



**ACCOUNTING FOR  
UNCOLLECTIBLE  
ACCOUNTS**

**Chapter  
7**



# SECTION 7.3

# ACCOUNTS RECEIVABLE TURN OVER RATION

Businesses need cash why?

1. Purchase additional merchandise
2. Pay for operating expenses

What happens if a business is not promptly collecting amounts due from customers?

- ❖ Too large a share of the company's assets will be in AR and not immediately available for use by the business.

# ACCOUNTS RECEIVABLE TURN OVER RATION

If customers are not paying promptly, businesses will adopt new procedures to speed collections.

One way to analyze the collection efficiency is to calculate the AR turnover ratio.

The number of times the average amount of accounts receivable is collected during a specific period is called *Accounts Receivable Turnover ratio*.

How is the the Accounts receivable turnover ratio calculate?

# ACCOUNTS RECEIVABLE TURN OVER RATION

How is the Accounts receivable turnover ratio calculate?

Step 1 Compute the beginning and ending book value

AR	Total AR	-	Allow for Uncoll Accts	=	Book Val of
Beginning	50329.14	-	1416.83	=	48912.31
Ending	45462.79	-	1363.88	=	44098.91

# ACCOUNTS RECEIVABLE TURN OVER RATION

How is the Accounts receivable turnover ratio calculate?

Step 2 Compute the average book value

Beg. Book		End. Book			Avg. Book
Value of AR	+	Value of AR	divide by 2	=	Val of AR
(48912.31	+	44098.91)	/ 2	=	46505.61

# ACCOUNTS RECEIVABLE TURN OVER RATION

How is the Accounts receivable turnover ratio calculate?

Step 3 Compute the accounts receivable turnover ratio

Net Sales		Avg. Book		Accts. Rec.
on Account	divided by	Value of AR	=	Turnover Ratio
330312.85	/	46505.61	=	7.1 time

# ACCOUNTS RECEIVABLE TURN OVER RATION

How is the Accounts receivable turnover ratio calculate?

Step 4 Compute the average number of days for payment

$$\begin{array}{ccccccc} \text{Days in the year} & & \text{divided by} & & \text{Accounts Rec. Turnover Ratio} & = & \text{Avg. \# of} \\ & & & & & & \text{days for pmt} \\ 365 & & / & & 7.1 & = & 51 \end{array}$$