Chapter 9

Receivables

Study Guide Solutions

Fill-in-the-Blank Equations

1. Net realizable value
2. Credit
3. Face amount
4. Maturity value
5. Average accounts receivable
6. Average daily sales

Exercises

1. ToolBox Co. sells a large piece of equipment to another company on November 6, 20Y5. ToolBox Co. receives a down payment of $1,000 on the date of sale and will receive a $400 monthly payment on the 15th of every month, beginning in January of the following year, for five years. What type of receivable will ToolBox Co. record? Will the receivable be classified as current or noncurrent?

   Note receivable

   The $4,800 of monthly payments due within the upcoming year will be classified as a current asset. The remainder will be classified as a noncurrent asset.

2. Bon Firewood sells products to customers at a markup of its original cost. Customers typically pay on account, but large customers are allowed to receive the products and pay the amount owed within 30 days. What type of receivable will Bon Firewood record for these customers? How will the receivable be classified on the balance sheet?

   Accounts receivable

   The accounts receivable are shown as a current asset.

3. In August, Bon Firewood takes advantage of an opportunity to earn income on excess cash, which requires a $15,000 investment. The investment will pay interest annually every March, beginning in the upcoming year. What type of receivable will Bon Firewood record for the interest owed in March? How will the receivable be classified on the balance sheet?

   Interest receivable

   The interest receivable will be classified as a current asset on the balance sheet.

   Strategy: *Accounts receivable are amounts owed by customers who put the purchase on their account. Since the seller typically gives credit to the customer for less than a year, it is classified as a current asset. Notes receivable are more formal than accounts receivable, with longer credit periods, which will determine if it is a current or noncurrent asset. The notes receivable agreements are written on notes to clarify the time period and amount owed. Other receivables depend on the type of payment the business will receive. Other receivables are also classified based upon the payment date.*

4. A small business records its bad debt expense when a customer is identified as being unable to pay the amount owed. Which method of accounting for uncollectible receivables does the business use?

   Direct write-off method

5. Paper Supply Inc. accounts for its uncollectible receivables using the GAAP required method. Does Paper Supply Inc. use the direct write-off or allowance method to account for its uncollectible receivables?

   Allowance method

6. Kitchen Gadgets estimates its uncollectible accounts as a percentage of credit sales for the period. Which method of accounting for uncollectible receivables does the business use?

   Allowance method

   Strategy: *The direct write-off method records bad debt expense only when a specific account receivable has been identified as being uncollectible. The journal entry records the bad debt expense with the account receivable directly related to the expense. The allowance method prepares an estimate for the uncollectible accounts and adjusts the allowance for doubtful accounts accordingly.*

7. ToolBox Co. records $6,200 of sales on account to Roger Small on January 15, 20Y5. This is the only amount owed to the company by Roger Small. Prepare the journal entries to record the following transactions for ToolBox Co. using the direct write-off method:

a. Received $3,800 cash from Roger Small on March 3, 20Y5, for the balance owed.

Mar. 3	Cash	3,800	
	Accounts Receivable—Roger Small		3,800

b. Wrote off the remainder owed by Roger Small as uncollectible on June 30, 20Y5.

June 30	Bad Debt Expense	2,400	
	Accounts Receivable—Roger Small		2,400

c. Reinstated Roger Small's account for $2,000 and received a $2,000 cash payment on August 1, 20Y5.

Aug. 1	Accounts Receivable—Roger Small	2,000	
	Bad Debt Expense		2,000
1	Cash	2,000	
	Accounts Receivable—Roger Small		2,000

8. Prepare the journal entries to record the following transactions for Carolina Costumes using the direct write-off method:

a. Received $1,450 from Dillon Berry and wrote off the remainder owed of $2,130 as uncollectible on September 12, 20Y5.

Sept. 12	Cash	1,450	
	Bad Debt Expense	2,130	
	Accounts Receivable—Dillon Berry		3,580

b. On December 18, 20Y5, reinstated the entire account of Dillon Berry and received $2,130 cash as payment for the remaining amount owed.

Dec. 18	Accounts Receivable—Dillon Berry	2,130	
	Bad Debt Expense		2,130
	Cash	2,130	
	Accounts Receivable—Dillon Berry		2,130

9. Use the direct write-off method to record the following transactions for Carolina Costumes:

a. Wrote off $1,250 of the amount owed from Rose McDonald on January 29, 20Y5.

Jan. 29	Bad Debt Expense	1,250	
	Accounts Receivable—Rose McDonald		1,250

b. Reinstated $1,450 of a previously written off account receivable from Rory Smith and received cash payment for the amount on March 20, 20Y5.

Mar. 20	Accounts Receivable—Rory Smith	1,450	
	Bad Debt Expense		1,450
20	Cash	1,450	
	Accounts Receivable—Rory Smith		1,450

c. Reinstated $950 of Rose McDonald's account receivable upon payment on May 5, 20Y5.

May 5	Accounts Receivable—Rose McDonald	950	
	Bad Debt Expense		950
5	Cash	950	
	Accounts Receivable—Rose McDonald		950

Strategy: *Under the direct write-off method, bad debt expense is recorded only when an amount owed is directly written off as uncollectible from a specific account. To record the bad debt expense, debit Bad Debt Expense for the amount and credit the uncollectible account receivable. If collection may occur, first reinstate the account receivable to show a balance (otherwise the account receivable would show that the business owes the customer money) by debiting Accounts Receivable and crediting Bad Debt Expense. Record the collection of cash as a normal payment on accounts receivable.*

10. Eddy Book Co. uses the allowance method to record uncollectible accounts receivable. The company had credit sales of $8,900,000 for 20Y5 and a balance of $2,200 in its Allowance for Doubtful Accounts before any adjusting entries. The company has a calendar year-end.

a. Prepare the adjusting entry to record the Bad Debt Expense for 20Y5 if the company expects that ½% of credit sales will be uncollectible.

Dec. 31	Bad Debt Expense	44,500	
	Allowance for Doubtful Accounts		44,500

b. What will the adjusted balance of Allowance for Doubtful Accounts be at year-end?

$46,700 ($2,200 + $44,500)

Allowance for Doubtful Accounts	
	2,200
	44,500
	46,700

11. Camel Bookstore records uncollectible accounts receivable using the allowance method. The company had total sales of $15,600,000, 35% of which were credit sales. The company expects that ⅝% of credit sales will be uncollectible.

a. Prepare the adjusting entry on December 31, 20Y5, to record the Bad Debt Expense for the year.

Dec. 31	Bad Debt Expense	34,125	
	Allowance for Doubtful Accounts		34,125

Bad Debt Expense: $15,600,000 × 35% × ⅝%

b. If the company's ending balance for Allowance for Doubtful Accounts was $50,240, what was the balance before the adjusting entry?

$16,115 ($50,240 – $34,125)

Allowance for Doubtful Accounts	
	16,115
	34,125
	50,240

12. Camel Bookstore uses the allowance method to record uncollectible accounts receivable. For 20Y5, the company's credit sales totaled $5,752,000. The company expects that ¾% of all credit sales will be uncollectible.

a. Prepare the adjusting entry on December 31, 20Y5, to record the Bad Debt Expense for the year.

Dec. 31	Bad Debt Expense	43,140	
	Allowance for Doubtful Accounts		43,140

b. The company's balance for Allowance for Doubtful Accounts before making any adjusting entries was $13,600. What will the adjusted balance of the account be?

$56,740 ($13,600 + $43,140)

Allowance for Doubtful Accounts	
	13,600
	43,140
	56,740

***Strategy:** First, apply the estimated percentage of sales to the credit sales. If the percentage was applied to total sales, the calculated amount would also include sales received in cash payments. The amount calculated is the Bad Debt Expense for the period, which should be recorded in a journal entry. The journal entry credits (and adjusts) Allowance for Doubtful Accounts to the adjusted balance. The adjusted balance includes all previous transactions and the estimate that will be uncollectible for the period's credit sales.*

13. Estimate bad debt expense for Camel Bookstore using the information for the total accounts receivable in the table below. Prepare the journal entry to record the expense on December 31, 20Y5.

			Days Past Due					
Customer #	**Balance**	**Not Past Due**	**1–30**	**31–60**	**61–90**	**91–180**	**181–365**	**Over 365**
Total	11,250,690	8,420,000	1,440,600	820,000	325,000	149,700	54,790	40,600
Percent uncollectible		1%	4%	7.5%	15%	30%	60%	82%
Est. of uncollectible accounts	363,150	84,200	57,624	61,500	48,750	44,910	32,874	33,292

Dec. 31	Bad Debt Expense	363,150	
	Allowance for Doubtful Accounts		363,150

14. With the aging of receivables schedule below, estimate the bad debt expense for Merry Day's fiscal year ended September 30, 20Y5. Prepare the journal entry to record the expense. Round answers to the nearest cent.

			Days Past Due					
Customer #	**Balance**	**Not Past Due**	**1–30**	**31–60**	**61–90**	**91–180**	**181–365**	**Over 365**
Total	2,349,000	1,170,300	467,100	392,100	178,400	51,500	52,400	37,200
Percent uncollectible		1.5%	6%	10%	17%	33%	65%	85%
Est. of uncollectible accounts	197,793.50	17,554.50	28,026	39,210	30,328	16,995	34,060	31,620

Sept. 30	Bad Debt Expense	197,793.50	
	Allowance for Doubtful Accounts		197,793.50

15. Estimate Merry Day's Bad Debt Expense for the fiscal year ended March 31, 20Y5, using the aging of receivables schedule below. Prepare the journal entry to record the expense. Round answers to the nearest cent.

			Days Past Due					
Customer #	**Balance**	**Not Past Due**	**1–30**	**31–60**	**61–90**	**91–180**	**181–365**	**Over 365**
Total	1,679,200	887,500	456,000	150,700	75,300	49,350	34,350	26,000
Percent uncollectible		2%	5%	12%	20%	45%	70%	85%
Est. of uncollectible accounts	142,046.50	17,750	22,800	18,084	15,060	22,207.50	24,045	22,100

Mar. 31	Bad Debt Expense	142,046.50	
	Allowance for Doubtful Accounts		142,046.50

Strategy: *An aging schedule gives the past due accounts in the corresponding time frame (if it is between 1 and 30 days past due, between 31 and 60 days past due, etc.) and an estimated percentage of those balances that will be uncollectible. First, find the estimate of the uncollectible accounts by multiplying each percentage by the balance in each time frame. The total of all the amounts will be the Bad Debt Expense for the period. Allowance for Doubtful Accounts will be adjusted the same as using the percentage of sales method.*

16. Prepare the journal entries to record the following transactions if Keller Products uses the allowance method to account for uncollectible receivables.

a. Received $900 in cash from Eli McDonald and wrote off the remaining amount owed of $1,450 from Eli McDonald on February 15, 20Y5.

Feb. 15	Cash	900	
	Allowance for Doubtful Accounts	1,450	
	Accounts Receivable—Eli McDonald		2,350

b. Reinstated the entire amount of Eli McDonald's accounts receivable owed and received the cash for payment in full on June 2, 20Y5.

June 2	Accounts Receivable—Eli McDonald	1,450	
	Allowance for Doubtful Accounts		1,450
2	Cash	1,450	
	Accounts Receivable—Eli McDonald		1,450

17. Use the allowance method for uncollectible receivables to record the following transactions:

a. Wrote off $2,100 of the balance owed from Bryan Terry on August 12, 20Y5.

Aug. 12	Allowance for Doubtful Accounts	2,100	
	Accounts Receivable—Bryan Terry		2,100

b. On October 5, 20Y5, reinstated Bryan Terry's account for $1,670 and received cash for the same amount.

Oct. 5	Accounts Receivable—Bryan Terry	1,670	
	Allowance for Doubtful Accounts		1,670
5	Cash	1,670	
	Accounts Receivable—Bryan Terry		1,670

18. Using the allowance method, record the following transactions for Olive Oils Inc.:

a. Received $1,000 in cash for Brad May's outstanding account receivable and wrote off the remainder of $750 on July 6, 20Y5.

July 6	Cash	1,000	
	Allowance for Doubtful Accounts	750	
	Accounts Receivable—Brad May		1,750

b. Reinstated Brad May's account for the amount previously written off on December 21, 20Y5. Brad May paid for the amount owed in full.

Dec. 21	Accounts Receivable—Brad May	750	
	Allowance for Doubtful Accounts		750
21	Cash	750	
	Accounts Receivable—Brad May		750

Strategy: *The allowance method estimates the amount of uncollectible accounts. Once an account has been identified as uncollectible, the account should be written off by crediting for the remaining balance. The debit should be made to Allowance for Doubtful Accounts. Since the account no longer has a balance, the allowance should be adjusted also so that it does not include the written-off receivable.*

19. Olive Oils Inc. has the following account balances at the 20Y5 calendar year-end: Accounts Receivable of $10,250 and Allowance for Doubtful Accounts of $1,500. What is the net realizable value that the company will report on its balance sheet?

Accounts receivable $10,250

Less: Allowance for doubtful accounts $1,500

Net realizable value $8,750

20. Mane Attractions' 20Y5 balance sheet has a $16,450 net realizable value of Accounts Receivable. The company's 20Y4 balance sheet had an Accounts Receivable balance of $15,300. During 20Y5, Mane Attractions had credit sales of $17,900 and received $12,200 of cash payments for outstanding balances. What was the company's ending balance of Allowance for Doubtful Accounts?

Accounts receivable $21,000
Less: Allowance for doubtful accounts $4,550
Net realizable value $16,450

Accounts Receivable	
15,300	
17,900	12,200
21,000	

21. KAA Co. uses the allowance method to record uncollectible accounts. The company has a 20Y5 year-end Accounts Receivable balance of $72,350. Its pre-adjusted Allowance for Doubtful Accounts has a balance of $10,200. The company records a $3,500 Bad Debt Expense for the year. What is KAA Co.'s net realizable value for its 20Y5 balance sheet?

Accounts receivable $72,350
Less: Allowance for doubtful accounts $13,700
Net realizable value $58,650

Allowance for Doubtful Accounts	
	10,200
	3,500
	13,700

Strategy: *The net realizable value of Accounts Receivable is the total ending balance of Accounts Receivable less the adjusted balance of Allowance for Doubtful Accounts. Using the pre-adjusted balance ensures that the allowance includes the credit sales for the period as well as previous amounts.*

22. If Tasty Treats prepares the following journal entry to record Bad Debt Expense, does the company use the allowance or direct write-off method to account for uncollectible accounts?

Aug. 15	Bad Debt Expense	2,150	
	Allowance for Doubtful Accounts		2,150

Allowance method

23. Expressway estimates uncollectible accounts using an aging schedule for accounts receivable. Does the company use the allowance or direct-write off method to account for uncollectible accounts?

Allowance method

24. Pop's Eye Care prepares the journal entry below to account for its Bad Debt Expense. Does the company use the allowance or direct-write off method to account for uncollectible accounts?

Aug. 27	Bad Debt Expense	1,375	
	Accounts Receivable—Olivia L.		1,375

Direct write-off method

Strategy: *The use of an allowance account or estimate (found as a percentage of sales or analysis of accounts receivable) indicates that a company uses the allowance method to account for uncollectible accounts. If Bad Debt Expense is recorded when an account is written off, the company is using the direct write-off method to account for uncollectible accounts.*

25. On March 1, 20Y5, KAA Co. issues a $4,000 promissory note to Red Houses Inc. in settlement of its account receivable, which is three months past due. The note will be due in 60 days and has a 10% interest rate.

a. Record the journal entry for the receipt of the note.

Mar. 1	Notes Receivable—Red Houses Inc.	4,000	
	Accounts Receivable—Red Houses Inc.		4,000

b. Prepare the journal entry for KAA Co. on the due date, assuming that Red Houses Inc. pays the promissory note. Round interest to the nearest whole dollar.

Apr. 30	Cash	4,067	
	Notes Receivable—Red Houses Inc.		4,000
	Interest Revenue		67

Interest revenue = $4,000 × 10% × (60/360)

26. KAA Co. issues a $2,500 promissory note to Mane Attractions on August 1, 20Y5, in settlement of its past due account receivable. The note states a due date in 30 days with a 12% interest rate.

a. Record the journal entry for the issuance of the note.

Aug. 1	Notes Receivable—Mane Attractions	2,500	
	Accounts Receivable—Mane Attractions		2,500

b. Prepare the journal entry for KAA Co. on the due date, assuming that Mane Attractions pays the promissory note.

Aug. 31	Cash	2,525	
	Notes Receivable—Mane Attractions		2,500
	Interest Revenue		25

Interest revenue = $2,500 × 12% × (30/360)

27. On June 1, 20Y5, Keller Products issues a $5,250 promissory note to Capri Co. in settlement of the company’s past due account receivable. The promissory note will be due in 60 days and has a 15% stated interest rate.

a. Record the journal entry for the issuance of the note.

June 1	Notes Receivable—Capri. Co.	5,250	
	Accounts Receivable—Capri Co.		5,250

b. Prepare the journal entry for Keller Products on the due date, assuming that Capri Co. pays the promissory note. Round interest to the nearest whole dollar.

July 31	Cash	5,381	
	Notes Receivable—Capri Co.		5,250
	Interest Revenue		131

Interest revenue = $5,250 × 15% × (60/360)

Strategy: *When issuing a note receivable for a past due account receivable, the company must decrease the account receivable for the amount of the note by crediting it. Once the customer pays, the company records the collection of cash for the maturity value (if paid in full). The company must decrease the outstanding balance of the note by crediting the account for the amount of the face value received. To record the interest revenue earned, the company should credit Interest Revenue. The amount of interest revenue earned is the percentage of the face value, adjusted for the time period, since most interest rates are stated at an annual rate.*

28. Using the information in Exercise 25, assume that Red Houses Inc. doesn't pay the amount due on the note's due date. Prepare the journal entry to record the dishonored note receivable.

Apr. 30	Accounts Receivable—Red Houses Inc.	4,067	
	Notes Receivable—Red Houses Inc.		4,000
	Interest Revenue		67

Interest revenue = $4,000 × 10% × (60/360)

29. Using the information in Exercise 26, assume that Mane Attractions fails to pay on the due date. Prepare the journal entry to record the dishonored note receivable.

Aug. 31	Accounts Receivable—Mane Attractions	2,525	
	Notes Receivable—Mane Attractions		2,500
	Interest Revenue		25

Interest revenue = $2,500 × 12% × (30/360)

30. Using the information in Exercise 27, assume that Capri Co. fails to pay the amount due on the due date. Prepare the journal entry for Keller Products to record the dishonored note receivable.

July 31	Accounts Receivable—Capri Co.	5,381	
	Notes Receivable—Capri Co.		5,250
	Interest Revenue		131

Interest revenue = $5,250 × 15% × (60/360)

Strategy: *If the customer fails to pay the note receivable, the company should increase the account receivable for the face value of the note (which was the original amount owed by the customer) and the interest earned on the note. The interest revenue should be recorded since the company earned the interest over the time period. The note receivable should be decreased by the face value to create a zero balance, since it was dishonored.*

31. On June 30, 20Y5, Keller Products issues a $7,250 promissory note. The note has a 20% interest rate and is due in one year. If the company has a calendar year-end, prepare the journal entry to record the accrued interest.

Dec. 31	Interest Receivable	725	
	Interest Revenue		725

Interest revenue = $7,250 × 20% × (180/360)

32. On November 1, 20Y5, Capri Co. issues a promissory note for $3,100. The note is due in 90 days and has a stated interest rate of 12%. Prepare the journal entry at the calendar year-end to record accrued interest.

Dec. 31	Interest Receivable	62	
	Interest Revenue		62

Interest revenue = $3,100 × 12% × (60/360)

33. Mane Attractions issues a $4,200, 10% promissory note on August 1, 20Y5. The note is due in 90 days, and the company has a September 30 fiscal year. Prepare the journal entry to record accrued interest at the end of the fiscal year.

Sept. 30	Interest Receivable	70	
	Interest Revenue		70

Interest revenue = $4,200 × 10% × (60/360)

Strategy: *At the end of the period, a company must prepare an adjusting entry to record accrued revenues, such as interest revenue. Since the company expects to receive the interest in the future, it should debit Interest Receivable for the amount already earned. The amount earned is determined by a percentage of the face value for the time period the note has been outstanding.*

34. The Garden Shop has the following account balances. Determine if the receivable will be classified as current or noncurrent on the balance sheet as of December 31, 20Y5.

a. Current

b. Noncurrent

c. Current

35. The Garden Shop has the following account balances as of its 20Y5 calendar year-end: Accounts Receivable, $10,750; Notes Receivable (due in three months), $2,900; Allowance for Doubtful Accounts, $2,340; Interest Receivable (due in two months), $580; and Notes Receivable (due in 35 months), $7,250. Prepare the Assets section of The Garden Shop's balance sheet, ignoring any other accounts the company may have.

The Garden Shop
Balance Sheet
December 31, 20Y5
Assets

Current assets:		
Accounts receivable	$10,750	
Less allowance for doubtful accounts	2,340	$ 8,410
Interest receivable		580
Notes receivable		2,900
Total current assets		$11,890
Noncurrent assets:		
Notes receivable		7,250
Total assets		$19,140

36. The Garden Shop has the following account balances as of September 30, 20Y5: Notes Receivable (due in 11 months), $5,150; Allowance for Doubtful Accounts, $1,750; Notes Receivable (due in 37 months), $7,770; Accounts Receivable, $19,800; and Taxes Receivable (due in 10 months), $840. Prepare the Assets section of the company's balance sheet for the September 30, 20Y5, fiscal year, ignoring any other accounts the company may have.

The Garden Shop
Balance Sheet
September 30, 20Y5
Assets

Current assets:		
Accounts receivable	$19,800	
Less allowance for doubtful accounts	1,750	$18,050
Taxes receivable		840
Notes receivable		5,150
Total current assets		$24,040
Noncurrent assets:		
Notes receivable		7,770
Total assets		$31,810

Strategy: *Accounts receivable is shown at its net realizable value on the balance sheet as a current asset, since many companies have a credit period of less than a year. Other receivables will be classified as current if the company expects to receive the payment within one business cycle and noncurrent if the company expects to receive payment at a time later than one business cycle.*

37. Using the information in the table below, calculate The Garden Shop's accounts receivable turnover for 20Y5 and 20Y6, rounding answers to one decimal place. Does the change indicate a favorable or unfavorable trend?

	20Y6	20Y5
Sales	$86,750	$42,500
Accounts receivable:		
Beginning of year	20,400	22,300
End of year	26,320	20,400
Average accounts receivable	23,360	21,350
Accounts receivable turnover	3.7	2.0
	[$86,750/($20,400 + $26,320)/2]	[$42,500/($22,300 + $20,400)/2]

The accounts receivable turnover increased, indicating a favorable trend.

38. Use the table below to calculate the two companies' accounts receivable turnover for 20Y5. Round answers to one decimal place. Which company is more efficient in its accounts receivable cash receipts?

	The Garden Shop	**Rose's Garden**
Sales	$50,700	$54,320
Accounts receivable:		
Beginning of year	21,200	24,750
End of year	23,500	21,390
Average accounts receivable	22,350	23,070
Accounts receivable turnover	2.3	2.4
	[$50,700/($21,200 + $23,500)/2]	[$54,320/($24,750 + $21,390)/2]

Rose's Garden has a higher accounts receivable turnover, indicating it is more efficient in collecting cash receipts for accounts receivable.

39. With the table below, calculate KAA Co.'s accounts receivable turnover for 20Y5 and 20Y6. Round answers to one decimal place. Does the change indicate a favorable or unfavorable trend?

	20Y6	**20Y5**
Sales	$20,100	$22,300
Accounts receivable:		
Beginning of year	6,950	7,100
End of year	6,880	6,950
Average accounts receivable	6,915	7,025
Accounts receivable turnover	2.9	3.2
	[$20,100/($6,950 + $6,880)/2]	[$22,300/($7,100 + $6,950)/2]

The accounts receivable turnover decreased, indicating an unfavorable trend for KAA Co.

Strategy: *First, calculate the average accounts receivable using the balances at the beginning and end of the year. Next, determine the accounts receivable turnover by dividing the sales by the average accounts receivable. Changes in the turnover indicate that the average accounts receivable did not increase or decrease at the same rate as the sales. If the number increased, the company is becoming more efficient at collecting payments for its accounts receivable. If the number decreased, the company is less efficient at collecting payments for its accounts receivable.*

40. Using the information provided, calculate Keller Products' days' sales in receivables for 20Y5 and 20Y6. Round answers to one decimal place. Indicate if the change is favorable or unfavorable.

	20Y6	20Y5
Sales	$99,200	$100,500
Accounts receivable:		
Beginning of year	10,100	9,850
End of year	9,910	10,100
Average daily sales	271.8	275.3
Average accounts receivable	10,005	9,975
Days' sales in receivables	36.8	36.2

Since the days' sales in receivables has increased slightly, the company has become less efficient in collecting receivables, indicating an unfavorable trend.

41. Calculate the days' sales in receivables for the two companies using the information below. Round answers to one decimal place. Indicate which company is more efficient in collecting accounts receivable.

	GI Co.	Moe's Inc.
Sales	$279,300	$215,300
Accounts receivable:		
Beginning of year	50,350	45,550
End of year	51,900	46,700
Average daily sales	765.2	589.9
Average accounts receivable	51,125	46,125
Days' sales in receivables	66.8	78.2

GI Co. is more efficient in collecting accounts receivable since it has a lower days' sales in receivables.

42. Tasty Treats has implemented a change in its credit policy in hopes of becoming more efficient in collecting accounts receivable. Using the information provided, calculate the company's days' sales in receivables. Round answers to one decimal place. Has the change met the company's goal of increasing efficiency?

	20Y6	**20Y5**
Sales	$865,100	$870,600
Accounts receivable:		
Beginning of year	99,530	98,200
End of year	94,200	99,530
Average daily sales	2,370.1	2,385.2
Average accounts receivable	96,865	98,865
Days' sales in receivables	40.9	41.4

Since the days' sales in receivables decreased, the company's new procedures have proven helpful in collecting the receivables more quickly.

Strategy: *To calculate the days' sales in receivables, first find the average daily sales and the average accounts receivable. Divide the average accounts receivable by the average daily sales to determine the ratio. If the ratio has changed over a period of time, this means that the company's daily sales have increased or decreased at a different rate than the average accounts receivable. If the number increases, this is an unfavorable trend because the company is taking a longer time to convert the receivable into cash. A decrease in the ratio indicates the company has decreased the time to convert the sale into cash, which is a favorable trend.*