Information

Accounts Receivable

Effective

May 1, 2003

Applicability

This policy applies to University Employees (administrators, faculty, and staff).

Administrative Authority

Vice President for Finance and Chief Financial Officer

Responsible Unit

Controller's Office
University Accounting and Financial Reporting
Service Complex, Louisville, KY 40292
502-852-6164
controll@louisville.edu

History

Revision Date(s): June 1, 2007; February 1, 2017; January 16, 2020
Reviewed Date(s): June 1, 2007; February 1, 2017; January 16, 2020

Categories

Reason for Policy:

The University of Louisville (University) and its related organizations report income on the accrual basis of accounting in accordance with Government Accounting Standards Board (GASB) 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.

Generally, all sale transactions should be cash basis and payment received at the time of, or before, the sale of goods or services is provided. A receivable must be recorded when a sale of goods or services is provided for fees and payment is not received immediately. As payments are collected, they are applied against the receivable until the receivable is reduced to zero. Revenue is only recorded at the time the receivable is established.

Segregating responsibilities for recording, collecting and monitoring receivables establishes a sound control environment by not giving one person control over recording receivables and writing-off receivables.

Statement:

In the event the University has provided goods or services to individuals or entities outside the University and full payment is not immediately received, an account receivable must be recorded by the lead fiscal officer or unit business manager in the general ledger. All accounts receivable should be collected within 30 days. If the account receivable is not collected, it must be assessed to determine collectability. Analysis of large, long-term or a collection of like accounts receivable is performed monthly to determine if a percentage of the accounts will not be collected. A reserve account is established to recognize any accounts receivable, or any portion of, that is deemed not collectible.

To maintain proper segregation of duties, collection of accounts receivable should be performed by individuals within the business unit who are not responsible for billing and recording accounts receivable. Decisions to establish a reserve account and write-off uncollectable accounts receivable are the responsibility of the unit business manager with input from the individual responsible for collecting accounts receivable.

Account receivable balances must be supported by records that substantiate the amount due and these records must be maintained for audit purposes. Records of accounts receivable written-off are to contain the reason for the write-off and must be maintained for audit purposes.

Contact the Controller's Office if assistance is needed with establishing or monitoring an account receivable or reserve account.

Definitions:

Bad debts - Payments due from a third party that are deemed not collectible due to passage of time, collection efforts, or lack of legal enforcement. Also known as a "write-off".

Reserve account - An account that offsets against an account receivable the expected amount of receivables that will not be collected. The expected uncollectable amount of receivables is recognized as bad debts when recorded to the reserve account (debit bad debt expense/credit reserve account).

Contra revenue accounts - contractual discounts that off-set against a revenue account reducing the amount of revenue recognized. Most often related to medical and patient revenues.

Substantive records/supporting documentation - Support generated from a source separate from the general ledger (PeopleSoft) that corroborates the existence of the account receivable.

Types of receivables (list is not all inclusive):

• Tuition and other student services - maintained by Bursar's Office. Includes services such as housing rents and meal plans. Accounts receivable are recorded when payments are due from the student.

• Patient services/ contracts - Clinics generally maintain patient billings and accounts on separate automated databases. Unit business managers must record the summary clinical income and receivables to the university's general ledger (PeopleSoft financial system entries using speedtypes and accounts) on a monthly basis.

• Grants and sponsored programs - The grant or contract agreements with each sponsor define the billing and payment terms and determine when income is earned by the University. At the point services can be billed, revenue is earned and accounts receivable are recorded.

• Contracts for goods and/or services provided - Any contract with external organizations or individuals. Income is generated when services are performed or goods are delivered and payment is not immediately received. Examples are: parking contracts, promotions, sponsorships, consulting services, etc.

• 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.

• Pledges - A contract to receive gift payments over a period of time.

Procedures:

Below are general guidelines for determining if revenue and accounts receivable need to be recorded. Each unit or department should have written procedures that identify how revenue generating activities are monitored for the need to record/monitor accounts receivable.

IDENTIFY revenue generating activities, such as providing goods or services.

DETERMINE if payment was received at the time when the revenue generating activities occurred. If yes, no account receivable is needed. If no, an account receivable needs to be recorded.

GENERATE an invoice for the goods or services provided through a billing system (PeopleSoft, third party processor, other database or software). Billing in PeopleSoft will record the revenue and account receivable in the general ledger. Other methods of billing will have to be recorded in PeopleSoft by journal entry.

RECORD the revenue and account receivable in the general ledger (PeopleSoft) by journal entry, debiting the appropriate accounts receivable account (asset) and crediting the appropriate revenue account.

RETAIN supporting documentation for the account receivable. Supporting documentation is verification that the revenue generating activities occurred and payment is due.

DETERMINE if a reserve account for any accounts receivable not collected within 30 days is needed. It is customary to use past experience, payment sources or industry guidelines as a benchmark to establish a percentage of accounts receivable that will not be collected. All receivables should be collected within 30 days.

MONITOR the accounts receivable for collection. Once collected, remove the account receivable by debiting cash and crediting the accounts receivable account. Accounts not collected are to be reviewed to determine the need for a write-off. If a reserve account is established the entry is to debit reserve account/credit accounts receivable. If no reserve account, the entry is to write-off directly to bad debts, debit bad debt expense/credit accounts receivable.

Record retention: Keep supporting documents per University Records Program or sponsor record retention policies, whichever is longer. Generally, the retention policy for non-sponsored Programs is three years. For sponsored programs, refer to the specific agreement.

Responsibilities:

Department responsibilities:

- Invoice for goods or service provided and payment not received to record accounts receivable and revenue earned.
- Maintain documentation for accounts receivable.
- Collect and record payments against accounts receivable.
- Monitor accounts receivable and determine if a reserve account is needed or if any accounts need to be written off.

Controller's Office:

- At year end, provide overall monitoring of accounts receivable for reasonableness and collectability based on prior experience and knowledge.
- Provide guidance on establishing and monitoring accounts receivable to departments as needed.