State Accounting Office of Georgia
Fiscal Leadership for Georgia

Statewide Accounting Policy & Procedure

Accounting Manual Reference: Section: Revenues and Receivables Sub-section: Uncollectible Accounts/Write-offs	**Effective Date:** 07/01/2011 **Revision Date:** 07/01/2011

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Policy Summary:

Generally accepted accounting principles (GAAP) as reported in the Comprehensive Annual Financial Report (CAFR) require that an estimation of uncollectible accounts receivable be made and recorded as an allowance for doubtful accounts under the modified accrual and accrual bases of accounting. Waiting until an account is written off to recognize an uncollectible loss is not in compliance with GAAP. Receivables are recorded at the gross amount and are offset by the portion estimated to be uncollectible. Accordingly, revenues must be reported net of estimated uncollectible amounts. The amount of receivables not permitted to be written off, but which are deemed uncollectible under GAAP reporting, must be reported to the State Accounting Office as part of the year-end reporting process.

Receivables due from external customers and taxpayers of either the State of Georgia or any organization included in the State reporting entity are within the scope of this policy. Transactions between State reporting entity organizations are considered internal receivables and are excluded from the scope of this policy. Refer to the *Inter-Organization Activity* section of the Accounting Policy Manual for guidance on these internal transactions.

This policy addresses estimating and recording the amount of potentially uncollectible receivables and reporting those estimates in the CAFR even though the receivables have not been written off. It also provides journal entry guidance for recording write-offs that have been determined to be both uncollectible and within the legal thresholds for write-offs which are limited by State law.

Policy Requirements:

State of Georgia organizations must evaluate receivables periodically to determine their collectability. The amounts that State organizations are legally allowed to write off are limited by State law, but reporting organizations can write off receivables within these statutory limits if they are deemed uncollectible. Reporting organizations must submit a Write-off Certificate form on a quarterly basis to demonstrate due diligence of collection efforts and to certify amounts that are legally eligible to be written off. For comprehensive guidance on the certification process, refer to the *Accounts Receivable Management – Process to Write-off Receivables* policy in the Compliance Reporting section of the SAO website at the following link: sao.georgia.gov > Reporting > Compliance Reporting > Accounts Receivable. The certification form is also posted on the SAO website at that link.

For GAAP reporting, an allowance for doubtful accounts, a contra asset account, should be used under the modified accrual and accrual bases of accounting to recognize the portion of receivables that is not expected to be collected, regardless of the eligibility to be legally written off.

Accounting Requirements

Receivables are recorded at face value (the amount due) at the fund level. Whenever sales or services are provided on any basis other than cash, it is possible that not all receivables will be collected. Unless some action is taken to reflect this impairment, assets and revenues will be overstated. As a result, a mechanism is needed for GAAP reporting to reflect receivables at net realizable value – the net amount expected to be received in cash. For GAAP reporting, receivables should be reported at the gross amount and an allowance for doubtful accounts should be recognized for that portion of receivables that is deemed uncollectible, even though the receivables have not been written off. Such an allowance is not recorded under the statutory basis of accounting.

Recognition and Measurement

The collectability of receivables is an example of a loss contingency. Therefore, accrual of an estimated loss is required for GAAP reporting because it is probable that some receivables are uncollectible and an amount can be reasonably estimated. Reporting organizations are required to maintain their best estimates of the percentage of total receivables that are believed to be uncollectible. In order for a reporting organization to estimate the collectability of receivables and properly focus on collection efforts, each outstanding receivable due to the State must be "aged" relative to its formal due date. When a receivable's due date passes without full payment, the debt becomes past due and must be aged according to the number of days beyond the due date that the debt has been outstanding.

When analyzing transactions, reporting organizations may determine that certain receivables were recorded erroneously. This situation is different from determining that a correctly recorded receivable is now deemed to be uncollectible. When a receivable is recorded erroneously, an adjustment or credit memo should be recorded in a timely manner to reflect the correct amount of receivable and revenue. Any adjustments of this type must be traceable to the documentation supporting the original transactions.

Basis of Accounting

Funds that operate on a statutory basis must convert their accounting activity to the modified accrual and/or accrual bases of accounting for the Comprehensive Annual Financial Report (CAFR). Proprietary and fiduciary funds that do not operate on the statutory basis use the accrual basis of accounting throughout the year.

- Statutory Basis for Budgetary Compliance Reporting
  An allowance for uncollectible accounts is not recognized under the statutory basis of accounting. However, when a receivable has been deemed uncollectible and authorized for write-off in accordance with applicable State laws, including dollar limitations, the receivable may be written off with a journal entry that reduces both revenues and receivables.

- Converting to Modified Accrual Basis for CAFR Reporting
  Revenues must be reduced by the amount estimated to be uncollectible, even though the receivables are not written off. Receivables are reported net of the allowance for uncollectible amount.

- Converting to Accrual Basis for CAFR Reporting
  As under the modified accrual basis, revenues must be reduced by the amount estimated to be uncollectible, and receivables are reported net of the allowance for uncollectible amount. No

additional entry is required to convert the allowance amount from the modified accrual to the accrual basis of accounting.

- Accrual Basis for Funds Not Reporting on a Statutory Basis
  Revenues must be reduced by amounts estimated to be uncollectible. Amounts actually written off reduce the receivables and allowance accounts. Receivables are reported net of the allowance for uncollectible amount.

Disclosure Requirements

Per GASB Codification 2300.107.ee, allowances that reduce gross revenues must be disclosed in the notes when not reported on the face of the financial statements. The State presents receivables net of related allowances on the face of its entity-wide statement of net assets and its governmental fund balance sheets and proprietary fund statements of net assets. The allowance amounts, if any, are disclosed in the notes to the financial statements as deductions from the receivables categories to which they relate.

General Accounting Procedures:

Identifying Transactions

The method for estimating the uncollectible portion of receivables will vary by reporting organization and by type of receivable. Generally, the estimate will be based upon the collection experience of the reporting organization, the age of the receivables and the reporting organization's collection efforts. As receivables age, the probability of collection normally declines. For the State of Georgia, the allowance for uncollectible accounts only applies to accounts receivable which were generated from the following revenue accounts:

41xxxx	Taxes
421xxx	Licenses and Permits – Business
422xxx	Licenses and Permits – Non-business
441xxx	Sales and Services
451xxx	Fines and Penalties
465xxx	Rents and Royalties
468xxx	Other

The aging of accounts receivable provides an indication of whether an asset (receivable) has been impaired. Impairment occurs because as receivables age, the probability of collecting the full debt declines. For purposes of aging and reporting receivables, the following sample aging periods are recommended:

Past due:	1 – 30 days
	31 – 60 days
	61 – 90 days
	91 – 120 days
	120+ days

Reporting organizations using the statewide financial accounting system can access the accounts receivable module and run the Aging Detail by Business Unit Report (ARXXX0303). Although completion of the Allowance for Doubtful Accounts form is a year-end requirement for CAFR reporting, it is recommended that organizations review accounts receivable aging reports on a regular basis. If follow-up and due diligence are not performed consistently and on a timely basis, the probability of collection declines drastically. Consequently, the amount for allowance for doubtful accounts increases and net accounts receivable decreases. Reporting organizations not using the statewide financial accounting system should use aging reports generated by their accounting systems or prepare manual aging information.

Each reporting organization should examine its collection history and establish guidelines for accurately estimating uncollectible amounts. A sample procedure for estimating uncollectible accounts is provided below:

Aging	% Uncollectible	Accounts Receivable	Estimated Uncollectible
1 – 30 days	1%	$ 1,079,129.04	$10,791.29
31 – 60 days	2%	0.00	0.00
61 – 90 days	3%	19,750.02	592.50
91 – 120 days	4%	27,977.32	1,119.09
120+ days	5%	899,612.58	44,980.63
		$ 2,026,468.96	$57,483.51

Once estimated, the uncollectible amounts are recorded using the following account series but only under the modified accrual and accrual bases of accounting – no allowance for uncollectible accounts is recorded under the statutory basis:

126xxx Allowance for Uncollectable / Accounts Receivable
128xxx Allowance for Uncollectable / Taxes
130xxx Allowance for Uncollectable / Penalties and Interest Receivable
132xxx Allowance for Uncollectable / Loans and Notes Receivable
134xxx Allowance for Uncollectable / Other Receivables

Accounting Transactions and Journal Entries:
Following are journal entry examples to demonstrate the accounting for uncollectible accounts and write-offs. The entries reference the accounts receivable/sales and services account number series. However, when recording actual transactions, an organization must select the appropriate account number series from the above categories based on the type of activity that is uncollectible.

Statutory Basis
Organizations reporting on a statutory basis must record all revenues, including adjustments and write-offs, to the appropriate budget year to demonstrate budgetary compliance. Refer to the *Revenues and Receivables – General* section of the Accounting Policy Manual for detailed guidance.

To record accounts receivable and revenue – For illustration purposes, assume the initial entry includes a $500 error that will be corrected in the second entry:

Debit	2,026,968.96	Accounts Receivable (125xxx)
Credit	2,026,968.96	Sales and Services (441xxx)

To correct revenue and receivable recorded in error, credit memo or adjusting entry (assume $500 more than the sales and services amount was recorded initially):

Debit	500.00	Sales and Services (441xxx)
Credit	500.00	Accounts Receivable (125xxx)

To write-off receivables: An allowance for uncollectible accounts is not recognized under the statutory basis. However, when a receivable has been deemed uncollectible, it may be written off by reducing revenue and accounts receivable if it meets the legal limitations. For illustration purposes, assume that $90.00 is past due and may be written off in compliance with the legal limitations:

Debit	90.00	Sales and Services (441xxx)
Credit	90.00	Accounts Receivable (125xxx)

Converting to the Modified Accrual and Accrual Bases
To record the estimated allowance for uncollectible accounts: Organizations that report on a statutory basis must provide information for recording an allowance estimate under the modified accrual basis. In the public sector, allowances normally should be netted against revenues. Accordingly, bad debt expense would be recorded only for non-revenue related activity (e.g., loans or notes receivable). Continuing with the above example, since $90.00 was written off under the statutory basis, the balance of estimated uncollectible receivables to record as an allowance is $57,393.51 ($57,483.51 less $90.00):

Debit	57,393.51	Sales and Services (441xxx)
Credit	57,393.51	Allowance for Doubtful Accounts (126xxx)

No additional allowance entries are required to convert to the full accrual basis of accounting.

Organizations that Always Operate On the Full Accrual Basis
Given the assumptions used above, these organizations would record the same entries to recognize and correct revenue and receivables as recorded under the statutory basis. However, the write-off of uncollectible accounts is handled differently. Organizations that always operate on the accrual basis recognize an allowance before actually writing off uncollectible accounts. The write-offs are then recorded against the uncollectible allowance as follows:

To establish the allowance for doubtful accounts:

Debit	57,483.51	Sales and Services (441xxx)
Credit	57,483.51	Allowance for Doubtful Accounts (126xxx)

To write-off specific receivables determined to be both uncollectible and within the legal limitations:

Debit	90.00	Allowance for Doubtful Accounts (126xxx)
Credit	90.00	Accounts Receivable (125xxx)

Year-End Accounting Procedures
The SAO will request information about uncollectible receivables as part of its year-end reporting package. All organizations included in the State of Georgia reporting entity must either provide audited financial statements that comply with this policy or complete the Allowance for Doubtful Accounts year-end form (sao.georgia.gov > Reporting > Year-End Reporting > Reporting Forms). Organizations providing audited financial statements may also be required to complete the year-end form to supplement the information included in their audited financial statements. This information is required to ensure that appropriate accrual basis adjusting entries are recorded for the annual financial reports.

Authority:
- GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*
- GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- GASB Codification Section 2300, *Notes to Financial Statements*

Applicability:
This policy applies to all organizations included in the State of Georgia reporting entity, including component units and all organizations of State government meaning, without limitation, any agency, authority, department, institution, board, bureau, commission, committee, office, or instrumentality of the State of Georgia. At these reporting organizations, all personnel with accounting and financial reporting responsibilities should be knowledgeable of this policy, in particular those in accounts receivable sections or those who monitor the aging of receivables.

Definitions:
Accounts Receivable – A current asset account reflecting amounts due from individuals, firms, corporations, or other organizations for goods and services furnished by a government.

Allowance for Doubtful (or Uncollectible) Accounts – A contra asset valuation account used to indicate the portion of receivables not expected to be collected.