

Db6,dq1 selling  
receivables , and dq2  
use of depreciation



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DQ1 Selling receivables is often referred to as factoring. Factoring involves the purchase of account receivables by the lender, generally without recourse to the borrower, which means that if the purchaser of goods does not pay for them, the lender rather than the seller of the goods takes the loss (Besley & Brigham, 2000). The information from Wall Street which states that accounting receivables are being sold in corporate America in record numbers makes a lot of sense. The reason why corporations are selling more receivables than ever before is correlated with the current economic situation the business world is experiencing. The economy just got out of a recession which hurt the liquidity of many companies. Selling receivables improves the cash position of a firm. A disadvantage of selling receivables is the fact that receivables are sold at a discounted price. The discount represents a loss of revenues for the firm. DQ2 The statement made by the president of the Keene Company regarding depreciation must be further evaluated to determine the validity of the statement. The premise of the statement was that depreciation does not come close to accumulate the cash needed to replace asset at the end of its useful life. The problem with this statement is that depreciation was not meant as tool to replace assets once they are retired. The purpose of depreciation is to decrease the value of the asset through time in order have a basis to determine the value of an asset. If depreciation was not used the value of the assets of a company would be overstated since physical assets lose value as time passes on due to wear and tear. Another consideration regarding depreciation is the method that the accountant uses. For example the MACRS depreciation method devalues the asset at an accelerated pace (Murraystate). References

Besley, S., Brigham, E. (2000). Essential of Managerial Finance (12th ed.). <https://assignbuster.com/db6dq1-selling-receivables-and-dq2-use-of-depreciation/>

Essential of Managerial Finance. Forth Worth: The Dryden Press. Murraystate. edu. “ Modified Accelerated Depreciation Recovery System: the MACRS Depreciation Method” Retrieved May 8, 2011 from <http://campus.murraystate.edu/academic/faculty/larry.guin/fin330/macrs.htm>