Guidance document: Accounting for Territory income

1 February 2020

Version 1.0

| Document details | |
| --- | --- |
| **Document title** | Guidance document: Accounting for Territory income |
| **Contact details** | Financial Management Group  Department of Treasury and Finance  [dtf.financialpolicy@nt.gov.au](mailto:DTF.FinancialPolicy@nt.gov.au) |
| **Date and version** | 1 February 2020  Version 1.0 |
| **Approved by** | Craig Graham  Under Treasurer |
| **Date approved** | 1 February 2020 |
| **Document review** (for example, annually) | Every two years |

| Change history | | | |
| --- | --- | --- | --- |
| Version | Date | Author | Change details |
|  | 1 February 2020 |  | Initial version |
|  |  |  |  |
|  |  |  |  |

| Acronyms The following acronyms are used in this document | |
| --- | --- |
| Acronyms | Full form |
| AASB | Australian Accounting Standards Board |
| CHA | Central Holding Authority |
| FITA | *Fiscal Integrity and Transparency Act 2001* |
| FMA | *Financial Management Act 1995* |
| GAS | Government Accounting System |

Contents

[1 Introduction 4](#_Toc30154638)

[1.1 Purpose 4](#_Toc30154639)

[1.2 Statement 4](#_Toc30154640)

[1.3 Legislative basis and related documents 4](#_Toc30154641)

[1.4 Background 4](#_Toc30154642)

[1.5 Scope 5](#_Toc30154643)

[1.6 Automated programs 5](#_Toc30154644)

[1.6.1 End of day program 5](#_Toc30154645)

[1.6.2 End of month receivables program 6](#_Toc30154646)

[1.6.3 End of month cash program 6](#_Toc30154647)

[2 Example 1: Agency receives cash directly without the issuing an invoice 8](#_Toc30154657)

[2.1 Accounting entries 8](#_Toc30154658)

[2.2 Financial statements of agency for Territory income 10](#_Toc30154659)

[3 Example 2: Agency issues an invoice and subsequently receives part payment 11](#_Toc30154660)

[3.1 Accounting entries 11](#_Toc30154661)

[3.2 Financial statements of agency for territory income 12](#_Toc30154662)

[4 Example 3: Agency receives unearned Territory income 14](#_Toc30154663)

[4.1 Accounting entries (recognise unearned revenue) 14](#_Toc30154664)

[4.2 Financial statements of agency for Territory income 15](#_Toc30154665)

[4.3 Accounting entries (recognise revenue from unearned revenue) 16](#_Toc30154666)

[4.4 Financial statements of agency for Territory income (recognise revenue from unearned revenue) 17](#_Toc30154668)

[5 Example 4: Agency issues an invoice and subsequently raises doubtful and bad debts 19](#_Toc30154669)

[5.1 Accounting entries (recognising revenue) 19](#_Toc30154670)

[5.2 Financial statements of agency for territory income (recognising revenue) 20](#_Toc30154671)

[5.3 Accounting entries (recognising doubtful debts) 21](#_Toc30154672)

[5.4 Financial statements of agency for Territory income (recognising doubtful debts) 22](#_Toc30154673)

[5.5 Accounting entries (recognising bad debts) 22](#_Toc30154674)

[5.6 Financial statements of agency for Territory income (recognising bad debts) 24](#_Toc30154675)

# Introduction

## Purpose

To provide best practice guidance on how to account for Territory income and expenses in an agency’s ledger and assist accountable officers and agencies to meet their obligations under the Treasurer’s Direction: Income, Guidance document – Income, the *Financial Management Act* *1995* (FMA) and Australian accounting standards on administered items.

This document should be read in conjunction with the Treasurer’s Direction: Income, Guidance document – Income and relevant Australian accounting standards.

Guidance material in this document is not mandatory. If a conflict arises between this guidance document and Treasurer’s Directions or other legislative requirements, the legislation takes precedence followed by the Treasurer’s Directions.

The Treasurer’s Directions generally designate responsibility to the accountable officer. Unless specifically excluded by the FMA or Treasurer’s Directions, accountable officers may choose to delegate certain responsibilities and functions to agency employees. This can be done through a number of mechanisms, such as accountable officer approved policies, procedures and agency delegations.

## Statement

The objective of this guide is to outline how to record Territory income in an agency’s and the Central Holding Authority’s (CHA) ledger including how the automated programs, which run in the Government Accounting System (GAS), assist with this process.

## Legislative basis and related documents

* *Financial Management Act 1995*  (FMA)
* *Fiscal Integrity and Transparency Act 2001* (FITA)
* Treasurer’s Direction – Income
* Guidance documents – Income
* AASB 1050 Administered items

## Background

Territory income is revenue and gains an agency collects on behalf of the government. Territory income includes taxes, certain regulatory fees and fines. Territory income is initially recorded in the collecting agencies ledger, and then transferred to CHA at the end of each day.

Territory income is reported in the CHA financial statements and included as a note to the financial statements of the collecting agency.

Agencies are responsible for the efficient and effective management of Territory income, and therefore are required to undertake similar tasks to those performed to manage agency income. For example, agencies are required to forecast future Territory income, raise Territory income, collect cash and manage amounts that are due but not yet paid.

Agencies may also raise expenses related to Territory income for doubtful and bad debts.

There are automated programs that run in GAS to assist with recording Territory income and expenses correctly in the agency and CHA ledgers.

For the programs to work effectively, agencies must ensure:

* invoices for Territory income use the CHA debt category
* separate invoices are prepared for Territory income and agency income.

For the automated program to work effectively, agencies must ensure invoices for Territory income use the CHA debt category and separate invoices are prepared for Territory income and agency income.

## Scope

This document illustrates accounting entries that occur in an agency and CHA ledger (including automated entries) when monies are received by an agency on behalf of the Territory.

## Automated programs

There are three automated programs which run in GAS to assist with recording Territory income and expenses in the agency and CHA ledgers. These programs are discussed below.

### End of day program

The end of day program runs automatically each night to identify any Territory income or expenses recognised in an agency’s ledger during the day. This program identifies Territory income and expenses based on movement or posting to Territory income standard classification codes.

#### Territory income

Where Territory income is recorded, the end of day program posts the following automated journal entries in the agency’s ledger to recognise a corresponding CHA transfer expense and CHA income payable to CHA:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 397000 | CHA transfers | A18 | XXX |
| CR | 912600 | CHA income payable | A18 | XXX |

The end of day program also posts the following automated journal entries in CHA’s ledger to recognise Territory income and CHA accounts receivable from the agency:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812XXX | CHA accounts receivable | AXX | XXX |
| CR | 1XXXXX | Territory income | AXX | XXX |

#### There are no cash adjustments in the end of day program. Refer to end of month cash program.

#### Territory expenses

Where a Territory expense is recorded, the program posts the following automated journal entries in the agency’s ledger to reduce the CHA transfer expense and CHA income payable to CHA:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 912600 | CHA income payable | A18 | XXX |
| CR | 397000 | CHA transfers | A18 | XXX |

The end of day program also posts the following automated journal entries in CHA’s ledger to recognise a Territory expense and reduce the CHA accounts receivable from the agency:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| CR | 3XXXXX | Territory expense | AXX | XXX |
| DR | 812XXX | CHA accounts receivable | AXX | XXX |

The end of day program does not pick up transactions that are back posted in GAS during the end of month posting period. Consequently, any Territory income or expense back posted in GAS will not have the above automated journals posted. Agencies may need to replicate these entries manually where required.

### End of month receivables program

The end of month receivables program runs automatically at the end of each month to identify any outstanding Territory income receivables recognised in an agency’s ledger. This program identifies Territory receivables based on the CHA debt category assigned to an invoice.

Territory income receivables are initially recorded as an agency’s accounts receivable. If the program identifies a Territory income receivable, it records the following automated reversal journal entries to transfer Territory income receivables from an agency’s accounts receivable (standard class 812110) to a CHA accounts receivable (for example, standard class 812180):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812180 | CHA accounts receivable | 911 | XXX |
| CR | 812110 | Accounts receivable | 911 | XXX |

The journal entries reverse out in the following month, restating the agency’s accounts receivable balance to its outstanding debtor’s balance, for when the cash payment is received.

### End of month cash program

The end of month cash program runs automatically on the last day of the end of month processing period (generally on the 5th) to calculate cash received by an agency for Territory or administered items, which must be transferred from the agency to CHA.

There are two types of journals posted by the end of month cash program to transfer cash to CHA. The first type relates to movements in revenue, expenses and receivables. The second transfers cash related to movements in unearned revenue, where applicable.

#### Calculation for movements in revenue, expenses and receivables

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Calculation for cash balance to be transferred   |  |  | | --- | --- | | Revenue for the month | XXX | | *less* bad debts for the month | XXX | | *less* increase (or add decrease) in CHA receivables | XXX | | *equals* cash to be transferred | XXX | |

Where cash transfers relate to revenue or expense recognised for the month or movements in CHA receivables (cash is received for a receivable), the following journal entries are recorded:

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 912600 | CHA income payable | A18 | XXX |
| CR | 811110 | Cash at bank | A18 | XXX |

**CHA ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 811311 | Cash at bank | 912 | XXX |
| CR | 812180 | Accounts receivable other – CHA | AXX | XXX |

#### Calculation for movements in unearned revenue

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Calculation for cash balance to be transferred   |  |  | | --- | --- | | Increase (or less decrease) in unearned revenue | XXX | | *equals* cash to be transferred | XXX | |

Where cash transfers relate to unearned revenue, the following journal entries are recorded:

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812730 | CHA unearned income receivable | A18 | XXX |
| CR | 811110 | Cash at bank | A18 | XXX |

**CHA ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 811311 | Cash at bank | 912 | XXX |
| CR | 914500 | Unearned revenue – CHA | AXX | XXX |

# Example 1: Agency receives cash directly without the issuing an invoice

Agency A receives cash of $5000 for fees from regulatory services that has been identified as Territory income.

## Accounting entries

**STEP 1**

Agency receipts revenue for fee from regulatory services of $5000.

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 811110 | Cash at bank | A18 | $5000 |
| CR | 134100 | Fees from regulatory services | 911 | $5000 |

**STEP 2 – End of day program**

Automated program runs at end of day in GAS to identify any Territory income or expense recognised by agency A and posts a corresponding Territory income payable and CHA transfers expense journal.

Given agency A has recorded Territory income (based on the standard classification code), the following automated journals are posted.

**Agency ledger: Recognise payable to CHA:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 397000 | CHA transfers | A18 | $5000 |
| CR | 912600 | CHA income payable | A18 | $5000 |

**CHA ledger: Recognise receivable from agency A**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812180 | Accounts receivable other – CHA | AXX | $5000 |
| CR | 134100 | Fees from regulatory services | AXX | $5000 |

**STEP 3 – End of month receivables program**

Automated program runs at end of month in GAS to identify Territory income receivable from the ‘CHA’ debt category in agency A accounts receivable balance and posts a reversing journal to move amounts from agency accounts receivable to a CHA accounts receivable code (for example, standard class 812180).

Given agency A has no Territory income receivables, no journal is posted.

**STEP 4 – End of month cash program**

Automated program runs at end of month in GAS to identify the amount of cash relating to Territory income to be transferred from agency A to CHA using the following calculation:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Calculation for cash balance to be transferred   |  |  | | --- | --- | | Revenue for the month (revenue recognised from cash received) | $5000 | | *less* bad debts for the month | NIL | | *less* increase (or add decrease) in CHA receivables (amounts from reversing journal posted in step 3 above) | NIL | | *add* increase (or less decrease) in unearned revenue | NIL | | *equals* cash to be transferred | $5000 | |

Based on the end of month calculation, cash received of $5000 by agency A on behalf of the Territory is transferred to CHA through the following automated journals:

**Agency ledger: Clear end of day program posting and transfer cash**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 912600 | CHA income payable | A18 | $5000 |
| CR | 811110 | Cash at bank | A18 | $5000 |

**CHA ledger: Clear end of day program posting and transfer cash**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 811311 | Cash at bank | 912 | $5000 |
| CR | 812180 | Accounts receivable other – CHA | AXX | $5000 |

## Financial statements of agency for Territory income

At the end of the reporting period, agency A administered statement of financial performance and financial position will be as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Administered statement of financial performance   |  |  | | --- | --- | |  |  | | Revenue | $5000 | | Expense | $5000 | | Net result | NIL |   Administered statement of financial position   |  |  | | --- | --- | |  |  | | Assets |  | | Accounts receivable – CHA | NIL | | Liabilities |  | | CHA income payable | NIL | | Net assets | NIL | |

Agency net result and net assets on the administered statements should be nil at the end of each reporting period.

# Example 2: Agency issues an invoice and subsequently receives part payment

Agency A raises an invoice for Territory income of $8000 using the CHA debt category in the GAS accounts receivable system. Part way through the month, agency A receives a part payment of $3000 relating to the invoice.

## Accounting entries

**STEP 1**

Agency A issues invoice for Territory income of $8000.

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812110 | Accounts receivable | 911 | $8000 |
| CR | 134100 | Fees from regulatory services | 911 | $8000 |

**STEP 2 – End of day program**

Automated program runs at end of day in GAS to identify any Territory income or expenses recognised by agency A and posts corresponding Territory income payable and CHA transfers journal.

Given agency A has recorded Territory income (based on the standard classification code), the following automated journal entries are posted.

**Agency ledger: Recognise payable to CHA**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 397000 | CHA transfers | A18 | $8000 |
| CR | 912600 | CHA income payable | A18 | $8000 |

**CHA ledger: Recognise receivables from agency**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812180 | Account receivable other – CHA | AXX | $8000 |
| CR | 134100 | Fees from regulatory services | AXX | $8000 |

**STEP 3**

Agency A receives cash of $3000 as a part payment for the invoice issued.

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 811110 | Cash at bank | A18 | $3000 |
| CR | 812110 | Accounts receivable | 911 | $3000 |

**STEP 4 – End of month receivables program**

Automated program runs at end of month in GAS to identify Territory income receivable using the ‘CHA’ debt category in agency A’s accounts receivable ledger and posts a reversing journal to move amounts from the agency accounts receivable (standard class 812110) to a CHA accounts receivable code (for example standard class 812180).

Given agency A has already received $3000 of Territory income receivable, the following automated reversal journal entries are posted in agency A ledger to recognise the remaining Territory income receivable ($8000 - $3000):

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812180 | CHA accounts receivable | A18 | $5000 |
| CR | 812110 | Accounts receivable | 911 | $5000 |

The journal entries reverse out in the following month, restating agency A’s accounts receivable balance to the outstanding debtor balance for when the cash payment is received.

**STEP 5 – End of month cash program**

Automated program runs at end of month in GAS to identify the amount of cash relating to Territory income to be transferred from agency A to CHA using the following calculation:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Calculation for cash balance to be transferred   |  |  | | --- | --- | | Revenue for the month (revenue recognised from invoice issued) | $8000 | | *less* bad debts for the month | NIL | | *less* increase (or add decrease) in CHA receivables (amounts from reversing journal posted in step 4 above) | $5000 | | *add* increase (or less decrease) in unearned revenue | NIL | | *equals* cash to be transferred | $3000 | |

Based on the end of month calculation, cash received of $3000 by agency A on behalf of the Territory is transferred to the CHA through an automated journal:

**Agency ledger: Clear part of end of day program posting and transfer cash**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 912600 | CHA income payable | A18 | $3000 |
| CR | 811110 | Cash at bank | A18 | $3000 |

**CHA ledger: Clear part of end of day program posting and transfer cash**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 811311 | Cash at bank | 912 | $3000 |
| CR | 812180 | Accounts receivable other – CHA | A03 | $3000 |

## Financial statements of agency for territory income

At the end of the reporting period, agency A administered statement of financial performance and financial position will be as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Administered statement of financial performance   |  |  | | --- | --- | |  |  | | Revenue | $8000 | | Expense | $8000 | | Net result | NIL |   Administered statement of financial position   |  |  | | --- | --- | |  |  | | Assets |  | | Accounts receivable other – CHA | $5000 | | Liabilities |  | | CHA income payable | $5000 | | Net assets | NIL | |

Agency net result and net assets on the administered statements should be nil at the end of each reporting period.

# Example 3: Agency receives unearned Territory income

Agency A receives revenue of $7000 for two months of land rent in advance, so it has been classified as unearned revenue.

## Accounting entries (recognise unearned revenue)

**STEP 1**

Agency A recognises the receipt of cash and CHA unearned revenue of $7000.

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 811110 | Cash at bank | A18 | $7000 |
| CR | 914500 | Unearned revenue – CHA | 911 | $7000 |

**STEP 2 – End of day program**

Automated program runs end of day in GAS to identify any Territory income or expense recognised by agency A and posts corresponding Territory income payable and CHA transfer journal.

Given agency A has not recorded Territory income or expense (based on the standard classification code), no automated journal entries are posted in agency A’s ledger or CHA’s ledger.

**STEP 3 – End of month receivables program**

Automated program runs at end of month in GAS to identify Territory income receivable using the ‘CHA' debt category in agency A’s accounts receivable ledger and posts a reversing journal to move amounts from the agency accounts receivable (standard class 812110) to a CHA accounts receivable code (for example standard class 812180).

Given agency A has no Territory income receivables, no journal is posted.

**STEP 4 – End of month cash program**

Automated program runs at end of month in GAS to identify the amount of cash relating to Territory income to be transferred from agency A to CHA using the following calculation:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Calculation for cash balance to be transferred   |  |  | | --- | --- | | Revenue for the month | NIL | | *less* bad debts for the month | NIL | | *less* increase (or add decrease) in CHA receivables (amounts from reversing journal posted in step 3 above) | NIL | | *add* increase (or less decrease) in unearned revenue | $7000 | | *equals* cash to be transferred | $7000 | |

Based on the end of month calculation, cash received of $7000 by agency A on behalf of the Territory is transferred to CHA through the following automated journals:

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812730 | CHA unearned income receivable | A18 | $7000 |
| CR | 811110 | Cash at bank | A18 | $7000 |

**CHA ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 811311 | Cash at bank | 912 | $7000 |
| CR | 914500 | Unearned revenue – CHA | AXX | $7000 |

## Financial statements of agency for Territory income

At the end of the reporting period, agency A administered statement of financial performance and financial position will be as follows.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Administered statement of financial performance   |  |  | | --- | --- | |  |  | | Revenue | NIL | | Expense | NIL | | Net result | NIL |   Administered statement of financial position   |  |  | | --- | --- | |  |  | | Assets |  | | CHA unearned income receivable | $7000 | | Liabilities |  | | Unearned revenue – CHA | $7000 | | Net assets | NIL | |

Agency net result and net assets on the administered statements should be nil at the end of each reporting period.

## Accounting entries (recognise revenue from unearned revenue)

**STEP 1**

During the subsequent month, the agency A recognises $3500 in revenue from unearned revenue (being the land rent for the month).

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 914500 | Unearned revenue – CHA | 911 | $3500 |
| CR | 152100 | Land rent | 911 | $3500 |

**STEP 2 – End of day program**

Automated program runs at end of day in GAS to identify any Territory income or expense recognised by agency A and posts corresponding Territory income payable and CHA transfer journal.

Given agency A has recorded Territory income (based on the standard classification code), the following automated journal entries are posted:

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 397000 | CHA transfers | A18 | $3500 |
| CR | 912600 | CHA income payable | A18 | $3500 |

**CHA ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812180 | Accounts receivable other – CHA | AXX | $3500 |
| CR | 152100 | Land rent | AXX | $3500 |

**STEP 3 – End of month receivables program**

Automated program runs at end of month in GAS to identify Territory income receivable using the ‘CHA’ debt category in agency A’s accounts receivable ledger and posts a reversing journal to move amounts from the agency accounts receivable (standard class 812110) to a CHA accounts receivable code (for example standard class 812180).

Given agency A has no Territory income receivables, no journal is posted.

**STEP 4 – End of month cash program**

Automated program runs at end of month in GAS to identify the amount of cash relating to Territory income to be transferred from agency A to CHA using the following calculation:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Calculation for cash balance to be transferred   |  |  | | --- | --- | | Revenue for the month (revenue recognised from unearned revenue) | $3500 | | *less* bad debts for the month | NIL | | *less* increase (or add decrease) in CHA receivables (amounts from reversing journal posted in step 3 above) | NIL | | *add* increase (or less decrease) in unearned revenue | ($3500) | | *equals* cash to be transferred | NIL | |

Given there is an increase in Territory income, cash is transferred from agency A to CHA using the following automated journals:

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 912600 | CHA income payable | A18 | $3500 |
| CR | 811110 | Cash at bank | A18 | $3500 |

**CHA ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 811311 | Cash at bank | 912 | $3500 |
| CR | 914500 | Unearned revenue – CHA | AXX | $3500 |

Given there is a decrease in unearned revenue, cash is transferred from CHA to agency A using the following automated journals:

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 811110 | Cash at bank | A18 | $3500 |
| CR | 812730 | CHA unearned income receivable | A18 | $3500 |

**CHA ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 914500 | Unearned revenue – CHA | AXX | $3500 |
| CR | 811311 | Cash at bank | 912 | $3500 |

Note: Given the decrease to unearned revenue corresponds with the increase in Territory income, cash is first transferred and subsequently reimbursed, with no additional cash transferred after the initial transfer of $7000.

## Financial statements of agency for Territory income (recognise revenue from unearned revenue)

At the end of the reporting period, agency A administered statement of financial performance and financial position will be as follows.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Administered statement of financial performance   |  |  | | --- | --- | |  |  | | Revenue | $3500 | | Expense | $3500 | | Net result | NIL |   Administered statement of financial position   |  |  | | --- | --- | |  |  | | Assets |  | | CHA unearned income receivable | $3500 | | Liabilities |  | | Unearned revenue – CHA | $3500 | | Net assets | NIL | |

Agency net result and net assets on the administered statements should be nil at the end of each reporting period.

# Example 4: Agency issues an invoice and subsequently raises doubtful and bad debts

Agency A raises an invoice for Territory income of $8000 using the CHA debt category in the GAS accounts receivable system. Agency A conducts an assessment that confirms the customer is unlikely to pay $5000 of the $8000 invoice issued and therefore recognises a doubtful debt expense, which is eventually written off (bad debt).

## Accounting entries (recognising revenue)

**STEP 1**

Agency A issues invoice for Territory income of $8000.

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812110 | Accounts receivable | 911 | $8000 |
| CR | 134100 | Fees from regulatory services | 911 | $8000 |

**STEP 2 – End of day program**

Automated program runs at end of day in GAS to identify any Territory income or expense recognised by agency A and posts corresponding Territory income payable and CHA transfer journal.

Given agency A has recorded Territory income (based on the standard classification code), the following automated journal entries are posted.

**Agency ledger: Recognise payable to CHA**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 397000 | CHA transfers | A18 | $8000 |
| CR | 912600 | CHA income payable | A18 | $8000 |

**CHA ledger: Recognise receivable**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812180 | Account receivable other – CHA | A03 | $8000 |
| CR | 134100 | Fees from regulatory services | A03 | $8000 |

**STEP 3 – End of month receivables program**

Automated program runs at end of month in GAS to identify Territory income receivable using the ‘CHA’ debt category in agency A’s accounts receivable ledger and posts a reversing journal to move amounts from the agency accounts receivable (standard class 812110) to a CHA accounts receivable code (for example standard class 812180).

Given agency A has $8000 in accounts receivable under the ‘CHA’ debt category, the following automated reversal journal entries are posted in agency A’s ledger to recognise Territory income receivable:

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812180 | CHA accounts receivable | A18 | $8000 |
| CR | 812110 | Accounts receivable | 911 | $8000 |

The journal entries reverse out in the following month, restating agency’s A accounts receivable balance to the outstanding debtor balance, for when the cash payment is received.

**STEP 5 – End of month cash program**

Automated program runs at end of month in GAS to identify the amount of cash relating to Territory income to be transferred to CHA using the following calculation:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Calculation for cash balance to be transferred   |  |  | | --- | --- | | Revenue for the month (revenue recognised from invoice issued) | $8000 | | *less* bad debts for the month | NIL | | *less* increase (or add decrease) in CHA receivables (amounts from reversing journal posted in step 3 above) | $8000 | | *add* increase (or less decrease) in unearned revenue | NIL | | *equals* cash to be transferred | NIL | |

Based on the end of month calculation, as the increase in revenue is offset by an increase in CHA receivables, no cash is transferred from agency A to CHA.

## Financial statements of agency for territory income (recognising revenue)

At the end of the reporting period, agency A administered statement of financial performance and financial position will be as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Administered statement of financial performance   |  |  | | --- | --- | |  |  | | Revenue | $8000 | | Expense |  | | CHA transfers | $8000 | | Net result | NIL |   Administered statement of financial position   |  |  | | --- | --- | |  |  | | Assets |  | | Accounts receivable other – CHA | $8000 | | Liabilities |  | | CHA income payable | $8000 | | Net assets | NIL | |

Agency net result and net assets on the administered statements should be nil at the end of each reporting period.

## Accounting entries (recognising doubtful debts)

**STEP 1**

A few months later, agency A anticipates that $5000 in receivables is unlikely to be recovered and records a doubt debt expense.

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 394900 | Doubtful debts expense – Other CHA income | 911 | $5000 |
| CR | 812190 | Allowance for doubtful debts – CHA | 911 | $5000 |

**STEP 2 – End of day program**

Automated program runs end of day in GAS to identify any Territory income or expenses recognised by agency A and posts corresponding Territory income payable and CHA transfer journal.

Given agency A has recorded Territory expenses (based on the standard classification code), the following automated journal entries are posted.

**Agency ledger: Reduce payable to CHA**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 912600 | CHA income payable | A18 | $5000 |
| CR | 397000 | CHA transfers | A18 | $5000 |

**CHA ledger: Recognise offset against receivables from agency**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 394900 | Doubtful debts expense – Other CHA income | AXX | $5000 |
| CR | 812190 | Allowance for doubtful debts – CHA | AXX | $5000 |

**STEP 3 – End of month receivables program**

Automated program runs at end of month in GAS to identify Territory income receivable using the ‘CHA’ debt category in agency A’s accounts receivable ledger and posts a reversing journal to move amounts from the agency accounts receivable (standard class 812110) to a CHA accounts receivable code (for example standard class 812180).

Given agency A has no Territory income receivables, no journal is posted.

**STEP 4 – End of month cash program**

Automated program runs at end of month in GAS to identify the amount of cash relating to Territory income to be transferred to CHA using the following calculation:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Calculation for cash balance to be transferred   |  |  | | --- | --- | | Revenue for the month (revenue recognised from unearned revenue) | NIL | | *less* bad debts for the month | NIL | | *less* increase (or add decrease) in CHA receivables (amounts from reversing journal posted in step 3 above) | NIL | | *add* increase (or less decrease) in unearned revenue | NIL | | *equals* Cash to be transferred | NIL | |

Based on the above calculations, no cash is transferred from agency A to CHA.

## Financial statements of agency for Territory income (recognising doubtful debts)

At the end of the reporting period, agency A administered statement of financial performance and financial position will be as follows.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Administered statement of financial performance   |  |  | | --- | --- | |  |  | | Revenue | $8000 | | Expense |  | | CHA transfers | $3000 | | Doubtful debts expense – Other CHA | $5000 | | Net result | NIL |   Administered statement of financial position   |  |  | | --- | --- | |  |  | | Assets |  | | Accounts receivable other – CHA | $8000 | | Allowance for doubtful debts – CHA | ($5000) | | Liabilities |  | | CHA income payable | $3000 | | Net assets | NIL | |

Agency net result and net assets on the administered statements should be nil at the end of each reporting period.

## Accounting entries (recognising bad debts)

**STEP 1**

At the end of the financial year, agency A confirms the $5000 previously recognised as a doubtful debt expense has been written off (bad debt expense). Agency A reverses previous doubtful debt journal and recognises a bad debt expense.

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812190 | Allowance for doubtful debts – CHA | 911 | $5000 |
| CR | 394900 | Doubtful debts expense – Other CHA income | 911 | $5000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 395900 | Bad debts expense – Other CHA income | 911 | $5000 |
| CR | 812110 | Accounts receivable | 911 | $5000 |

**STEP 2 – End of day program**

Automated program runs end of day in GAS to identify any Territory income or expenses recognised by agency A and posts corresponding Territory income payable and CHA transfers journal.

Given agency A has recorded Territory expenses (based on the standard classification code), the following automated journal entries are posted in agency A’s ledger:

* Recognise increase in Territory income payable to CHA as a result of a reduction in doubtful debt expense

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 397000 | CHA transfers | A18 | $5000 |
| CR | 912600 | CHA income payable | A18 | $5000 |

* Recognise a decrease in Territory income payable to CHA as a result of an increase in bad debt expense:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 912600 | CHA income payable | A18 | $5000 |
| CR | 397000 | CHA transfers | A18 | $5000 |

Given the increase in bad debts expense is offset by the decrease in doubtful debt expense and the decrease in provision for doubtful debt is offset by the decrease in accounts receivable, there is no net effect in the agency’s ledger.

Given agency A has recorded Territory expenses (based on the standard classification code), the following automated journal entries are posted in CHA’s ledger to recognise Territory expenses:

**CHA ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812190 | Allowance for doubtful debts – CHA | AXX | $5000 |
| CR | 394900 | Doubtful debts expense – Other CHA income | AXX | $5000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 395900 | Bad debts expense – Other CHA income | AXX | $5000 |
| CR | 812180 | Account receivable other – CHA | AXX | $5000 |

**STEP 3 – End of month receivables program**

Automated program runs at end of month in GAS to identify Territory income receivable using the ‘CHA’ debt category in agency A’s accounts receivable ledger and posts a reversing journal to move amounts from the agency accounts receivable (standard class 812110) to a CHA accounts receivable code (for example standard class 812180).

Given agency A has reduced the Territory income receivable by $5000, the following automated reversal journal entries are posted in agency A’s ledger to recognise the remaining Territory income receivable ($8000 - $5000):

**Agency ledger**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| DR | 812110 | Accounts receivable | 911 | $3000 |
| CR | 812180 | CHA accounts receivable | A18 | $3000 |

The journal entries reverse out in the following month, restating the agency A’s accounts receivable balance to the outstanding debtor balance, for when the cash payment is received.

**STEP 4 – End of month cash program**

Automated program runs at end of month in GAS to identify the amount of cash relating to Territory income to be transferred from agency A to CHA using the following calculation:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Calculation for cash balance to be transferred   |  |  | | --- | --- | | Revenue for the month (revenue recognised from unearned revenue) | NIL | | *less* bad debts for the month | $5000 | | *less* increase (or add decrease) in CHA receivables (amounts from reversing journal posted in step 3 above) | ($5000) | | *add* increase (or less decrease) in unearned revenue | NIL | | *equals* cash to be transferred | NIL | |

Based on the above calculations, no cash is transferred from agency A to CHA.

## Financial statements of agency for Territory income (recognising bad debts)

At the end of the reporting period, agency A administered statement of financial performance and financial position will be as follows.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Administered statement of financial performance   |  |  | | --- | --- | |  |  | | Revenue | $8000 | | Expense |  | | CHA transfers | $3000 | | Bad debts expense – Other CHA income | $5000 | | Net result | NIL |   Administered statement of financial position   |  |  | | --- | --- | |  |  | | Assets |  | | CHA accounts receivable | $3000 | | Liabilities |  | | CHA income payable | $3000 | | Net assets | NIL | |

Agency net result and net assets on the administered statements should be nil at the end of each reporting period.