

8.3 Bad Debt Write-off Procedures

Policy Statement

Departments are responsible for analysing their outstanding receivables and creating a provision for accounts deemed doubtful or uncollectible.

The amounts may be an exact amount or an estimate but must be supportable by analysis and documentation held on file at the department.

Authority

The source of authority for this policy is the *Provincial Finance Act*, Section 23(1). The act states that

23(1) Where a person has an obligation or debt due to the province or the province has a claim against a person, the Government in Council may direct the Minister, subject to any other Act affecting such obligation, debt, or claim, 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 and to write off any loss incurred in any such settlement or determination and to charge it to the appropriation for the service in respect of which the loss was incurred, or to the Consolidated Fund, or to the appropriate reserve account.

The word “Minister” as used in section 23(1) of the act refers to the Minister of Finance.

Policy Objectives

This policy explains the procedures and forms associated with the recording of bad debt expenses. The objective is to ensure timely and accurate recording of expenditures in the period in which the debt can be reasonably determined as uncollectible. Bad debts are to be reviewed and recorded on a regular basis.

Application

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

Accountability

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

Procedure for Recording Bad Debt Expense

CALCULATE ALLOWANCE FOR DOUBTFUL ACCOUNTS

1. 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. This is a process of judgmental analysis to assign a collectibility factor, for example:
 - percentage reserve on 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 particular department's business cycle or customers.

DOCUMENTATION

3. Documentation held on file at the departments should support the balance of 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 8-A.

ADJUST GENERAL LEDGER

4. Prepare a total of the designated 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 allowance general ledger account should be adjusted 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 8-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 of Uncollectible Debts form for the minister's approval and send it to the Department of Finance in accordance with the form shown in Appendix 8-C.

On this form you should indicate the method(s) taken to collect the receivable and the reason(s) why it is uncollectible. Also, it is useful to indicate the account receivable general ledger account number you would like reduced when the write-off(s) is approved.

Government Accounting is responsible for 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 to reduce accounts receivable ledgers for the write-off submitted. Since the Accounts Receivable and corresponding reserve are no longer required, each department will finally record their write-offs in the general ledger with a debit allowance and credit accounts receivable (see Appendix 8-B).

RECOVERY OF BAD DEBTS WRITTEN OFF

7. Payments received on accounts in the allowance should be recorded as normal payments in the accounts receivable sub-ledger. If the account is officially written off, the payment should be recorded to a bad debts recovered account. (See Appendix 8-B.)

Enquiries

Director, Government Accounting
Department of Finance
(902) 424-7021

Appendices

Appendix 8-A Documentation: Example of Allowance for Doubtful Accounts
Calculation and GL Reconciliation

Appendix 8-B Journal Entries to Adjust Allowance for GL Balance

Appendix 8-C Write-off of Uncollectible Debts

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Approved by: Minister, Department of Finance

Most recent review:

Appendix 8-A

Documentation

Example: Allowance for Doubtful Accounts Calculation and GL Reconciliation

Province of Nova Scotia Allowance for Doubtful Accounts Department of _____ September 30, 1999			
Specific Accounts			
1) ACB Company	\$ 100		
2) XYZ Incorporated	700		
3) Joe Joyce Metals Ltd.	45		
4) Payless Grinch Co.	<u>1,201</u>	\$ 2,046	
% Reserve 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% =	<u>1,910</u>	\$ 3,323	
Total Reserve Required		\$ <u>5,369</u>	
Balance per Allowance GL a/c		\$ <u>4,200</u>	
Adjustment Required		\$ <u>1,169</u>	(increase in allowance needed)

This reconciliation helps calculate any required adjustment JV amount. If GL is approximately equal to calculated reserve, no adjustment is required until year-end.

Appendix 8-B**Journal Entries to Adjust Allowance for GL Balance**

1. To increase allowance for GL balance: (JV prepared by department)

Debit: Bad Debt Expense
Credit: Allowance

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

Debit: Allowance
Credit: Bad Debt Expense

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

When the OIC is issued, departments remove the approved write-offs from their accounts receivable sub-ledgers. Some AR systems, the SAP module for example, contain functions that write off the AR balances and update the AR and allowance for GL accounts. No further journal entries are required in this case. If the AR system being used does not interface and update to 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:

134106 Accounts Receivable
137100 Allowance for Doubtful Accounts
823100 Bad Debts Expense
535100 Prior Year Recoveries

Other allowance accounts are:

170164 Allowance for Doubtful Accounts - (4100) Agriculture
170184 Allowance for Doubtful Accounts - (8500) Fisheries Loan Board
170284 Allowance for Doubtful Accounts - (0200) Housing
170254 Allowance for Doubtful Accounts - (8700) EDT - BDC
170274 Allowance for Doubtful Accounts - (8700) CBLP
170224 Allowance for Doubtful Accounts - (8700) IDA
170234 Allowance for Doubtful Accounts - (8700) Venture
170232 Allowance for Doubtful Accounts - (8700) Advance

Appendix 8-C

Write-Off of Uncollectible Debts

Procedure

A request in writing, addressed to the Minister of Finance, is to be initiated by the department concerned. The request is to be either signed by the minister of that department or, if signed by another departmental official, accompanied by a covering letter signed by the minister of the department. The request must contain the following information:

- the name, address, amount, and relevant particulars of the debt
- the nature of the debt and the date incurred
- an outline of the measures taken to collect the debt
- reason(s) why the debt is deemed to be uncollectible
- a recommendation that the debt be written off under the provisions of Section 23(1) of the *Provincial Finance Act*.

ACCOUNTING FOR LOSS

The requesting department must include in their request the account classification of the appropriation to be charged with the loss or the appropriate reserve account.

RESTRICTION

If a debt is to be written off in the current fiscal year, the request must be received by the Department of Finance by no later than October 31 of that fiscal year.

Illustration: Write-off of Uncollectible Debts Form**PROVINCE OF NOVA SCOTIA
Write-off of Uncollectible Debts**

TO: MINISTER OF FINANCE
PROVINCE OF NOVA SCOTIA

Date _____

Herewith, information as shown, pursuant to Policy Statement

1.	NAME	_____
	ADDRESS	_____
	AMOUNT	_____
2.	DATE INCURRED	_____
	NATURE OF ACCOUNT	_____
3.	MEASURES TAKEN TO COLLECT	_____

4.	REASONS THIS ACCOUNT IS DEEMED UNCOLLECTIBLE	_____

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Budgeting and Financial Management Manual

