2.1 Allowance for Bad Debts and Write Offs

Policy Statement
The Accounts Receivable Department will submit to Accounting entries to account for bad debts and write offs of accounts deemed uncollectible by the University of Georgia.

Reason for policy
The Allowance for Bad Debts and Write Offs policy is needed to ensure proper accounting for bad debts and write offs.

Procedures
All accounting entries for uncollectible accounts, both the reserves for uncollectible accounts and the write-off of uncollectible accounts, will be initiated by the Accounts Receivable Department. These entries are made for receivable accounts recorded on the UGA Financial Accounting System and departments will need to make entries on their internal accounts receivable records to show the reserves and write-offs. Departments will also need to provide the necessary uncollectible account information to Accounts Receivable for the accounting entries to be processed on the UGA Financial Accounting System. The following guidelines will be followed by Accounts Receivable to prepare the necessary accounting entries for reserves and write-offs.

Reserve Procedures
The Governmental Accounting Standards Board (GASB) requires that bad debts be treated as a contra-revenue rather than an expense for financial reporting purposes. Budgetary reporting for Georgia also allows for like treatment for bad debts. This treatment effectively reduces revenue for debts that are not probable for collection. In order for that realized revenue to be reflected properly, bad debts must be regularly recognized in the accounts of the University as follows:

1. All uncollectible accounts will be reserved as specific accounts aged and consequently deemed to be uncollectible. Generally, debts aged more than one hundred twenty (120) days from the billing date are potentially no longer probable for collection. Circumstances may arise when specific accounts become uncollectible earlier than one hundred twenty (120) days. Departments will need to determine which accounts meeting these specifications need to be reserved.

2. When uncollectible accounts are reserved, a funding source must be identified to fund the reserve. The departmental sales revenue account related to the uncollectible receivable will be the funding source used in the journal entry to record the reserve for bad debt.

Write-Off Procedures
3. When accounts receivable of $3,000 or less are ultimately determined uncollectible and due diligence for collection has taken place, the receivable will be written-off. When an account is written-off, the accounts receivable account should be credited and the Allowance for Doubtful Accounts Receivable account should be debited. This eliminates the receivable from the books of the campus in compliance with Georgia law.

Write-off of receivables is based upon the aggregate of the debtor, not on individual transactions. For example, a customer may owe $4,000 in aggregate, with ten transactions of which no single transaction exceeds $3,000. In this case, the $4,000 cannot be written-off.
4. The accounts receivable should be analyzed to determine if all receivables aged more than one hundred twenty (120) days are collectible. After due diligence collection efforts, and submission to a collection agency, the bad debts (less than $3,000) should be written off against existing reserve accounts, as described in item #3 above.

5. Departments should seek assistance from Accounts Receivable when accounts assigned to collection agencies need to be written-off.

6. Approval for reserve and write-off transactions has been delegated to the chief business officer at each University. The Accounts Receivable Department will obtain such approval at the University level. Additional and final approval for reserves and write-offs will be made by the state auditors.

Departments should provide information regarding uncollectible accounts to the Accounts Receivable Department in May of each fiscal year. The department will need to provide the information to Accounts Receivable in the format provided as Request to Reserve for Uncollectible Accounts Receivable and Request to Write-Off Uncollectible Accounts Less than $3,000.

Recoveries
All recoveries will be recorded by reversing the entry made to create the allowance for uncollectible accounts, with the exception of uncollectible accounts charged to bad debts expense. Recoveries of this nature will be recorded as miscellaneous income. If a department receives a payment on an account which has been written off or reserved, they should contact Accounts Receivable for assistance.

Forms/Instructions
Accounts Receivable 8.4 Reconciliation Responsibilities
Request to Write-Off of Uncollectible Accounts Less than $3,000
Accounts Receivable Request to Reserve for Uncollectible Accounts

Additional contacts
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Policy definitions
Accounts Receivable – monies owed to the university, for good or services or other liabilities
Collection Agency – a business that pursues payments of debts owed by individuals or businesses
Delinquent (past due) – being overdue in payment
Due Diligence – a process in which a series of letters are sent to debtor in an attempt to collect on a past due account before it is sent to collections.
Reserve – funds set aside to provide for future debt payments
Write off – canceling an amount, removing it from financial records

Responsibilities
Responsible University Senior Administrator: Vice President for Finance & Administration
Responsible University Administrator: Associate Vice President and Controller

Policy Owner: Accounts Receivable
Record Retention

Retention: Ranges from 5 – 7 years depending on the record used for reference. Aging reports should be kept for 7 years (BOR 0472-03-002). All other Accounts Receivable reports are kept for 5 years. (BOR 0472-03-001)