

TREASURER'S DIRECTIONS

ACCOUNTING – ASSETS

Section A2.7 : Receivables

STATEMENT OF INTENT

Agency receivables require efficient and effective management as they represent future claims to cash. This Section explains the concepts and requirements in relation to receivables, doubtful debts and bad debts.

MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

Receivables

- Receivables are amounts due to an Agency that remain uncollected at the end of the reporting period.

Accounts Receivable

- Accounts receivable are to be recognised and recorded in the books of an Agency at fair value when: goods or services have been provided, conditions associated with the sale have been satisfied, and revenue can be reliably measured.

Loans and Advances

- Agencies are not to provide loans or advances unless:
 - approval has been received from Government or the Treasurer; or
 - the loan or advance forms part of an established scheme previously approved by Government.
- Loans and advances are to be recognised and recorded in the books of an Agency at fair value when the loan or advance is provided.

Management of Receivables

- Agency and Territory receivables managed by an Agency are to be subject to appropriate management, accountability and control arrangements.
- Agencies are to regularly review the collectibility of receivables and recognise an allowance for doubtful debts when objective evidence exists that all or part of a receivable is impaired and unlikely to be collected.
- Bad debts are to be written off in accordance with the requirements of the *Financial Management Act* (or other applicable legislation).

For authoritative instruction and guidance, reference should be made to related Treasurer's Directions and associated commentary, relevant Australian accounting standards and other authoritative interpretations.

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AUTHORITIES

Section 31 *Financial Management Act*

REFERENCES

AAS 29 Financial Reporting by Government Departments
AASB 132 Financial Instruments : Presentation and Disclosure
AASB 139 Financial Instruments : Recognition and Measurement

Related Treasurer's Directions:

F2.1 Framework – *Working for Outcomes* : Overview
A2.1 Accounting – Assets : Overview
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A5.3 Accounting – Income : Agency Income
C3.1 Cash Management – Transaction Management : Receipting

WHAT ARE RECEIVABLES ?

- A2.7.1** **Receivables are amounts due to an Agency that remain uncollected at the end of the reporting period.**
- (i) Receivables are financial assets of an Agency and represent future claims to cash. Agency receivables may include:
- accounts receivable – or amounts owed to an Agency for goods or services provided (also known as debtors);
 - receivables from Government – may include amounts owed for the delivery of outputs or delivery of other Government services where payment is not made in advance;
 - grants and subsidies receivable – or funds due to an Agency either for operational or capital purposes; and
 - loans and advances – funds provided to other entities whereby the borrower has an obligation to make interest payments and repay principal.
- (ii) Individual categories of receivables are explained in greater detail in the following Treasurer's Directions. An overview of asset concepts is provided in Treasurer's Directions Section A2.1.
- (iii) The efficient and effective management of receivables is an important role for all Agencies as receivables reflect future Agency claims to cash. This Treasurer's Directions Section also provides instruction and guidance in relation to the management of receivables by Agencies.

ACCOUNTS RECEIVABLE

- A2.7.2** **Accounts receivable resulting from the sale or delivery of goods are to be initially recognised and recorded by Agencies at fair value when:**
- goods have been provided;
 - all specified conditions associated with the sale have been satisfied; and
 - revenue can be reliably measured.
- A2.7.3** **Accounts receivable resulting from the provision of services are to be initially recognised and recorded by Agencies at fair value when the services have been provided and revenue can be reliably measured.**
- (i) The provision of goods or services where the Agency has a legal right to receive cash will lead to the immediate recognition of a receivable (amounts receivable) in situations where cash has not already been received. Where the provision of goods or services does not result in the immediate recognition of an account receivable, recognition should occur as soon as practicable thereafter provided that the recognition criteria are met.

- (ii) For recognition to occur, the provision of goods should result in the transfer to the purchaser of the significant risks and rewards of ownership of the goods. For example, a legal right to rescind the purchase may result in the recognition of revenue and a receivable being deferred unless the probability of return is minimal. It is expected that such situations will be limited for Agencies.
- (iii) In practice, the raising of an invoice usually evidences the recognition of accounts receivable. However, an invoiced amount does not become a receivable until the invoicing Agency has provided the relevant goods or services. In cases where an invoice is raised in advance of the delivery of goods and services, a liability for unearned revenue would be raised where material.
- (iv) The timely issuing of invoices will assist in ensuring that accounts receivable are promptly recognised. As such, appropriate procedures will need to be in place to ensure that invoices are issued in a timely manner and that the time gap between the sale of goods or services and issue of an invoice is minimised.
- (v) An accounts receivable can arise without an invoice being raised, for example, under a contractual arrangement. An Agency should ensure that revenue earned under contracts is recorded in the accounts for the period when the revenue is earned. For example, revenue and associated receivables resulting from the rendering of services are often recognised on a stage of completion basis.
- (vi) For Agencies, the fair value of accounts receivable on initial recognition will invariably be the transaction price (for example, the amount due or the invoice price). Subsequent to initial recognition, accounts receivable are measured at amortised cost, which equates to the cost or face value of the receivable less any partial repayments received and collectibility (impairment) adjustments. Bad and doubtful debts are discussed later in this Treasurer's Directions Section.
- (vii) Accounts receivable are carried at amounts due and are recognised inclusive of the amount of Goods and Services Tax (GST). Additional instruction and guidance regarding GST policy may be found in Treasury GST Circulars.

RECEIVABLES FROM GOVERNMENT

A2.7.4

Where funding is not provided in advance, receivables from Government are to be recognised and recorded in the books of an Agency when the goods or services are delivered and payment has been approved by Government.

- (i) Receivables from Government may include amounts owed for the provision of outputs and community service obligations. In practice, receivables relating to the provision of outputs will not occur as cash payments are made in advance, and output revenue is recognised on receipt of cash. Where a receivable is required for goods or services provided, the receivables and the associated revenue will generally be recognised when the goods or services have been delivered to agreed specifications and have been certified as received.
- (ii) Treasurer's Directions Sections A5.1 and A5.3 provide instruction and guidance in relation to Agency income (revenue and gains).

GRANTS AND SUBSIDIES RECEIVABLE

A2.7.5

Non-reciprocal grants and subsidies receivable are to be recognised and recorded in the books of an Agency at fair value when the grant or subsidy has not been received in advance and:

- the Agency has the right to receive the grant or subsidy;
- it is probable that the economic benefits of the grant or subsidy will flow to the Agency; and
- the grant or subsidy can be measured reliably.

- (i) Non-reciprocal grants and subsidies represent contributions due to an Agency from which the contributor (grant provider) does not receive approximately equal value in return. Contributions such as grants and subsidies may be received from a variety of sources including the Australian Government, commercial entities and in some cases individuals.
- (ii) A majority of grants and subsidies received or receivable by an Agency will be non-reciprocal in that the grant or subsidy will be non-repayable (or repayment is not enforced) and/or approximately equal value is not provided directly in exchange for the grant or subsidy.
- (iii) In most situations, a receivable for non-reciprocal grants and subsidies will not be required to be recognised as control is ordinarily obtained when the grant or subsidy is received by the Agency (ie: receipt of cash). However, in rare cases a non-reciprocal grant or subsidy receivable may be recognised where formal notification has been received that specifies the amount of the grant and a future payment date. In practice, receivables for such amounts would only be recognised where material.

A2.7.6

Reciprocal grants receivable are to be recognised and recorded in the books of an Agency at fair value when payment has not been received in advance and performance under the grant has occurred.

- (i) Reciprocal grants receivable include amounts due to an Agency where the Agency is obliged to return similar value to the grant provider. Reciprocal grants are akin to an agreement to provide specified goods or services in accordance with certain conditions and/or requirements and are ordinarily repayable where goods or services are not provided. Subsidies will generally not be reciprocal in nature even though certain eligibility criteria may have to be met before payment occurs.
- (ii) Reciprocal grants are recognised when payment has not been received in advance, and performance under the grant has occurred. For example, a receivable would be recognised when an Agency has delivered research to an external party in accordance with the agreed conditions/requirements, and is entitled to receive the agreed funding. Where uncertainty exists in relation to the receipt of grant funding, a receivable (and associated revenue) would not be recognised unless it was more probable than not that payment would be made.
- (iii) Treasurer's Directions Sections A5.2 and A5.3 provide further instruction and guidance in relation to Agency and Territory grants and subsidies revenue.

A2.7.7

Grants or subsidies that occur between Agencies are to be consistently treated as either reciprocal or non-reciprocal by the Agency receiving the grant and the Agency providing the grant.

- (i) In situations where an Agency provides a grant or subsidy to another Agency, each Agency is responsible for ensuring that the contribution is consistently treated as either reciprocal or non-reciprocal. Treasurer's Directions Section A6.4 provides further instruction and guidance in relation to the recognition of grant and subsidy expenses.
- (ii) Grants received by an Agency from external sources may be subject to the Goods and Services Tax (GST). As such, Agencies should have regard to instruction and guidance regarding GST and grants included in Treasury GST Circulars.

LOANS AND ADVANCES

A2.7.8

Agencies are not to provide loans or advances unless one or more of the following criteria have been met:

- the loan or advance has received the approval of the Treasurer (or delegate) under the *Financial Management Act* ;
- the loan or advance is part of an established loan scheme that has previously been approved by Government; or
- the loan or advance has been otherwise specifically approved by Government.

A2.7.9

Agencies are to ensure that all loans or advances are supported by a written loan agreement which outlines, at a minimum:

- the parties to the loan agreement;
- amount of the loan or advance;
- applicable interest rate;
- term of the loan or advance;
- purpose of the loan; and
- the terms and conditions which would trigger conversion of the loan to a grant and the timeframe within which the terms and conditions are to be satisfied (where applicable).

- (i) The provision of loans or advances to external entities requires the prior approval of the Treasurer or Government. Approval prior to the provision of loans or advances is necessary as this provides an important accountability and control mechanism over the availability and use of public monies. The approval process also ensures that an assessment of the capacity of the recipients to repay the loan or advance is made, so that potential risks and exposures to bad and doubtful debts are minimised.
- (ii) While the provision of advances is motivated by policy considerations, loans are primarily provided for liquidity management purposes. Loans or advances include the provision of public moneys to businesses, individuals, non-Government organisations and local government authorities. For the purposes of applying this Treasurer's Directions Section, the term advance does not include intra Agency petty cash advances and standing advances.
- (iii) Consistent with Treasurer's Direction A2.7.8, an Agency may provide a loan or advance once one or more the following criteria are met:
 - the loan or advance has received the approval of the Treasurer under the *Financial Management Act*. Section 31 of the *Financial Management Act* provides the Treasurer with the power to lend or advance money or otherwise make financial accommodation available to a range of entities. Approval prior to the loan or advance being offered is required, and the Treasurer's approval should not be presumed. Requests for approval should be endorsed by the relevant Minister and may be made to the Treasurer through Northern Territory Treasury;

- the loan or advance forms part of an established loan scheme that has previously been approved by Government. Government may approve the provision of loans or advances to individuals or entities which meet certain eligibility criteria (for example, industry development loans and local government council loans.) Such loan schemes will generally have broadly defined parameters and requirements that must be met before a loan or advance is provided. In addition, Government will often specify loan or advance conditions such as repayment requirements and interest charges. Where an Agency is proposing to deviate in a material way to pre-existing parameters and requirements, separate approval should be sought; or
 - the specific loan or advance has received the approval of Government. Government may approve the provision of loans or advances on an individual basis or may involve entities who meet set criteria. Approval prior to the loan or advance being made is required, and approval should not be presumed.
- (iv) In rare situations, loans or advances may be subsequently converted to a grant. For example, conversion of a loan to a non-repayable grant may occur as a result of certain conditions or requirements contained in the original loan or advance agreement being met. Section 31 of the *Financial Management Act* provides the capacity for loans to be convertible to grants. Loan agreements supporting loans convertible to grants require additional information which clearly identifies, for all parties, the triggers and timeframes for conversion.
- (v) Requests for approval of loans or advances should be made in writing and include:
- the reasons and purpose for which the proposed loan or advance is to be provided, including benefits to the Territory;
 - risks to the Territory of providing the loan or advance;
 - proposed recipient (or category of recipient);
 - proposed amount;
 - financing charges (for example, interest rates; late payment proposals, etc.);
 - proposed repayment period;
 - whether there is an intention for the loan/advance to be converted to a grant when certain conditions or requirements are met; and
 - other information relevant to the request (for example, other key loan/advance conditions and parameters).
- (vi) To ensure that all parties have a clear understanding of the terms and conditions of a loan or advance, each loan or advance is to be supported by an appropriate loan agreement. The loan agreement is the formal and binding documentation of the Government's expectations in relation to the loan and establishes the repayment terms as well as the purpose for which the loan was made. It is recommended that loan agreements be settled by Agency legal advisors to ensure legal correctness.

A2.7.10

Loans and advances are to be initially recognised and recorded in the books of an Agency at fair value when the loan or advance is provided. Loans or advances are to be subsequently measured at amortised cost.

- (i) Loans or advances will be recognised as assets when the Agency has a legal right to receive cash as a result of providing the loan or advance. Loans and advances are required to initially be recognised and recorded in the books of an Agency at fair value, which will invariably be the value of the loan or advance. However, the present value of a loan or advance may need to be discounted where the loan or advance was provided on an interest free or concessional basis.
- (ii) Subsequent to initial measurement, loans and advances are measured at amortised cost. In a majority of cases, the amortised cost of loans and advances equates to the amount (or cost) of funds loaned or advanced less any partial repayments received and collectibility (impairment) adjustments. Bad and doubtful debts are discussed later in this Treasurer's Directions Section.
- (iii) Loan or advance repayments will be apportioned between interest due and a reduction of the outstanding principal.
- (iv) As part of the management of loans and advances an Agency, at a minimum, should:
 - maintain accurate and up to date records of loans and advances provided and communication and correspondence with loan/advance recipients;
 - regularly review loan or advance records to ensure that repayments are received when due; and
 - take timely action to seek the recovery of overdue balances.

Additional information in relation to the management of receivables, including loans and advances, is included later in this Treasurer's Directions Section.

ACCRUED REVENUE

A2.7.11

Revenue earned but not invoiced before the end of the reporting period is to be recognised and recorded in the books of an Agency as accrued revenue.

- (i) Accrued revenue represents amounts that an Agency has earned through the provision of goods and services but has not yet invoiced or recorded in an Agency's ledger. For example, an Agency provided services to a client for the month of June but an invoice was not raised until the following month. As at 30 June, the Agency would recognise accrued revenue (as an asset) to record revenue earned in June but not yet invoiced.
- (ii) Other examples of accrued revenue include rental and interest revenue that has been earned but not yet paid to an Agency. Accrued revenue will be initially measured at the fair value of the goods and services provided, and will subsequently be measured at amortised cost, which is comparable to cost for most Agency receivables.
- (iii) Unlike accounts receivable, accrued revenue should be recognised exclusive of the amount of Goods and Services Tax (GST), as GST relating to the transaction is recognised at the earlier of issue of a tax invoice or receipt of cash. Additional instruction and guidance regarding GST policy may be found in Treasury GST Circulars.
- (iv) An Agency should exercise care in ensuring that accrued revenue recorded in the books of the Agency does not duplicate what has already been raised in accounts receivable. In addition, it is recommended that Agencies focus on significant revenue items. In this regard, an Agency will need to ensure that appropriate processes are in place to properly identify and record material accrued revenue.
- (v) An example showing how to account for accrued revenue is provided at Appendix A.

MANAGEMENT OF RECEIVABLES

- A2.7.12** **Agency and Territory receivables managed by an Agency are to be subject to appropriate management, accountability and control arrangements.**
- (i) As items of public property, all assets including receivables should be subject to appropriate management, accountability and control arrangements. These arrangements should take account of the relative size and risk profile of all receivables under the management of an Agency.
- (ii) In addition to the receipting controls included in Treasurer's Directions Section C.3.1, management, accountability and control arrangements that are suitable for receivables include but are not limited to:
- the accurate and timely invoicing of goods or services produced or provided;
 - ledger accounts and related subsidiary receivable records are complete, accurate and updated in a timely manner;
 - the collectibility of receivables is regularly reviewed based on the relative size and risk profile of receivables held (for example, review of aged debtor balances);
 - prompt follow up of receivables in arrears, with clear escalation processes in place;
 - clear instructions are in place to ensure receivable write-offs only occur after approval by an appropriately authorised person.
- A2.7.13** **Each Agency is to regularly review the collectibility of receivables and as part of this process is to assess at reporting date, whether an allowance for doubtful debts is required.**
- A2.7.14** **An Agency is only to recognise an allowance for doubtful debts when objective evidence exists that all or part of a receivable, or group of receivables is impaired and unlikely to be collected.**
- (i) All Agency receivables are to be subject to review for impairment at reporting date. Doubtful debts are a form of impairment loss and represent assessments of all or part of a receivable (or group of receivables) that is unlikely to be collected. The raising of an allowance for doubtful debts:
- informs users of an Agency's financial statements that less cash will be recovered than originally expected;
 - ensures that losses arising from the provision of credit are matched against income that is generated during the reporting period; and
 - ensures that receivables are not overstated at reporting date.

- (ii) An allowance for doubtful debts, whether for an individual receivable or group of receivables, is required to be supported by objective evidence of impairment. Objective evidence is indicated by one or more observable events that adversely impact future cash flows associated with the receivable(s). Events indicating that an Agency receivable may be impaired include:
- the debtor has breached payment terms (for example, accounts receivable payments are overdue or scheduled loan payments have not been received);
 - the debtor is in significant financial difficulty;
 - it is probable that the debtor will enter bankruptcy;
 - the Agency, for reasons outside its control, is required to grant concessions to an existing debtor that would not otherwise have been considered (for example, improved payment terms due to economic hardship); or
 - other observable data indicates that there is a measurable decrease in future cash flows from a group of debtors (for example, due to economic conditions or other outside events), but identification of individual receivables is not yet possible.
- (iii) Impairment is required to be assessed for all receivables (not just low risk or poor quality receivables), with individually significant receivables being subject to individual review and other receivables being subject to group or collective impairment review. Agencies should note that individually significant receivables for which no indication of impairment is evident are still required to be included in any further group assessments of impairment.
- (iv) Individually significant receivables should always be subject to individual review for impairment. The individual appraisal of a receivable may indicate that the debt is unlikely to be collected in full or in part. For example, where a debtor has gone bankrupt and it is unlikely that there will be a repayment of the debt in full or part, an allowance should be raised for that part of the debt that is not expected to be recovered.
- (v) Receivables with similar credit characteristics (other than those with specific indicators of impairment) are collectively assessed for impairment. Credit characteristics of a group of receivables should be indicative of the debtors' ability to pay the amounts due when required, and include receivable type, and past overdue status. Group impairment assessments cater for losses believed to exist, but which are not yet evident (that is, incurred but not reported), as opposed to expected future events, which are not recognised as doubtful debts until the event occurs.
- (vi) The collective or group assessment of impairment is required to be done on a systematic basis so that a clear relationship is shown to exist between impairment indicators (for example, loans in arrears) and the actual or historical loss experience for that group of receivables. A receivable will be removed from part of a collective assessment when objective evidence exists that the specific asset is impaired.

Section A2.7 : Assets – Receivables

- (vii) One of the implications of the introduction of a specific objective evidence requirement is that general allowances for doubtful debts based on simple debtor percentages will not be recognised unless sufficient objective evidence exists that the group of assets to which the allowance relates are impaired. For example, the recognition of an allowance for doubtful debts for receivables greater than 90 days overdue would only be appropriate where historical evidence exists to support the determination of a specific allowance.
- (viii) Once an indication of impairment is evident, a specific impairment calculation is made to determine the amount of the allowance for doubtful debts (impairment loss). An allowance for doubtful debts will be recognised as an expense in the Agency's Operating Statement. For receivables, including loans and advances, the amount of the allowance for doubtful debts will be determined as follows:
- for short term receivables, the carrying amount of the receivable less the value of the estimated future cash flows (if any) associated with the debt; or
 - for other receivables, the carrying amount of the receivable less the present value of the estimated future cash flows (if any) associated with the debt.
- (ix) Some loans and advances are secured by property or other assets. An allowance for doubtful debts is still required to be raised if objective evidence exists that part or all of a loan or advance is unlikely to be collected. The amount raised should be the amount of debt less the recoverable amount of the secured property (ie: valuation less legal, selling and other costs associated with recovering the debt in the event of non-payment).
- (x) Agencies should be able to justify the rationale used in the determination of doubtful debt impairment adjustments. In particular, the annual impairment review, and any subsequent doubtful debt estimates should be supported by appropriate and sufficient evidence for accountability and control purposes.

A2.7.15

Each Agency is to recognise and record a bad debts expense once an amount is deemed uncollectible and approval under the *Financial Management Act* to write-off the debt has been obtained.

- (i) Bad debts are expenses of an Agency in relation to receivables that are:
- considered uncollectible (for example, when the debtor cannot be located); or
 - not cost-effective for an Agency to pursue recovery.
- (ii) Bad debts are written off as soon as an Agency realises that the amounts will not be collected and approval under the *Financial Management Act* to write-off the debt has been received.

(iii) Writing off bad debts involves removing the non-recoverable amounts from the ledger (derecognition) and amending records of the debts for accountability purposes. In practice, accounting for a bad debts expense in an Agency's Operating Statement will depend on whether a doubtful debts expense has previously been raised as explained below:

- in situations where a doubtful debts expense has previously been raised, this expense should be reversed and replaced with a bad debts expense once approval to write-off the debt has been received; or
- in situations where a doubtful debts expense has not previously been raised, a bad debts expense would be raised once approval to write-off the debt has been received.

An example showing how to account for bad and doubtful debts is provided in [Appendix B](#).

(iv) Where a receivable is written off, a GST adjustment will be required for receivables that were originally subject to GST. Additional instruction and guidance regarding GST policy may be found in Treasury GST Circulars.

(v) When writing off bad debts, an Agency should comply with the requirements contained in the *Financial Management Act* or other legislation that allows for the write-off of debts owing to the Territory.

(vi) Agencies are reminded that recording an allowance for doubtful debts or a bad debts expense does not mean that the right to recover the receivable is waived or that the debt is not able to be recovered in the future.

A2.7.16

Where an invoice has been issued which overstates an amount due to an Agency, the overstated amount is to be reversed out of the relevant receivable account rather than being subject to write off.

(i) In some cases, an Agency may issue an incorrect invoice that overstates the amount due to the Agency. As the previously recognised receivable was incorrectly raised, the Agency will need to reverse the overstated amount out of receivables and reduce the associated revenue account. Such overstated amounts will not be written off as they do not represent bad debts, but are rather corrections to incorrect billing practices.

ACCOUNTING FOR ACCRUED REVENUE – EXAMPLE

Example – Provision of Services

On 25 June, an Agency provides services to an external party valued at \$30,000 (excluding GST), however an invoice will not be raised until the following month. At the end of the June reporting period accrued revenue will need to be recognised and recorded in the accounts of the Agency to reflect the revenue earned in June.

On 25 June the following journal entry would be processed (note amount is GST exclusive):

DR	Accrued Revenue	<i>(Increase in Assets – Balance Sheet)</i>	\$30,000
CR	Goods and Services Revenue	<i>(Increase in Income – Operating Statement)</i>	\$30,000

The following journal entry would be processed when an invoice is raised in July for \$33,000 (including \$3,000 GST):

DR	Accounts Receivable	<i>(Increase in Assets – Balance Sheet)</i>	\$33,000
CR	GST Due/Received	<i>(Decrease in Assets – Balance Sheet)</i>	\$3,000
CR	Accrued Revenue	<i>(Decrease in Assets – Balance Sheet)</i>	\$30,000

When cash is received from the debtor, the journal entry would be:

DR	Cash at Bank	<i>(Increase in Assets – Balance Sheet)</i>	\$33,000
CR	Accounts Receivable	<i>(Decrease in Assets – Balance Sheet)</i>	\$33,000

ACCOUNTING FOR BAD AND DOUBTFUL DEBTS – EXAMPLES

- Example 1 –*
- (i) Initial Recognition of Accounts Receivable;*
 - (ii) Making an Initial Allowance for Doubtful Debts; and*
 - (iii) Subsequently Writing Off Debts as Bad.*

(i) On 10 April an Agency provides goods and services to an external party and issues a GST inclusive invoice for \$33,000. The journal entry to raise the revenue and receivable is as follows:

DR	Accounts Receivable	<i>(Increase in Assets – Balance Sheet)</i>	\$33,000
CR	GST Due/Received	<i>(Decrease in Assets – Balance Sheet)</i>	\$3,000
CR	Goods and Service Revenue	<i>(Increase in Income – Operating Statement)</i>	\$30,000

(ii) On 30 June the Agency conducts an impairment review of its receivables and the review indicates that the above receivable is unlikely to be collected. This assessment is supported by correspondence indicating that the debtor is in serious financial difficulties. As there is now some doubt as to the collectibility of this receivable, it is appropriate for an allowance for doubtful debts to be raised. The journal entry to raise an allowance for doubtful debts is as follows:

DR	Doubtful Debts Expense	<i>(Increase in Expenses – Operating Statement)</i>	\$30,000
DR	GST Adjustment - Supplies	<i>(Increase in Assets – Balance Sheet)</i>	\$3,000
CR	Allowance for Doubtful Debts	<i>(Increase in Contra Asset – Balance Sheet)</i>	\$33,000

(iii) Subsequently, the debtor becomes bankrupt and it is apparent that no part of the debt will be collected. Prior to the debt being written out of the accounting records, accountability approval in accordance with the *Financial Management Act* is requested and received (refer Treasurer's Direction A2.7.15 and associated commentary). Once *Financial Management Act* approval has been obtained, a bad debts expense (as opposed to a doubtful debts expense) should be recognised and the debt may be written off the books.

The journal entry to correctly recognise the debt as bad (as opposed to doubtful) is as follows:

DR	Bad Debts Expense	<i>(Increase in Expenses – Operating Statement)</i>	\$30,000
CR	Doubtful Debts Expense	<i>(Decrease in Expenses – Operating Statement)</i>	\$30,000

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APPENDIX B (continued):

ACCOUNTING FOR BAD AND DOUBTFUL DEBTS – EXAMPLES

Example 1 continued:

As no part of the debt is likely to be recovered, the entire receivable will be written out of the Agency's books once accountability approval under the *Financial Management Act* has been obtained. The journal entry to write the debt and the associated doubtful debts allowance (contra asset) from the accounting records is as follows:

DR	Allowance for Doubtful Debts	<i>(Decrease in Contra Asset – Balance Sheet)</i>	\$33,000
CR	Accounts Receivable	<i>(Decrease in Assets – Balance Sheet)</i>	\$33,000

Example 2 – Writing Off Bad Debts Where No Previous Allowance Has Been Raised

In certain situations an Agency will have little or no warning that a debt is unlikely to be collected. Accordingly the Agency may not have previously raised an allowance in relation to that debt. In these situations a bad debts expense (as opposed to an allowance for doubtful debts expense) would be raised.

Using the information from Example 1, the following journal entry would be processed where an allowance for doubtful debts had not previously been raised, and after accountability approval under the *Financial Management Act* has been obtained:

DR	Bad Debts Expense	<i>(Increase in Expenses – Operating Statement)</i>	\$30,000
DR	GST Adjustment - Supplies	<i>(Increase in Assets – Balance Sheet)</i>	\$3,000
CR	Accounts Receivable	<i>(Decrease in Assets – Balance Sheet)</i>	\$33,000