

| | |
|--|--|
| Subject: Accounts Receivable Guidelines | Author: Susan Wilhelm |
| Effective Date: May 2003 | Last Review Date: June 2007 |
| Last Revision: June 2007 | Revised By: Anne Rademaker |
| Contact Name: Anne Rademaker | Contact Email: atrade02@louisville.edu |
| Approved By: Controller's Office | Page 1 of 6 |

What are Receivables?

The University of Louisville and its related organizations report income on the accrual basis of accounting in accordance with GASB (Government Accounting Standards Board) guidelines. Accrual accounting requires the recording of income when earned and expenses when incurred. It differs from the cash basis in which income is recorded when cash is received and deposited and expenses are recognized only when actually paid.

The Controller's Office, the Bursar's Office, and business units throughout the university must ensure that accounts receivable are recorded accurately and on a timely basis. University business officers and accountants must record accounts receivable to promptly record income earned when goods or services are provided by the university and payment is not immediately received. This is important for accurate financial statement presentation at the end of every accounting period, but especially important at the end of each fiscal year. Recording receivables also provides a record that payment is due from an outside source

What Kinds of Receivables Does the University Generate?

Tuition and Other Student Receivables -The Bursar's Office maintains an automated system for posting student receivables and income immediately as students enroll for classes, rent housing space, and purchase meal plans through the Registrar's Office.

Patient Services Receivables – Clinics generally maintain patient billings and accounts on separate automated databases within each clinical office. Unit Business Managers must record the clinical income and receivables to the university's general ledger (PeopleSoft financial system entries using speedtypes and accounts) on a monthly basis, or at minimum, a quarterly basis using summarized journal entries.

Grants and Sponsored Program Receivables – Effective July 1, 2003, the Controller's Office will centrally manage income and receivables recognized for grants and industry contracts. The grant or contract agreements with each sponsor define the billing and payment terms and determine when income is earned by the university. The major types of contracts are:

- **Cost Reimbursement** – Most government sponsors agree to pay grant income by reimbursing the university for research expenditures incurred to accomplish the research objectives.
- **Fixed Payment** – Industry sponsors may agree to pay the university a fixed price for conducting research or providing services.

- Drug or Clinical Studies – Income is typically recognized when certain research objectives are met such as patients examined, tested, and treated. Business offices compile the documentation necessary to support the university’s claim to income in accordance with the contract terms.

Contracts for Goods and Services – Throughout the university, academic units and auxiliary service centers enter into contracts with external organizations or individuals. Income is generated when services are performed or goods are delivered.

Examples are:

- Hospital Contracts
- Parking Contracts
- Printing Services
- Consulting Services
- Sponsorships and Promotions

General Receivables

A business office must record a receivable if it conducts sales of goods or provides services for fees and payment is not received immediately. If the sale is paid immediately by cash or check, the business office typically reports the income by depositing the cash or check at the Bursar’s Office through the submission of transmittal sheets. If, however, a university department enters into a contract or bills for services, the receivable must be recorded through a journal entry in order to reflect the revenue earned. Then, as payments are collected, the payment is applied against the receivable until the receivable is reduced to zero. The revenue is only recorded once when the initial journal entry is posted to the general ledger (PeopleSoft financial system using speedtypes and accounts).

Reimbursements

Occasionally, a university department or program may expend funds in collaboration with other organizations (For example, conferences with professional societies, alumni functions). A receivable must be recorded for the amount of funds to be reimbursed by the external organizations. This receivable is offset (credit side of the journal entry) by a reduction of the original expenses incurred.

Gifts

University business offices must report all contributions promptly to the University of Louisville Foundation, Inc. If a university representative within an academic unit is working on any gift agreements where a donor has decided to make payments over time, a signed pledge agreement must be forwarded to the Foundation Development Office for financial reporting purposes. The Foundation records all pledges as receivables in accordance with FASB (Financial Accounting Standards Board) 116 and 117. The Controller’s Office discounts those pledges extending longer than one year in accordance with FASB guidelines.

How are Receivables Recorded and Managed?

The following illustrations cover the basic entries for recording receivables and contractual discounts, collecting payments and handling bad debts.

- To record a receivable for \$100,000 in professional fees.
- To record a check for \$50,000 in partial payment of receivable. Debit: Cash (Deposit with Bursar) Credit: Accounts Receivable

| | | | | | |
|----------------------------|---------|---------|----------------|---------|---------|
| Debit: Accounts Receivable | | | Credit: Income | | |
| Speedtype | Account | Amount | Speedtype | Account | Amount |
| C1234 | 130105 | 100,000 | C1234 | 424155 | 100,000 |

This entry is submitted on a journal voucher form to the Controller's Office

| | | | | | |
|-------------|---------|--------|-----------------------------|---------|--------|
| Debit: Cash | | | Credit: Accounts Receivable | | |
| Speedtype | Account | Amount | Speedtype | Account | Amount |
| C1234 | 110101 | 50,000 | C1234 | 130105 | 50,000 |

This entry is submitted through the Bursar's Office using a transmittal form. The debit to the cash account is automatically created by the Bursar's cashiering system. The business manager is responsible for identifying the credit side of the entry on the transmittal form.

3. The Receivable Balance is now \$50,000 – after posting entries 1 and 2. Receivable balances must be supported in full for audit purposes. This means that each business operation responsible for recording receivables must maintain records to substantiate the total receivable balance at all times.

In this example, the departmental business office maintains a signed contract and/or invoice for the \$100,000 to support the original receivable. The departmental business office may also maintain a copy of the \$50,000 check deposited or refer to accounting records to substantiate the payment of \$50,000.

For larger operations with many individual accounts receivable, the departmental business office may maintain detailed records of all patients or customers on a specialized database or spreadsheet in order to substantiate the total receivable balance. Special supporting databases are commonly used to manage patient accounts. When receivables consist of large numbers of customer or patient receivables that are maintained on a separate billing system, they are recorded in summary form to the university general ledger on a monthly basis.

Example: A medical clinic handles 1,000 patient visits each month. The total patient invoices amount to \$200,000. \$100,000 in payments was collected from patients. Individual patient billings and collections are recorded directly onto the patient accounting system. A monthly summary of these entries is recorded on the university general ledger (PeopleSoft financial system speedtypes and accounts) as follows:

| | | | | | |
|----------------------------|---------|---------|----------------|---------|---------|
| Debit: Accounts Receivable | | | Credit: Income | | |
| Speedtype | Account | Amount | Speedtype | Account | Amount |
| C1234 | 130105 | 200,000 | C1234 | 420010 | 200,000 |

| | | | | | |
|-----------------------------------|---------|---------|-----------------------------|---------|---------|
| Debit: Cash (Deposit with Bursar) | | | Credit: Accounts Receivable | | |
| Speedtype | Account | Amount | Speedtype | Account | Amount |
| C1234 | 110101 | 100,000 | C1234 | 130105 | 100,000 |

Contra Revenue

Contra Revenue refers to reductions to Patient Revenues to Account for Contractual Discounts for Patient Accounts. Accounts receivable and revenues for patient charges are recorded at 100% of the gross patient fees. Patient accounts receivable are commonly paid by third party

insurance providers. These providers, under contractual agreements, pay the patient billing under a discounted payment arrangement. Under the terms of the provider agreement, the university accepts the discounted payment plus any patient co-payment as “payment in full”. The discounted portion of the gross medical bills are recorded as a contractual discounts.

Contractual discounts must be recorded at the same time the patient receivables and corresponding income is recorded. The percentage of discount applied to a patient account may require estimation if the exact discount is unknown at the time of billing. If an estimate is used, the receivables and contractual discounts are recorded as follows:

| Debit: Accounts Receivable | | | Credit: Income | | |
|----------------------------|---------|---------|----------------|---------|---------|
| Speedtype | Account | Amount | Speedtype | Account | Amount |
| C1234 | 130105 | 200,000 | C1234 | 420010 | 200,000 |

This entry records the monthly receivables and patient clinic revenues.

| Debit: Contractual Discount | | | Credit: Allowance for Contractual Discount | | |
|-----------------------------|---------|---------|--|---------|---------|
| Speedtype | Account | Amount | Speedtype | Account | Amount |
| C1234 | 420099 | 100,000 | C1234 | 130215 | 100,000 |

This entry records the 50% contractual discount estimated for the monthly patient billings and revenues.

The next month, \$80,000 is received from the provider as payment in full. Therefore, the actual contractual discount is 60%.

| Debit: Cash, Contractual Discounts, and Allowance for Contractual Discounts | | | Credit: Accounts Receivable | | |
|---|---------|---------|-----------------------------|---------|---------|
| Speedtype | Account | Amount | Speedtype | Account | Amount |
| C1234 | 110101 | 80,000 | C1234 | 130105 | 200,000 |
| C1234 | 130215 | 100,000 | | | |
| C1234 | 420099 | 20,000 | | | |

This entry completes the full accounting cycle for patient receivables when the contractual discount is estimated. It illustrates the application of full payment, clearing both the original receivable and the allowance for contractual discount to zero. In order to balance the entries and adjust for the actual contractual discount of 60%, an additional \$20,000 of contractual discount was recorded.

Bad Debt Expense

Bad debts arise from non-payment of billed fees for good or services. For large operations, bad debts are estimated and recorded at the time the receivables are recorded and revenues are recognized. For small operations or infrequent receivables, bad debts are recognized only when payments are deemed uncollectible.

To calculate the amount of bad debt expense (debit) and the offset to the allowance account (credit), it is customary to use past experience or industry guidelines as a benchmark. Student tuition and fees comprise a substantial amount of receivables and revenue for the university. Based upon historical experience, a bad debt expense entry is recorded to reflect a percentage of those current year student tuition and fees that remain unpaid after 90 days.

For patient accounts, each clinic may experience a different percentage of bad debts depending on the types of services rendered or the economic profiles of patients treated. Each business office must determine a reasonable percentage based upon variables such as past payment history, collection efforts, or changes in payment sources. Business offices must substantiate these bad debt percentages with documentation of the rationale applied. For example, if a five-year history of clinical fees indicates that 20% of all fees are not collected after six months, the business office can substantiate a bad debt rate of 20%.

To illustrate the establishment of receivables with a bad debt rate of 20%:

| Debits: Accounts Receivable | | | Credits: Income | | |
|-----------------------------|---------|---------|---------------------------------|---------|---------|
| Bad Debt Expense | | | Allowance for Doubtful Accounts | | |
| Speedtype | Account | Amount | Speedtype | Account | Amount |
| C1234 | 130105 | 200,000 | C1234 | 420010 | 200,000 |
| C1234 | 568200 | 40,000 | C1234 | 130210 | 40,000 |

This entry records the monthly receivables, patient clinic revenues and estimated bad debt expense of 20% of total revenues.

Over the next six months, all accounts are paid except \$10,000. The business office determines that this account will never be paid due to the death of the patient, who is indigent.

An entry is necessary to remove the unpaid accounts receivable balance for \$10,000. Since a bad debt expense of 20% was estimated at the time the receivable and revenue was first recognized, the following entry is made:

| Debit: Allowance for Doubtful Accts | | | Credit: Accounts Receivable | | |
|-------------------------------------|---------|--------|-----------------------------|---------|--------|
| Speedtype | Account | Amount | Speedtype | Account | Amount |
| C1234 | 130210 | 10,000 | C1234 | 130105 | 10,000 |

This entry removes the uncollectible account from receivables and reduces the allowance for bad debt to \$30,000.

If receivables are infrequent or identified with specific or unique contracts, bad debts are usually recorded only when collection is clearly doubtful. Bad debt expense entries should not be used to adjust receivables or revenues that were improperly recorded at their inception.

For example, the business office recorded a \$100,000 receivable for a professional fees contract. One year later, the contract is unpaid due to bankruptcy. The bankruptcy court disburses \$20,000 in full satisfaction of the claim. The business office records the following entries:

| Debit: Accounts Receivable | | | Credit: Income | | |
|----------------------------|---------|---------|----------------|---------|---------|
| Speedtype | Account | Amount | Speedtype | Account | Amount |
| C1234 | 130105 | 100,000 | C1234 | 424155 | 100,000 |

This entry records the bill for professional fees.

To record the payment and write off the fees that UofL will not collect due to bankruptcy:

| Debits: Cash and Bad Debt Expense | | | Credit: Accounts Receivable | | |
|-----------------------------------|---------|--------|-----------------------------|---------|---------|
| Speedtype | Account | Amount | Speedtype | Account | Amount |
| C1234 | 110101 | 20,000 | C1234 | 130105 | 100,000 |
| C1234 | 568200 | 80,000 | | | |

This entry applies the cash, removes the full receivable and reflects a bad debt expense for the loss of \$80,000.

For additional information about recording and managing receivables, please contact the Manager of Grants and Sponsored Programs in the Controller's Office.