**PRINCIPLES OF ACCOUNTING**

**ACCT 101**

**ASSIGNMENT 5**

Last due date for submission 5thDecember 2015

**Essay Questions**

1. What is the accounts receivable turnover ratio? How is it calculated? How is it used to assess financial condition?

 2. What is depreciation of plant assets? What are the factors to consider in computing depreciation?

3. Define liabilities and explain the differences between current and long-term liabilities.

**Short Answer Questions**

1. Tecom accepts the NOVA credit card for credit card sales. Tecom sends credit card receipts to NOVA on a weekly basis. NOVA charges Tecom a 2% fee. Tecom usually receives payment from NOVA within a week. Prepare entries in general journal form to record the following transactions of Tecom involving the NOVA credit card.

|  |  |
| --- | --- |
| March 11 | Sold merchandise for $4,500 to customers who use the NOVA credit card and deposited the credit card receipts. |
| March 20 | Received cash proceeds less the service charge for the March 14 deposit to NOVA. |

2. A company's property records revealed the following information about its plant assets:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Machine No. | Cost | Salvage Value | Purchase Date | Depreciation Method and Estimate Life |
| 1 | $42,000 | $3,000 | 10/1/08 | Straight-line (3 years) |
| 2 | 86,000 | 8,600 | 7/1/08 | Double-declining-balance (5 years) |

Calculate the depreciation expense for each machine for the year ended December 31, 2010 and for the year ended December 31, 2009.  
Machine 1:  
2009 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
2010 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
  
  
Machine 2:  
2009 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
2010 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Answering Essay Questions**

A1. Accounts receivable turnover is an activity ratio that measures how many times a business can turn its accounts receivable into cash during a period. The formal to calculated accounts receivable turnover is calculated by dividing net credit sales by the average accounts receivable for that period.

It used to assess financial condition:

1- Shows how efficient a company is at collecting its credit sales from customers

2- The receivables turnover ratio can be viewed as a liquidity ratio as well. Companies are more liquid the faster they can convert their receivables into cash.

A2. Assets such as buildings, machinery, equipment, cars, and trucks will last for more than one year, but will not last indefinitely. During each accounting period a portion of the cost of these assets is being used up. The portion being used up is reported as Depreciation Expense on the [income statement](http://www.accountingcoach.com/terms/I/income-statement). In effect depreciation is the transfer of a portion of the asset's cost from the [balance sheet](http://www.accountingcoach.com/terms/B/balance-sheet) to the income statement during each year of the asset's life.

There are four main factors that affect the calculation of depreciation expense:

* Asset cost,
* Salvage value,
* Useful life, and
* Obsolescence.

A3. A liability is a claim on the assets of a firm or individual. Firm liabilities carried on the balance sheet include current liabilities as well as long term liabilities.

The differences between current and long-term liabilities are as follow:

**Current liabilities**

A current liability is one the firm expects to pay in the short term using assets noted on the present balance sheet. Typical current liabilities include accounts payable, salaries, taxes and deferred revenues. On the financial statement, information about the solvency of a firm can be determined through assessing its liabilities and its ability to settle those obligations.

**Long-term liabilities**

A long-term liability is one the firm expects to pay over the course of more than one year. Long-term liability is usually formalized through paperwork that lists its terms such as the principal amount involved, its interest payments, and when it comes due. Typical long-term liabilities include bank loans, notes payable, bonds payable and mortgages.

**Answering Short Questions**

A1. Credit Card Expense: $4,500 x .02 = $90

March 11 Accounts Receivable – NOVA 4,410  
Credit Card Expense 90  
Sales 4,500  
March 20 Cash 4,410  
Accounts Receivable – NOVA 4,410

A2.

Machine 1:

Cost=$42000

Salvage Value=$3000

Assets useful life=3 Years

Depreciation = [($42,000 – $3,000)/3] x 3 = $13,000

2009 $13,000

2010 $13,000

Machine 2:

Cost=$86000

Salvage value=$8600

Assets useful life=5 Years

Straight line depreciation=$86000-$8600/5=$15480

Straight Line Rate=$15480/$86000=18%

Double declining rate=2\*18%=36%

2009= $77400\*36%=$27864

2010= $77400-$27864=$49536\*36%=$17832.96