What is Accounts Receivable?

Worksheet

Accounts receivable is the total amount customers owe a company for credit sales that haven't yet been paid in cash; it's tracked as a current asset until collected.

Questions

1. Net credit sales are $400,000 and average AR is $50,000. What's the AR turnover ratio?

A) 4 times
B) 8 times
C) 0.125 times
D) 80 times

2. What does accounts receivable represent?

A) Cash the company owes suppliers
B) Money customers owe the company for credit sales
C) Inventory not yet sold
D) Long-term debt

3. An AR turnover ratio of 12 means, on average, how many days to collect (DSO)?

A) 12 days
B) 30.4 days
C) 365 days
D) 1 day

4. If AR turnover drops sharply year over year, what does it suggest?

A) Customers are paying faster
B) Collections are slowing down
C) Sales have increased
D) Cash balance rose

5. A company has net credit sales of $600,000 and average accounts receivable of $75,000. Find the AR turnover ratio.

6. Using the AR turnover ratio of 8 from Example 1, find the Days Sales Outstanding (DSO).

7. Beginning AR was $50,000 and ending AR was $70,000. Net credit sales for the year were $480,000. Find the AR turnover ratio.

8. Define: What is accounts receivable?

9. Define: What is the AR turnover ratio formula?

10. Define: What does a high AR turnover ratio mean?

Answer Key

1. B) 8 times - 400,000 / 50,000 = 8 times per year.
2. B) Money customers owe the company for credit sales - AR is an asset representing what customers owe for goods/services already delivered.
3. B) 30.4 days - DSO = 365/12 30.4 days.
4. B) Collections are slowing down - A falling turnover ratio means it's taking longer to collect from customers.
5. AR Turnover = Net Credit Sales / Average AR AR Turnover = 600,000 / 75,000 AR Turnover = 8 times per year
6. DSO = 365 / AR Turnover DSO = 365 / 8 DSO 45.6 days - customers take about 46 days to pay on average.
7. Average AR = (50,000 + 70,000) / 2 = 60,000 AR Turnover = 480,000 / 60,000 AR Turnover = 8 times per year
8. Money owed to a company by customers for goods/services already delivered on credit.
9. Net Credit Sales Average Accounts Receivable.
10. The company collects cash from customers quickly and efficiently.