,250
2nd	2,650	4,600	1,950	4,200
3rd	6,200	5,250	(950)	3,250
4th	9,150	11,250	2,100	5,350

2. Yes. The actual write-offs of accounts originating in the first two years are reasonably close to the expense that would have been charged to those years on the basis of 1/2% of sales. The total write-off of receivables originating in the first year amounted to \$3,550 (\$1,000 + \$750 + \$1,800), as compared with uncollectible accounts expense, based on the percentage of sales, of \$3,250. For the second year, the comparable amounts were \$5,200 (\$1,900 + \$1,400 + \$1,900) and \$4,600.

**Prob. 7-4B**

1.

<b>Note</b>	<b>(a) Due Date</b>	<b>(b) Interest Due at Maturity</b>
(1)	July 7	\$180
(2)	Sept. 8	300
(3)	Nov. 6	540
(4)	Dec. 15	350
(5)	Jan. 22	270
(6)	Feb. 16	960

2.

Nov. 6	Accounts Receivable.....	36,540	
	Notes Receivable .....		36,000
	Interest Revenue .....		540

3.

Dec. 31	Interest Receivable .....	379	
	Interest Revenue .....		379
	$\$18,000 \times 0.09 \times 38/360 = \$ 171$		
	$\$48,000 \times 0.12 \times 13/360 = \underline{208}$		
	<b>Total</b>	<b><u>\$ 379</u></b>	

4.

Jan. 22	Cash.....	18,270	
	Notes Receivable .....		18,000
	Interest Receivable .....		171
	Interest Revenue .....		99
Feb. 16	Cash.....	48,960	
	Notes Receivable .....		48,000
	Interest Receivable .....		208
	Interest Revenue .....		752

**Prob. 7–5B**

<b>Mar.</b>	<b>3</b>	<b>Notes Receivable .....</b>	<b>14,000</b>	
		<b>    Accounts Receivable .....</b>		<b>14,000</b>
	<b>21</b>	<b>Notes Receivable .....</b>	<b>9,500</b>	
		<b>    Accounts Receivable .....</b>		<b>9,500</b>
<b>May</b>	<b>2</b>	<b>Cash .....</b>	<b>14,210</b>	
		<b>    Notes Receivable .....</b>		<b>14,000</b>
		<b>    Interest Revenue .....</b>		<b>210</b>
	<b>16</b>	<b>Notes Receivable .....</b>	<b>40,000</b>	
		<b>    Accounts Receivable .....</b>		<b>40,000</b>
	<b>31</b>	<b>Notes Receivable .....</b>	<b>6,000</b>	
		<b>    Accounts Receivable .....</b>		<b>6,000</b>
<b>June</b>	<b>19</b>	<b>Cash .....</b>	<b>9,690</b>	
		<b>    Notes Receivable .....</b>		<b>9,500</b>
		<b>    Interest Revenue .....</b>		<b>190</b>
	<b>30</b>	<b>Cash .....</b>	<b>6,040</b>	
		<b>    Notes Receivable .....</b>		<b>6,000</b>
		<b>    Interest Revenue .....</b>		<b>40</b>
<b>July</b>	<b>1</b>	<b>Notes Receivable .....</b>	<b>12,000</b>	
		<b>    Accounts Receivable .....</b>		<b>12,000</b>
	<b>31</b>	<b>Cash .....</b>	<b>12,120</b>	
		<b>    Notes Receivable .....</b>		<b>12,000</b>
		<b>    Interest Revenue .....</b>		<b>120</b>
<b>Aug.</b>	<b>14</b>	<b>Cash .....</b>	<b>40,700</b>	
		<b>    Notes Receivable .....</b>		<b>40,000</b>
		<b>    Interest Revenue .....</b>		<b>700</b>

**Prob. 7–6B**

20—

Jan.	6	Accounts Receivable—Alta Co. ....	10,500	
		Sales.....		10,500
	6	Cost of Merchandise Sold.....	6,300	
		Merchandise Inventory .....		6,300
Mar.	9	Notes Receivable .....	10,500	
		Accounts Receivable—Alta Co. ....		10,500
May	8	Cash .....	10,640	
		Notes Receivable .....		10,500
		Interest Revenue .....		140
June	1	Accounts Receivable—Witmer’s .....	8,000	
		Sales.....		8,000
	1	Cost of Merchandise Sold.....	4,800	
		Merchandise Inventory .....		4,800
	5	Notes Receivable .....	11,000	
		Cash .....		11,000
	11	Cash .....	7,840	
		Sales Discounts .....	160	
		Accounts Receivable—Witmer’s .....		8,000
July	5	Notes Receivable .....	11,000	
		Cash.....	55	
		Notes Receivable .....		11,000
		Interest Revenue .....		55
Sept.	3	Cash.....	11,165	
		Notes Receivable .....		11,000
		Interest Revenue .....		165
	8	Accounts Receivable—Rochin Co. ....	10,000	
		Sales.....		10,000
	8	Cost of Merchandise Sold.....	6,000	
		Merchandise Inventory .....		6,000

**Prob. 7–6B Continued**

Oct.	8	Notes Receivable .....	10,000	
		Accounts Receivable—Rochin Co. ....		10,000
Dec.	7	Accounts Receivable—Rochin Co. ....	10,100	
		Notes Receivable .....		10,000
		Interest Revenue .....		100
	28	Cash .....	10,153	
		Accounts Receivable—Rochin Co. ....		10,100
		Interest Revenue .....		53
		(\$10,100 × 0.09 × 21/360 = \$53)		

Prob. 7–6B Continued

*This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.*

**WESTPHAL CO.**  
**Income Statement**  
**For the Year Ended December 31, 20—**

<b>Revenue from sales:</b>		
<b>Sales</b> .....	<b>\$203,025</b>	<b>100.08</b>
<b>Less sales discounts</b> .....	<u>    <b>160</b></u>	<b>0.08</b>
<b>Net sales</b> .....	<b>\$202,865</b>	<b>100.00</b>
<b>Cost of merchandise sold</b> .....	<u>    <b>54,100</b></u>	<b>26.67</b>
<b>Gross profit</b> .....	<b>\$148,765</b>	<b>73.33</b>
<b>Operating expenses:</b>		
<b>Sales salaries expense</b> .....	<b>\$ 45,500</b>	<b>22.43</b>
<b>Advertising expense</b> .....	<b>7,500</b>	<b>3.70</b>
<b>Miscellaneous selling expense</b> .....	<b>1,250</b>	<b>0.62</b>
<b>Office salaries expense</b> .....	<b>26,500</b>	<b>13.06</b>
<b>Rent expense</b> .....	<b>25,500</b>	<b>12.57</b>
<b>Miscellaneous administrative expense</b> .....	<u>    <b>225</b></u>	<b>0.11</b>
<b>Total operating expenses</b> .....	<u>    <b>106,475</b></u>	<b>52.49</b>
<b>Net income from operations</b> .....	<b>\$ 42,290</b>	<b>20.85</b>
<b>Other revenue:</b>		
<b>Interest revenue</b> .....	<u>    <b>513</b></u>	<b>0.25</b>
<b>Net income</b> .....	<u>    <b>\$ 42,803</b></u>	<b>21.10</b>

Prob. 7–6B Concluded

*This solution is applicable only if the P.A.S.S. Software that accompanies the text is used.*

**WESTPHAL CO.**  
**Retained Earnings Statement**  
**For the Year Ended December 31, 20—**

Retained earnings (beg. of year).....		\$ 25,779
Net income.....	\$42,803	
Less dividends .....	<u>31,000</u>	
Increase in retained earnings.....		<u>11,803</u>
Retained earnings (end of year).....		<u>\$ 37,582</u>

**WESTPHAL CO.**  
**Balance Sheet**  
**December 31, 20—**

<u><b>Assets</b></u>		
Cash .....		\$77,182
Accounts receivable .....		9,500
Merchandise inventory .....		<u>10,900</u>
<b>Total assets</b> .....		<u><b>\$97,582</b></u>
<u><b>Liabilities</b></u>		
Accounts payable.....		\$10,000
<u><b>Stockholders' Equity</b></u>		
Capital stock.....	\$50,000	
Retained earnings .....	<u>37,582</u>	
Andrea Young, capital .....		<u>87,582</u>
<b>Total liabilities and stockholders' equity</b> .....		<u><b>\$97,582</b></u>

## SPECIAL ACTIVITIES

### Activity 7–1

By computing interest using a 365-day year for depository accounts (payables), Precilla is minimizing interest expense to the bank. By computing interest using a 360-day year for loans (receivables), Precilla is maximizing interest revenue to the bank. However, federal legislation (Truth in Lending Act) requires banks to compute interest on a 365-day year. Hence, Precilla is behaving in an unprofessional manner.

### Activity 7–2

Because of the size and number of customers' accounts, it is probably unreasonable for Stonecipher to not allow credit to contractors and to require cash or credit card payment. To do so, as Bruce points out, would probably cost Stonecipher most of its contractor customers. Thus, Stonecipher is faced with having to allow credit to its contracting customers.

Many building contractors obtain construction loans from local financial institutions. They are then allowed to draw upon (withdraw) these funds as portions of the construction are completed. Most of the time, a representative of the financial institution granting the construction loan must approve the disbursement based upon an observation of the work to verify that it was actually performed. Building contractors are, of course, charged interest on the balances withdrawn from their construction loans. Thus, building contractors have an incentive to delay payment of construction bills as long as possible. At the same time, it is unreasonable to expect payment from the contractors until the representative of the financial institution has approved payment. Thus, it is probably reasonable to expect that accounts will remain open for 30–45 days after the contractor has received the materials.

The primary problem that Stonecipher is facing is that some contractors are apparently abusing Stonecipher's liberal credit policy. One alternative would be for Stonecipher to allow a discount for payment within 30 days. For example, Stonecipher might allow a 2% discount if the bill is paid within 30 days. Credit then might be discontinued for any contractor with a bill outstanding more than 60 days. This would provide the contractors an incentive to pay their bills early. That is, a 2% discount for payment 30 days early (the bill must be paid within 60 days) is equivalent to an annual interest rate of 24% ( $2\% \times 360/30$ ). This discount

## **Activity 7–2 Concluded**

rate would easily exceed most interest rates on construction loans. Such a payment policy would give contractors a “positive” incentive to pay early. Before initiating such a policy, Stonecipher should consider its effect on profits. That is, does the discount offered compensate for the reduction in the uncollectible accounts expense? Also, earlier payments would allow Stonecipher to earn interest (profit) on the monies received from the contractors.

An alternative approach would be to charge contractors interest on past-due accounts. For example, Stonecipher might charge accounts over 60 days past due interest at 1 1/2% per month (equivalent to approximately 18% per year). This approach would be more of a “negative” approach to motivating contractors to pay earlier.

Finally, yet another approach would be to stop extending credit to contractors who routinely abuse Stonecipher’s liberal credit policy. However, this approach is more extreme than the preceding two approaches. It might be more appropriate for contractors who continue to abuse the credit policy after one of the preceding approaches has been implemented.

Regardless of the approach chosen, exceptions probably should be allowed for good customers who suffer unusual situations. For example, a contractor’s bill might be past due because of unforeseen construction problems, such as bad weather, disagreement on contract specifications, etc.

### Activity 7–3

Pam's first suggestion of recording only \$42,000 of uncollectible accounts expense to increase the allowance for doubtful accounts to \$60,000 is acceptable. Accounting standards allow for recording the minimum estimate for the allowance account if a range of estimates is provided, with no one estimate within the range better than any other.

Pam's second suggestion of paying \$50,000 of her receivable to decrease it to \$20,000 so that it can be reported as part of accounts receivable is improper. Pam's receivable is \$70,000 as of December 31, 2005, and therefore a payment in January 2006 will not decrease the amount of the receivable as of December 31, 2005.

A more difficult issue is whether the receivable should be reported as a current asset. Pam made no payments during 2005. Instead, the amount of the receivable actually increased by \$50,000. This would suggest that the receivable is a non-current asset. However, the fact that Pam agrees to pay \$50,000 next week would suggest that the receivable is current.

Eric should probably respond to Pam by arguing that (1) the receivable has to be reported as \$70,000 on the December 31, 2005 balance sheet; (2) the receivable is too large to be reported as an account receivable but must be reported as an "other receivable" or "officer receivable"; and (3) the receivable can be reported as a current receivable as long as Pam commits to a payment schedule that will pay off the receivable within the next year. Pam may resist these suggestions. In this case, Eric should point out that the bank will be receiving the financial statements, and to distort or file false statements with the bank is fraudulent. That is, Pam has no other choice in this matter. If Pam refuses, then Eric should disassociate himself from the financial statements and probably resign from the company.

*Note to Instructors:* Consider pointing out to students that if Eric agreed with Pam's treatment of the receivable, he could be considered an accomplice to fraud.

## Activity 7–4

1.

Year	a.	b.
	Addition to Allowance for Doubtful Accounts	Accounts Written Off During Year
2003	\$17,000	\$ 9,900 (\$17,000 – \$7,100)
2004	17,500	11,400 (\$7,100 + \$17,500 – \$13,200)
2005	17,750	12,050 (\$13,200 + \$17,750 – \$18,900)
2006	18,125	9,675 (\$18,900 + \$18,125 – \$27,350)

2. a. The estimate of 1/4 of 1% of credit sales may be too large, since the allowance for doubtful accounts has steadily increased each year. The increasing balance of the allowance for doubtful accounts may also be due to the failure to write off a large number of uncollectible accounts. These possibilities could be evaluated by examining the accounts in the subsidiary ledger for collectibility and comparing the result with the balance in the allowance for doubtful accounts.

**Note to Instructors:** Since the amount of credit sales has been fairly uniform over the years, the increase cannot be explained by an expanding volume of sales.

- b. The balance of Allowance for Doubtful Accounts that should exist at December 31, 2006, can only be determined after all attempts have been made to collect the receivables on hand at December 31, 2006. However, the account balances at December 31, 2006, could be analyzed, perhaps using an aging schedule, to determine a reasonable amount of allowance and to determine accounts that should be written off. Also, past write-offs of uncollectible accounts could be analyzed in depth in order to develop a reasonable percentage for future adjusting entries, based on past history. Caution, however, must be exercised in using historical percentages. Specifically, inquiries should be made to determine whether any significant changes between prior years and the current year may have occurred, which might reduce the accuracy of the historical data. For example, a recent change in credit-granting policies or changes in the general economy (entering a recessionary period, for example) could reduce the usefulness of analyzing historical data.

Based on the preceding analyses, a recommendation to decrease the annual rate charged as an expense may be in order (perhaps Filet Co. is experiencing a lower rate of uncollectibles than is the industry average), or perhaps a change to the “estimate based on analysis of receivables” method may be appropriate.

### Activity 7–5

**Note to Instructors:** The purpose of this activity is to familiarize students with the factors that a bank or a business uses in deciding to grant credit to a customer.

### Activity 7–6

**Note to Instructors:** The purpose of this activity is to familiarize students with the financial information that is available online and to calculate and compare the accounts receivable turnover for two real companies, based on that information.

### Activity 7–7

1. 2002: 25.7  $\{ \$1,357,421 \div [(\$59,014 + \$46,736) \div 2] \}$   
2001: 23.5  $\{ \$1,244,928 \div [(\$46,736 + \$59,211) \div 2] \}$
2. 2002: 15.9 days  $[ \$59,014 \div (\$1,357,421 \div 365) ]$   
2001: 13.7 days  $[ \$46,736 \div (\$1,244,928 \div 365) ]$
3. The accounts receivable turnover indicates an increase in the efficiency of collecting accounts receivable by increasing from 23.5 to 25.7, a favorable trend. However, the days' sales in receivables also increased from 13.7 days to 15.9 days, an unfavorable trend. Before reaching a more definitive conclusion, the ratios should be compared with industry averages and similar firms.
4. Earthlink's accounts receivable turnover would normally be higher than that of a typical manufacturing company such as Boeing or Kellogg. This is because Earthlink is an Internet Service Provider (ISP) that bills its customers monthly for Internet service access fees. The monthly bills are normally charged to customers' MasterCard, VISA, or American Express cards. In contrast, the customers of Boeing and Kellogg are other businesses who pay their accounts receivable on a less timely basis. For a recent year, the accounts receivable turnover ratios for Kellogg and Boeing were 10.2 and 10.4, respectively.

## Activity 7–8

1. *Note to Instructors:* The turnover ratios will vary over time. For a recent year, the various turnover ratios (rounded to one decimal place) were as follows:

Alcoa	8.9
AutoZone	251.8
Barnes & Noble	60.6
Coca-Cola	10.7
Delta Air Lines	37.7
Gillette	6.1
Home Depot	58.7
IBM	9.4
Kroger	66.3
Maytag Corporation	7.0
Wal-Mart	109.3
Whirlpool	7.1

2. Based upon (1), the companies can be categorized as follows:

Accounts Receivable Turnover Ratio	
<u>Below 15</u>	<u>Above 15</u>
Alcoa	AutoZone
Coca-Cola	Barnes & Noble
Gillette	Delta Air Lines
IBM	Home Depot
Maytag Corporation	Kroger
Whirlpool	Wal-Mart

3. The companies with accounts receivable turnover ratios above 15 are all companies selling directly to individual consumers. In contrast, companies with turnover ratios below 15 all sell to other businesses. Generally, we would expect companies selling directly to consumers to have higher turnover ratios since many customers will charge their purchases on credit cards that will be collected within a month. In contrast, companies selling to other businesses normally allow a credit period of at least 30 days or longer.

