# Case 5 - Receivables and Reserves

The following case relates to United Continental Holdings, Inc., an airliner.



Using the above table, please answer the following questions (**Please ignore other**).

1. What was the amount of United’s bad debt expense for 2015?

**$25**

1. What was the amount of receivables written-off, net of recoveries, during 2015?

**$29**

1. What effect did the write-offs have on net income and on ending total assets for 2015?

**No effect on net income**

**No effect on total assets**

1. What is the effect of recognizing a bad debt expense on the firm’s 2015 cash flows from operations?

**No effect**

1. Regarding the obsolescence allowance:
   1. What was the amount of parts expense for 2015?

**$38**

* 1. What was the amount of parts actually going obsolete during 2015?

**$0**

Excerpts from United (UAL) 10-K for the year ended December 31, 2015 are presented below. Please use them to answer the following questions.

1. Assume that all passenger revenue flow through either accounts receivable or frequent flyer deferred revenue and advanced purchase of miles. Estimate the cash collected from customers using data from the cash flow and income statements. Hint: think whether you should include in your answer advanced ticket sales.

**32785 – 200 + 52 - 15 = 32622**

1. By how much would United’s 2015 net revenues change if, throughout its history, it had been recognizing frequent flyer deferred revenue and advanced purchase of miles from customers as revenues (rather than deferring)?

**2117 – 2058 + 2826 – 2879 + 1010 – 1217 = -201**

**Net revenues will decrease by 201**

1. Explain why United would be violating U.S. GAAP if it recognized revenue at the time advances were received from customers.

**By the matching principle, when revenues are recognized, all expenses current and future need to be recognized in the income statement.**

**The risks have not been transferred.**

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