

Case Study 9: Uncollectible Accounts

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Instructions:

1. Print and read the following case study.
2. On your own, complete the **Accounting Application** questions.
3. As a class, complete the **Class Interaction and Discussion** questions.
4. Optional: Complete the **Small Group Extension Activity** and **Internet Exploration and Research Activity**.
5. Complete the **Summary Questions**.

Objectives:

After completing the following case study, you will be able to:

- Describe how some businesses make money by purchasing the uncollectible accounts of another business
 - Calculate and prepare adjusting entries for uncollectible accounts using the percentage of net sales method to estimate bad debts expense
 - Describe some methods used to collect bad debts
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Study Tips:

Complete this case study after Chapter 24, Glencoe Accounting, First-Year Course.
Approximate time to complete: 1 1/2 hours.

Overview:

Mark Vengroff, president of Vengroff, Williams, and Associates, Inc., is in the business of bad debts. His firm manages over \$20 billion in receivables and partners with clients like Cisco Systems, Hewlett-Packard, and Microsoft. Clients of Vengroff, Williams, and Associates, Inc. can contract for accounts receivable collection services, collection analysis reports, or check processing programs.

Vengroff, Williams, and Associates, Inc. booked revenues of \$64 million in 2002 for fees from collections.

When the company acts as collection agent for a client, the rate of return can vary. For one client who brought Vengroff an assortment of troublesome accounts, the company was able to recover about 30% of the money owed.

One service offered by Vengroff is known as bad debt brokering. In one case, \$180 million of uncollectible debts were pooled from six pharmaceutical companies and Vengroff sold the debts for \$1.98 million—1.1 cents on the dollar—to an unnamed East Coast bad-debt buyer. Vengroff took a percentage of the sales price.

Accounting Applications:

Instructions: Now that you have completed the case study above, answer the following questions on your own.

1. Over the past year, Dr. Bombay's Antiques and Collectibles has been unable to collect the following amounts:

Ms. Connie Dennis	\$375
Mr. Hank Legman	1,329
Dr. Juan Martinez	88
Mi-Lady Beauty Salon	133
Stamford Bed and Breakfast	212

What is the balance for Dr. Bombay's Uncollectible Accounts Expense if the antique shop uses the direct write-off method?

If Dr. Bombay's shop sells the uncollectible accounts at 8 cents on the dollar, how much cash would the shop receive?

2. If Dr. Bombay's shop used the percentage of net sales method for estimating bad debts, net sales for the year were \$63,229, and 3 percent was the percentage used, what would the adjustment be on the work sheet?
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3. Record the general journal entry showing the write-off of the Stamford account (Memorandum 22), if Dr. Bombay's shop used the allowance method. Use today's date and page 14 of the general journal.

GENERAL JOURNAL					PAGE <u>14</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1					1
2					2
3					3
4					4
5					5
6					6
7					7
8					8
9					9
10					10
11					11
12					12
13					13
14					14
15					15
16					16

Class Interaction and Discussion:

Instructions: Read the question below. As a class, discuss your responses.

1. Discuss why some people do not pay their debts. Make a list on the board.

2. Discuss why you think a company might choose to hire a third-party collection agency to recover its uncollectible accounts rather than pursue the collections themselves.

Optional Small Group Extension Activity:

Instructions: Break into pairs and complete the following activity.

Role play a debt collector and a delinquent debtor. Switch roles. Write a brief summary of your thoughts during the role-play.

Optional Internet Exploration and Research Activity:

Instructions: Using the Internet, research the following activity.

Find a listing of consumer credit counseling services. Visit the Web site of one service and describe the information you find.

Summary Questions:

1. Why do businesses sell goods and services on credit?

2. Name two methods to calculate an estimate of uncollectible accounts. How are both methods used to calculate uncollectibles?

3. Describe a few of the services offered by Vengroff, Williams, and Associates, Inc.
