



CAREER CLUSTER

Finance

CAREER PATHWAY

Accounting

INSTRUCTIONAL AREA

Financial Analysis

ACCOUNTING APPLICATIONS SERIES EVENT

PARTICIPANT INSTRUCTIONS

- The event will be presented to you through your reading of the 21st Century Skills, Performance Indicators and Event Situation. You will have up to 10 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 10 minutes to make your presentation to the judge (you may have more than one judge).
- You will be evaluated on how well you demonstrate the 21st Century Skills and meet the performance indicators of this event.
- Turn in all of your notes and event materials when you have completed the event.

21st CENTURY SKILLS

- Critical Thinking – Reason effectively and use systems thinking.
- Problem Solving – Make judgments and decisions and solve problems.
- Communication – Communicate clearly.
- Creativity and Innovation – Show evidence of creativity.

PERFORMANCE INDICATORS

- Explain the nature of accounts receivable.
- Process accounts receivable.
- Explain the purposes and importances of credit.
- Determine factors affecting business risk.
- Interpret business policies to customers/client.

EVENT SITUATION

You are to assume the role of the chief financial officer of PIKES PAINTS INCORPORATED, a paint supplier with more than 200 contractor customers with corporate accounts. The owner of the company (judge) wants you to analyze accounts receivable practices and make a recommendation on shortening collection time.

The owner (judge) is concerned about PIKE PAINTS' cash flow position and wants to reduce the time it takes to collect customer outstanding balances from 45 to 30 days.

Currently PIKES PAINTS does not offer discounts for early payment of outstanding balances. PIKES PAINTS uses the percentage of sales method to estimate bad debts. Historically, the percentage of bad debts has been 6% of sales. The owner (judge) thinks if PIKES PAINTS offers a 2% discount to customers who pay within 15 days, the bad debt percentage will drop from 6% to 3% of sales.

Sales for the current year are estimated to be \$1,000,000, all on account. It is expected that 50% of customers will take advantage of the 2% discount and pay within 15 days.

As part of the presentation, discuss the benefits and drawbacks associated with extending credit to most, if not all customers, as well as offering a discount to entice early payment as it relates to customer relationships.

The owner (judge) wants you to:

- Describe the sales process as it currently exists at PIKES PAINTS.
- Explain the concept of accounts receivable and include a summary of bad debts.
- Calculate the expected amount of cash PIKES PAINTS will forgo if the discount is offered.
- Calculate the reduction in the amount of expected bad debt from 6% to 3% for the accounts not paid by customers within the 15-day discount period.

You will present the information to the owner (judge) in a role-play to take place in the owner's (judge's) office. The owner (judge) will begin the role-play by greeting you and asking to hear your ideas. After you have presented the information and have answered the owner's (judge's) questions, the owner (judge) will conclude the role-play by thanking you for your work.

JUDGE INSTRUCTIONS

DIRECTIONS, PROCEDURES AND JUDGE ROLE

In preparation for this event, you should review the following information with your event manager and other judges:

1. Participant Instructions, 21st Century Skills and Performance Indicators
2. Event Situation
3. Judge Role-Play Characterization
Allow the participants to present their ideas without interruption, unless you are asked to respond. Participants may conduct a slightly different type of meeting and/or discussion with you each time; however, it is important that the information you provide and the questions you ask be uniform for every participant.
4. Judge Evaluation Instructions and Judge Evaluation Form
Please use a critical and consistent eye in rating each participant.

JUDGE ROLE-PLAY CHARACTERIZATION

You are to assume the role of the owner of PIKES PAINTS INCORPORATED, a paint supplier with more than 200 contractor customers with corporate accounts. You want the chief financial officer (participant) to analyze accounts receivable practices and make a recommendation on shortening collection time.

You are concerned about PIKE PAINTS' cash flow position and want to reduce the time it takes to collect customer outstanding balances from 45 to 30 days.

Currently PIKES PAINTS does not offer discounts for early payment of outstanding balances. PIKES PAINTS uses the percentage of sales method to estimate bad debts. Historically, the percentage of bad debts has been 6% of sales. You think if PIKES PAINTS offers a 2% discount to customers who pay within 15 days, the bad debt percentage will drop from 6% to 3% of sales.

Sales for the current year are estimated to be \$1,000,000, all on account. It is expected that 50% of customers will take advantage of the 2% discount and pay within 15 days.

As part of the presentation, the chief financial officer (participant) must discuss the benefits and drawbacks associated with extending credit to most, if not all customers, as well as offering a discount to entice early payment as it relates to customer relationships.

You want the chief financial officer (participant) to:

- Describe the sales process as it currently exists at PIKES PAINTS.
- Explain the concept of accounts receivable and include a summary of bad debts.
- Calculate the expected amount of cash PIKES PAINTS will forgo if the discount is offered.
- Calculate the reduction in the amount of expected bad debt from 6% to 3% for the accounts not paid by customers within the 15-day discount period.

The participant will present information to you in a role-play to take place in your office. You will begin the role-play by greeting the participant and asking to hear about his/her ideas.

During the course of the role-play, you are to ask the following questions of each participant:

1. Why is it important to offer incentives to clients?
2. What is the best way to communicate the offer to our clients?

Once the chief financial officer (participant) has presented information and has answered your questions, you will conclude the role-play by thanking the chief financial officer (participant) for the work.

You are not to make any comments after the event is over except to thank the participant.

SOLUTION

1. Currently, PIKES PAINTS sells all products on account, per the case facts. Of those accounts, it is currently estimated that 6% will result in default by the customer. There is no discount offered to encourage customers to pay early. Most customers are paying within 45 days, but that puts Pikes Paints in a challenging cash flow position if the company is required to pay its vendors within 30 days.
2. Companies may allow customers to pay on account rather than requiring sales to be paid with cash. The concept of accounts receivable allows the buyer to purchase the product today and pay later. The seller records the transaction as revenue today and collects the payment tomorrow (assuming accrual basis). Offering customers the ability to purchase on account could increase sales. However, some customers may not be able to pay the balance due, thereby creating bad debt (aka an uncollectible account). There are multiple methods to determine bad debt expense, but this case utilizes the Percentage of Sales approach, which is permitted by GAAP.
3. If the discount is offered, PIKES PAINTS will forgo 2% of sales in cash collections, which is:

$$\$1,000,000 \times .02 = \$20,000 \text{ per year}$$
4. Currently bad debt expense is estimated at 6% or \$60,000 ($\$1,000,000 \times .06$). It is expected to decrease to 3% if the company offers a 2% discount. The new estimated bad debt is \$30,000 ($\$1,000,000 \times .03$). The net impact of the discount is a benefit to the company of \$10,000.

Current bad debt	\$60,000 ($\$1,000,000 \times .06$)
Estimated new bad debt	<u>30,000</u> ($\$1,000,000 \times .03$)
Estimated savings in bad debt	30,000
Cost of 2% discount	<u>20,000</u> ($\$1,000,000 \times .02$)
Net benefit of discount program	10,000

EVALUATION INSTRUCTIONS

The participants are to be evaluated on their ability to perform the specific performance indicators stated on the cover sheet of this event and restated on the Judge's Evaluation Form. Although you may see other performance indicators demonstrated by the participants, those listed in the Performance Indicators section are the critical ones you are measuring for this particular event.

Evaluation Form Interpretation

The evaluation levels listed below and the evaluation rating procedures should be discussed thoroughly with your event director and the other judges to ensure complete and common understanding for judging consistency.

Level of Evaluation	Interpretation Level
Exceeds Expectations	Participant demonstrated the performance indicator in an extremely professional manner; greatly exceeds business standards; would rank in the top 10% of business personnel performing this performance indicator.
Meets Expectations	Participant demonstrated the performance indicator in an acceptable and effective manner; meets at least minimal business standards; there would be no need for additional formalized training at this time; would rank in the 70-89 th percentile of business personnel performing this performance indicator.
Below Expectations	Participant demonstrated the performance indicator with limited effectiveness; performance generally fell below minimal business standards; additional training would be required to improve knowledge, attitude and/or skills; would rank in the 50-69 th percentile of business personnel performing this performance indicator.
Little/No Value	Participant demonstrated the performance indicator with little or no effectiveness; a great deal of formal training would be needed immediately; perhaps this person should seek other employment; would rank in the 0-49 th percentile of business personnel performing this performance indicator.



ACCOUNTING APPLICATIONS SERIES 2025

JUDGE'S EVALUATION FORM ASSOCIATION EVENT 1

Participant: _____

ID Number: _____

INSTRUCTIONAL AREA: Financial Analysis

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Explain the nature of accounts receivable?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
2.	Process accounts receivable?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
3.	Explain the purposes and importances of credit?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
4.	Determine factors affecting business risk?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
5.	Interpret business policies to customers/client?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
21st CENTURY SKILLS						
6.	Reason effectively and use systems thinking?	0-1	2-3	4	5-6	
7.	Make judgments and decisions, and solve problems?	0-1	2-3	4	5-6	
8.	Communicate clearly?	0-1	2-3	4	5-6	
9.	Show evidence of creativity?	0-1	2-3	4	5-6	
10.	Overall impression and responses to the judge's questions	0-1	2-3	4	5-6	
TOTAL SCORE						