

Flowers and Fluff frequently receives rush orders for floral deliveries. Some of these orders are on account. Occasionally, customers do not pay for their orders. Flowers and Fluff is a small business and is not too concerned about exactly following generally accepted accounting principles.

Review the two following "open" accounts and determine which should be written off. Flowers and Fluff prefers to use the direct write-off method and routinely reviews all accounts that are more than 90 days past due.

- (1) Vince Colioni ordered flowers to be delivered to his girlfriend. Unfortunately, a bee was delivered along with the flowers, and Vince and his girlfriend spent the evening at the emergency room nursing a bad sting. Vince had planned to propose marriage that evening. Vince owes \$125 for the flowers. The account is six months past due, and under the circumstances, the owners of Flowers and Fluff have no plans to press Vince for payment.
  - (2) Rebecca Warren ordered flowers to be delivered to a friend in the hospital. Rebecca owes \$60, and the account is four months past due. The owners of Flowers and Fluff just realized that the bill was sent to Warren Rebecca, a different customer. Rebecca Warren has since moved to a distant town, but was last known to be a responsible person. The owners of Flowers and Fluff are now trying to get a new address for Rebecca Warren from her friend that was in the hospital.
- (a) When and how might a business choose to ignore GAAP and use the direct write-off method?
  - (b) What is the U.S. tax code position on the direct write-off method, and how might Flowers and Fluff be simplifying their record keeping issues by using the direct writeoff method? Could a large corporation that must meet financial reporting obligations to shareholders select this simplifying option?
  - (c) Prepare the journal entry necessary to write off the "bad" account.
  - (d) How does the existence of "other" questionable accounts potentially produce misleading financial reports?