



Accounting and Administrative Manual

Section 100: Accounting and Finance

Establishing an Allowance for Doubtful Contract Receivable and Unrecoverable Grant and Contract Expenditures & Analysis of Bad Debt Expense Date: 01/18/02
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Purpose:

Generally accepted accounting principles require that receivables be reflected on the balance sheet at a net realizable value. To comply with this requirement the university uses the allowance method to establish a reserve or allowance account against which estimated or actual uncollectible accounts are charged. The purpose of this procedure is to describe the methodology used in establishing the allowance and to describe the analysis of bad debt expense. See also A-05 “Doubtful Grant and Contract Receivables: Write-Off of Unrecoverable Amounts and Collections on Previously Written-Off Receivables” in Section 100 in the University of Alaska Accounting and Administrative Manual.

Estimating the Allowance:

A separate allowance is maintained for unrecoverable restricted fund expenditures. The amount recorded as an allowance for doubtful contracts is based on the estimated unrecoverable grant and contract expenditures.

Two basic methods, or a combination thereof, for estimating the required allowance for doubtful accounts are generally applicable:

1. Historical or estimated uncollectible percentages are applied to accounts receivable to obtain an estimate of the allowance needed. This method is generally most applicable when developing an allowance for large numbers of similar accounts. The uncollectible percentage rate can be a composite rate for all accounts or separate rates can be applied to summary totals from an account receivable aging schedule.
2. Specific estimates of the collectibility, or more appropriately the uncollectibility, are made for individual identifiable accounts. This method is generally most applicable when developing an allowance for small numbers of accounts receivable with large account balances and grant and contract over expenditures.

To assess the reasonableness of the change in the allowance calculated, bad debt expense for a period can be estimated by the MAU’s historical bad debt expense (see section “Analysis of Bad Debt Expense” below). The percentage of bad debt expense to

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restricted fund expenditures for a number of prior years is one method of calculating the historical bad debt expense.

Using one of the above methods, the allowance should be analyzed quarterly. The allowance should be adjusted if the analysis indicates a significant increase or decrease in estimated net realizable value of the receivables.

The chief financial officer, equivalent, or designee is responsible for determining the proper allocation of expense charges resulting from the establishment and maintenance of the allowance.

Establishing an Allowance:

Increases or decreases in the allowance for doubtful grant and contracts receivables are recorded quarterly in order to provide internal reporting for interim periods that is consistent with year-end reporting. Timely recording of an adequate provision for uncollectible grant and contract receivables minimizes the adverse effects of requiring large, unanticipated charges to expense at the end of the fiscal year.

Grants and Contracts Office Accounting Technician

1. Reviews grants and contracts to identify specific unrecoverable grant and contract receivables, including billed and unbilled general ledger accounts.
2. Prepares estimate of specific over expenditures and other unrecoverable grant and contract receivables for review by supervisor or manager.

Grants and Contracts Office Accountant or Supervisor

1. Reviews all grant and contract receivables to identify cost overruns, disallowed costs, unfunded expenditures, and reviews specifically identified unrecoverable grant and contract receivables to estimate total allowance. See section "Estimating the Allowance" for procedures to prepare and estimate.
2. Documents assumptions and prepares an estimate schedule for review by the grant and contract services manager.
3. Prepares journal voucher to adjust the balance in the allowance for doubtful contract account to the amount of the estimated uncollectible portion of the



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total grant and contract receivables with the offsetting entry applied to bad debt expense using the major administrative unit's unrestricted fund and an appropriate organization code.

To increase the allowance:

DR: XXXXXX - XXXXX - 8235
Unrestricted fund and central administrative services organization code
CR: XXXXXX - - 0292
Unrestricted fund

To decrease the allowance:

DR: XXXXXX - - 0292
Unrestricted fund
CR: XXXXXX - XXXXX - 8235
Unrestricted fund and central administrative services organization code

Grants and Contracts Office Manager

1. Reviews the estimate of doubtful grant and contract receivables.
2. Notifies principal investigator and department fiscal or executive officer of anticipated over expenditures, unfunded expenditures and disallowed costs over 90 days old for follow-up.
3. Signs and dates estimate, to document review. Approves journal voucher and forwards to central financial or support services designee for final approval and input into financial accounting system.

The Vice Chancellor for Administrative Services or designee is responsible for determining the proper distribution to academic or research departments or administrative subunits of amounts written-off due to uncollectibility. A distribution to departments results in a shifting of bad debt expense from the central administrative office to a specific unit/department. (Alternatively, bad debt expense may be charged to the department at the time the allowance is adjusted.) The following entry accomplishes this distribution:

DR: XXXXXX - XXXXX - 8235
Unrestricted fund and administrative subunit or dept. organization code
CR: XXXXXX - XXXXX - 8235
Unrestricted fund and central administrative services organization code



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Analysis of Bad Debt Expense:

The amount of annual, or period, bad debt expense normally experienced by an MAU is a useful tool in analyzing the allowance. Because multiple account codes (8235, 8651 and 8661) are used to record bad debt expense, these accounts must be examined along with the allowance account to determine “true” bad debt expense. For purposes of determining bad debt expense only, entries in the unrestricted fund to 8651 and 8661 must be treated as though they were posted to 0292, Allowance for Doubtful Contracts. An example follows:

Allowance balance, beginning of period:	\$200,000
Total of entries to 8651 and 8661 in unrestricted fund during period:	\$20,000
No entries were made to allowance during period	
Desired allowance balance, end of period:	\$250,000

A \$50,000 entry is required to increase the allowance to \$250,000 and record bad debt expense, 8235, for the period. However, “true” bad debt expense for the period is \$70,000 ($\$250,000 - (\$200,000 - \$20,000)$).

The “true” bad debt expense as a percentage of restricted fund expenditures, or other appropriate base, provides the MAU a benchmark for anticipated charges resulting from unrecoverable costs. Each period or annual, bad debt expense amount should be tracked so a historical experience rate is developed.