## 11.3 Bad Debts and Write Offs

#### **Policy Statement**

Departments are responsible for analysing their outstanding accounts receivable and recording bad debts expense for accounts deemed doubtful or uncollectible.

Annually, departments will request the write off of uncollectible accounts.

## **Authority**

The source of authority for this policy is the *Finance Act*, Section 24(1). The act states that

24(I) Where a person has an obligation or debt due to the Province or the Province has a claim against a person, the Governor in Council may, subject to any other Act affecting such obligation, debt, or claim, direct the Minister to negotiate and accept a settlement in payment and satisfaction of such obligation, debt, or claim, or to determine that any such obligation, debt, or claim is not collectable, write off any loss incurred in any such settlement or determination and charge it to the General Revenue Fund.

The word "Minister" as used in section 24(1) of the act refers to the Minister of Finance and Treasury Board.

## **Policy Objectives**

This policy explains the procedures and forms associated with the recording of bad debts expense. The objective is to ensure timely and accurate recording of bad debts expense in the period in which the debt can be reasonably determined as uncollectible. Annual requests for bad debts write offs will keep the financial records current with truly collectible amounts.

## **Application**

This policy applies to all members of the province's budgetary process.

## **Accountability**

Departments are responsible to ensure that bad debts expense are recorded in their accounts properly and in a timely manner, compliant with this policy.

## **Procedure for Recording Bad Debts Expense**

#### CALCULATE ALLOWANCE FOR DOUBTFUL ACCOUNTS

- I. Review the aged accounts receivable listing for balances that are specifically identifiable as credit risks or uncollectible. These balances should become part of the allowance amount.
- 2. For the remaining balances, estimate any additional allowances required. Use professional judgment to assign a collectibility factor, for example:
  - percentage of total balances older than a certain number of days, e.g., 20 per cent of balances over 120 days
  - percentage of outstanding balances of certain customer types who have been higher credit risks
  - percentage of outstanding balances of certain types of revenue that have been collection problems in the past
  - other methods relevant to the department's business cycle or customers.

#### **DOCUMENTATION**

3. Documentation held on file at the departments should support the balance in the allowance for doubtful accounts. This documentation should include support as to the methods implemented by departments to collect the receivable and the reason(s) why it may be uncollectible, or, in the case of Step 2 above, any supporting analysis and calculations as illustrated in Appendix 11-A.

#### **ADJUST GENERAL LEDGER**

4. Prepare a total of the revised allowance amounts and compare it with the general ledger allowance account balance. During the year, if the difference is small, no adjustment is required. The general ledger allowance account balance should be up to date, especially at year end, and be supported with sufficient documentation for audit purposes. Adjust allowance and bad debt expense accounts in the general ledger as illustrated in Appendix 11-B. Do not reverse or cancel any accounts receivable at this point.

#### WRITE-OFF OF ACCOUNTS RECEIVABLE

5. Review outstanding amounts in the allowance. Identify accounts that are truly uncollectible and should be written off. Prepare the Write Off Submission template and letter for the Minister's approval and send it to the Department of Finance and Treasury Board in accordance with the form shown in Appendix 11-C and Appendix 11-D.

On the Submission template you should indicate the method(s) taken to collect the receivable and the reason(s) why it is uncollectible.

Send an electronic copy of the Submission template to the Executive Director, Government Accounting for use in preparing a consolidated file of write off data for submission to Executive Council for formal approval.

6. Only after approval is granted by Order-in-Council are departments permitted to reduce accounts receivable ledgers for the write off submitted. Government Accounting will notify departments when approval has been granted and confirm the amount of the write offs approved. Then each department may write off their accounts with a debit to the allowance account and a credit to the accounts receivable records (see Appendix 11-B.)

#### **RECOVERY OF BAD DEBTS**

7. Payments received on accounts in the allowance should be applied to reduce the accounts receivable balance and the allowance should be reduced accordingly. If the account is officially written off, the payment should be recorded to a prior years' recoveries account (see Appendix 11-B.)

#### **Enquiries**

Executive Director, Government Accounting Department of Finance and Treasury Board (902) 424-7021

## **Appendices**

Appendix 11-A Documentation: Example of Allowance for Doubtful Accounts Calculation and General Ledger Reconciliation

Appendix II-B Journal Entries to Adjust Allowance Account

Appendix II-C Write Off Submission Template

Appendix II-D Ministerial Approval Letter

Approval date: July 31, 2008 Effective date: August 21, 2008

Approved by: Executive Council Administrative update: May 30, 2016

## Appendix II-A

## **Documentation**

Example: Allowance for Doubtful Accounts Calculation and General Ledger Reconciliation

Allowance for Doubtful Accounts			
Department of	 _		
September 30, 2016			
Specific Accounts			
I) ACB Company	\$ 100		
2) XYZ Incorporated	700		
3) Joe Joyce Metals Ltd.	45		
4) Payless Grinch Co.	 1,201	\$ 2,046	
% Allowance on Remaining A/Cs			
Over 120 days \$8,102 x 5% =	405		
Over 180 days \$10,075 x 10% =	1,008		
Over 365 days \$4,776 x 40% =	1,910	\$ 3,323	
Total Allowance Required		\$ 5,369	
Balance per Allowance Account		\$ 4,200	
Increase < Decrease > Required		\$ 1,169	(increase in allowance needed)

This reconciliation helps support any required adjustment amount. If the general ledger is approximately equal to calculated allowance, no adjustment is required until year end.

11.3 Bad Debts and Write Offs

### Appendix II-B

# Journal Entries to Adjust Allowance Account

I. To increase allowance: (JV prepared by department)

Debit: Bad Debt Expense

Credit: Allowance

2. To decrease allowance: (JV prepared by department)

Debit: Allowance

Credit: Bad Debt Expense

3. To record approved write offs: (JV prepared by department)

When the OIC is obtained, departments remove the approved write-offs from the accounts receivable and allowance. Some AR subledgers, the SAP module for example, contain functions that write off the AR balances and update the AR and allowance accounts. No manual journal entries are required in this case. If the AR subledger being used does not interface and update the SAP GL, the department should record the following journal entry for accounts written off:

Debit: Allowance

Credit: Accounts Receivable

4. When account is paid by customer after write-off: (JV prepared by department)

Debit: Cash in Transit
Credit: Prior Year Recoveries

#### **GL** Accounts

#### Most departments:

137100 Allowance for Doubtful Accounts 823100 Bad Debts Expense

535100 Prior Year Recoveries

#### Other allowance accounts are:

170164 Allowance for Doubtful Accounts - (1200) Agriculture - Farm Loan Board

170184 Allowance for Doubtful Accounts - (8500) Fisheries and Aquaculture Loan Board

I 70224 Allowance for Doubtful Accounts - (8700) IDA I 70234 Allowance for Doubtful Accounts - (8700) Venture

#### Appendix II-C

# **Write Offs Submission Template**

Write Off Submission Fiscal Year Ending March 31, 20XX											
Department of	f XX										
Name	Line #	Λ,	mount	Included in prior year end Allowance	Nature of Dobt	Data Incurred	Measures Taken	Reason Uncollectible			
Name	Lille #		ilount	Allowance	Nature of Debt	Date incurred	Wiedsules Taken	Reason Onconectible			
Mr. John Smith (EXAMPLE)	1	\$	50.00	Yes	Fee owing from NS resident	1-Nov-2013	Phone Calls, Invoices, Statements	Citizen is deceased & department does not recover from estates.			
	1										
	2										
	3										
	4										
	5										
Department of XX	(		\$50.00								

#### Steps to complete the Write Offs Submission Template:

- 1 Enter the most recent fiscal year end in the header
- 2 Enter the name of the Department/Public Service Entity
- 3 Complete one line per write off submission

Name: Enter the name or Group Category for the submission

Cross Reference any back up provided to the Line #, enter more if needed

Amount: Enter the Gross amount for that name or group category

Included in prior years Y/E Allowance: Choose Yes or No (if No, please explain why)

Nature of Debt: Enter a brief description of the debt Date Incurred: Enter the date the debt was incurred

Measures Taken: Enter the measures taken to collect the debt (examples):

Direct Contact: Phone Calls, Emails, Invoices, Statements

Legal Proceedings

Legal Settlement

Referred to Collections

Skip Tracing

Cancel, Suspend Service

Reason Uncollectible (examples):

Citizen is deceased

Company is bankrupt

Residual balance after settlement

Customer location unknown

Efforts to collect are documented but were unsuccessful

Sold property but proceeds were insufficient

No supporting Documentation to support amount owed

Account is old and immaterial

- 4 Print out the Write Offs Submission Template and attach a signed Ministerial Approval Cover Letter (Appendix 11-D). Send the completed template and letter to Minister of Finance and Treasury Board by October 31.
- 5 Send an electronic copy of the Write Offs Submission Template to Executive Director, Government Accounting by October 31.

### Appendix II-D

# **Ministerial Approval Letter**

Department Letter Head

The Honourable XXXX XXXXX
Minister of Finance and Treasury Board
7th Floor, Provincial Building
1723 Hollis Street
Halifax, N.S.
B3J 2N3

Dear Minister:

Re. Accounts to be Written Off

Pursuant to Section 23 of The Finance Act, the Department of XXXX requests that the attached accounts be written out of records for the fiscal year ending March 31, 20XX. The total value of the write off is \$XX.XX and is supported by the submission attached.

We would also confirm that these uncollected accounts have been included in the allowance for doubtful accounts at the most recent year end.

Yours truly,

XXXX, Minister

Department of XXXX

Encls.