ACCOUNTING in the headlines

How does Square account for the amounts it loans to small businesses?

Square, the mobile payments company, allows small businesses to take credit cards by swiping customer credit cards using a small square device attached to the audio jack found on mobile devices. Since its founding in 2009 and the launch of its first app in 2010, Square has found its way into many small businesses – and large businesses. Starbucks uses Square to process transactions with credit or debit card customers. In November 2014, Square announced that it would be accepting Apple Pay. Whole Foods uses Square in select locations.

Square has recently gotten into lending money to its customers through its Square Capital program. According to Business Insider (April 15, 2015 article), Square has paid out over $100 million in small business financing over the past year.

See Jack Dorsey, co-founder of Square, explain the small business loan concept in this CNN Money video (2:26 minutes) at http://money.cnn.com/video/technology/2014/05/28/t-square-capital-dorsey.cnnmoney/ Essentially, the business owner clicks on a link in the Square Capital app to let Square know that the business would like to borrow a certain amount of money. Square Capital calls this step "requesting capital." The next morning, the funds are deposited in the checking account of that business. The business pays Square back the funds by having a certain percentage of each day's receipts deducted for the payback.

For example, if a business wants to borrow $7,000, Square might charge a total of $7,910 for the loan. Upon approval, the $7,000 is deposited into the business's checking account the next day and then Square charges 9% of the business's credit card sales each day until the $7,910 is fully paid. Square says that the advantage of this percentage-of-sales method is that the business does not have to make large payments when business is slow. The percentage that Square charges stays constant until the loan is paid off fully.

Square determines the amount to be charged for the loan and the percentage to be charged each day using data analytics. Each Square account has potentially different terms based on its history and trends.

Questions

1. Square Capital states that the first step for business owners is to "request capital." Are the business owners actually requesting capital? Explain.
2. In the example given in the blog post, the business borrows $7,000 and pays back $7,910 by paying 9% of its credit card receipts each day until paid in full. Is the 9% the interest rate charged? Why or why not?
3. Is the amount of cash deposited by Square Capital in its customers' (the small businesses requesting funds) checking accounts classified as ACCOUNTS RECEIVABLE or ACCOUNTS PAYABLE by Square Capital? Explain.
4. Is the amount of cash deposited by Square Capital in its customers' (the small businesses requesting funds) checking accounts classified as ACCOUNTS RECEIVABLE or ACCOUNTS PAYABLE by each of the small businesses? Explain.
5. What is the difference between the amount of funds deposited in the customers' accounts and the total amount paid back by customers classified as by Square Capital?