

Accounts receivable and straight-line depreciation method

[Business](#), [Company](#)



The company uses the straight-line depreciation method. The rental equipment is estimated to have a useful life of eight years. Thus, the monthly depreciation of the rental equipment is $240,000/96$, or \$2,500 per month.

The note payable to Rent-It is good for one year. \$100,000 and the accumulated interest are due on November 30, 2012. The account payable for office supplies is due in thirty days, or January 2, 2012. The account payable to Universal Utilities is due in thirty days, or January 30, 2012. The company declared a dividend of 10 cents per share, payable on January 15, 2012. Income taxes are payable in 2012.

Susquehanna Equipment Rentals was named as a co-defendant in a \$25,000 lawsuit filed on behalf of Kevin Davenport. The extent of the company's legal and financial responsibility for this accident cannot be determined at this time.

It does appear that the company is headed for insolvency. It has \$100,000 in notes payable that are due January 2, 2012, and it only has \$65,000 cash. The company is expecting \$9,900 in accounts receivable, but that is still not enough to cover the notes payable. A majority of the company's assets are tied up in rental equipment, which is not a liquid asset. Thus, the company will not be able to meet its financial obligations to its lenders.

It would be unethical for Patty Driver to maintain the accounting records for this company since she is one of the owners of the corporation. The accounting records must be maintained by someone independent of the organization in order for the reports to be fair and ethical.