

RECEIVABLE FOOTNOTES

The following footnotes are excerpted from the financial statements of three companies:

Ricoh Company Ltd., March 31, Year 2: Note No. 7 Short- term Borrowings and Trade Notes Receivable Discounted with Banks

The Company and certain of its domestic subsidiaries regularly discount trade notes receivable on a full recourse basis with banks. These trade notes receivable discounted are contingent liabilities. The weighted average interest rates on these trade notes receivable discounted were 4.2% and 3.2% as of March 31, Year 1 and Year 2, respectively.

Crown Crafts Inc., March 31, Year 2: Note No. 4 Financing Arrangements

Factoring Agreement --The Company assigns substantially all of its trade accounts receivable to a commercial factor. Under the terms of the factoring agreement, the factor remits invoiced amounts to the Company on the approximate due dates of the factored invoices. The Company does not borrow funds from its factor or take advances against its factored receivables balances. Accounts are factored without recourse as to credit losses but with recourse as to returns, allowances, disputes, and discounts. Factoring fees included in marketing and administrative expenses in the consolidated statements of earnings were \$ 1,501,000 (Year 2), \$ 1,223,000 (Year 1), and \$ 1,077,000 (Year 0).

Foxmeyer Corporation, March 31, Year 2: Note C Accounts Receivable Financing

On October 29, Year 1, the Corporation entered into a one- year agreement to sell a percentage ownership interest in a defined pool of the Corporations trade accounts receivable with limited recourse. Proceeds of \$ 125.0 million from the sale were used to reduce amounts outstanding under the Corporations revolving credit facilities. Generally, an undivided interest in new accounts receivable will be sold daily as existing accounts receivable are collected to maintain the participation interest at \$125.0 million. Such accounts receivable sold are not included in the accompanying consolidated balance sheet at March 31, Year 2. An allowance for doubtful accounts has been retained on the participation interest sold based on estimates of the Corporations risk of credit loss from its obligation under the recourse provisions. The cost of the accounts receivable financing program is based on a 30-day commercial paper rate plus certain fees. The total cost of the program in Year 2 was \$ 2.2 million and was charged against Other income in the accompanying consolidated statements of income. Under the agreement, the Corporation also acts as agent for the purchaser by performing recordkeeping and collection functions on the participation interest sold. The agreement contains certain covenants regarding the quality of the accounts receivable portfolio, as well as other covenants that are substantially identical to those contained in the Corporations credit facilities

Required: How do the three companies record the transfer of their receivables that is, as a sale or borrowing? Is their accounting treatment consistent with the economics of the transactions? Explain.