11.3 Bad Debts and Write Offs

Policy Statement
Departments are responsible for analysing their outstanding accounts receivable and recording bad debts expense for accounts deemed doubtful or uncollectible. Annually, departments will request the write off of uncollectible accounts.

Authority
The source of authority for this policy is the Finance Act, Section 24(1). The act states that

24(1) Where a person has an obligation or debt due to the Province or the Province has a claim against a person, the Governor in Council may, subject to any other Act affecting such obligation, debt, or claim, direct the Minister to negotiate and accept a settlement in payment and satisfaction of such obligation, debt, or claim, or to determine that any such obligation, debt, or claim is not collectable, write off any loss incurred in any such settlement or determination and charge it to the General Revenue Fund.

The word “Minister” as used in section 24(1) of the act refers to the Minister of Finance and Treasury Board.

Policy Objectives
This policy explains the procedures and forms associated with the recording of bad debts expense. The objective is to ensure timely and accurate recording of bad debts expense in the period in which the debt can be reasonably determined as uncollectible. Annual requests for bad debts write offs will keep the financial records current with truly collectible amounts.

Application
This policy applies to all members of the province’s budgetary process.

Accountability
Departments are responsible to ensure that bad debts expense are recorded in their accounts properly and in a timely manner, compliant with this policy.
Procedure for Recording Bad Debts Expense

**CALCULATE ALLOWANCE FOR DOUBTFUL ACCOUNTS**

1. Review the aged accounts receivable listing for balances that are specifically identifiable as credit risks or uncollectible. These balances should become part of the allowance amount.

2. For the remaining balances, estimate any additional allowances required. Use professional judgment to assign a collectibility factor, for example:
   - percentage of total balances older than a certain number of days, e.g., 20 percent of balances over 120 days
   - percentage of outstanding balances of certain customer types who have been higher credit risks
   - percentage of outstanding balances of certain types of revenue that have been collection problems in the past
   - other methods relevant to the department’s business cycle or customers.

**DOCUMENTATION**

3. Documentation held on file at the departments should support the balance in the allowance for doubtful accounts. This documentation should include support as to the methods implemented by departments to collect the receivable and the reason(s) why it may be uncollectible, or, in the case of Step 2 above, any supporting analysis and calculations as illustrated in Appendix 11-A.

**ADJUST GENERAL LEDGER**

4. Prepare a total of the revised allowance amounts and compare it with the general ledger allowance account balance. During the year, if the difference is small, no adjustment is required. The general ledger allowance account balance should be up to date, especially at year end, and be supported with sufficient documentation for audit purposes. Adjust allowance and bad debt expense accounts in the general ledger as illustrated in Appendix 11-B. Do not reverse or cancel any accounts receivable at this point.

**WRITE-OFF OF ACCOUNTS RECEIVABLE**

5. Review outstanding amounts in the allowance. Identify accounts that are truly uncollectible and should be written off. Prepare the Write Off Submission template and letter for the Minister’s approval and send it to the Department of Finance and Treasury Board in accordance with the form shown in Appendix 11-C and Appendix 11-D.
On the Submission template you should indicate the method(s) taken to collect the receivable and the reason(s) why it is uncollectible.

Send an electronic copy of the Submission template to the Executive Director, Government Accounting for use in preparing a consolidated file of write off data for submission to Executive Council for formal approval.

6. Only after approval is granted by Order-in-Council are departments permitted to reduce accounts receivable ledgers for the write off submitted. Government Accounting will notify departments when approval has been granted and confirm the amount of the write offs approved. Then each department may write off their accounts with a debit to the allowance account and a credit to the accounts receivable records (see Appendix 11-B.)

RECOVERY OF BAD DEBTS

7. Payments received on accounts in the allowance should be applied to reduce the accounts receivable balance and the allowance should be reduced accordingly. If the account is officially written off, the payment should be recorded to a prior years' recoveries account (see Appendix 11-B.)

Enquiries

Executive Director, Government Accounting
Department of Finance and Treasury Board
(902) 424-7021

Appendices

Appendix 11-A Documentation: Example of Allowance for Doubtful Accounts Calculation and General Ledger Reconciliation
Appendix 11-B Journal Entries to Adjust Allowance Account
Appendix 11-C Write Off Submission Template
Appendix 11-D Ministerial Approval Letter

Approval date: July 31, 2008
Approved by: Executive Council
Effective date: August 21, 2008
Administrative update: May 30, 2016
Appendix 11-A

Documentation

Example: Allowance for Doubtful Accounts Calculation and General Ledger Reconciliation

<table>
<thead>
<tr>
<th>Province of Nova Scotia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for Doubtful Accounts</td>
</tr>
<tr>
<td>Department of ________________</td>
</tr>
<tr>
<td>September 30, 2016</td>
</tr>
</tbody>
</table>

### Specific Accounts

1. ACB Company $100
2. XYZ Incorporated $700
3. Joe Joyce Metals Ltd. $45
4. Payless Grinch Co. $1,201 Total $2,046

### % Allowance on Remaining A/Cs

- Over 120 days $8,102 x 5% = $405
- Over 180 days $10,075 x 10% = $1,008
- Over 365 days $4,776 x 40% = $1,910 Total $3,323

### Total Allowance Required

$5,369

### Balance per Allowance Account

$4,200

### Increase <Decrease> Required

$1,169 (increase in allowance needed)

This reconciliation helps support any required adjustment amount. If the general ledger is approximately equal to calculated allowance, no adjustment is required until year end.
Appendix 11-B

Journal Entries to Adjust Allowance Account

1. To increase allowance:          (JV prepared by department)
   Debit: Bad Debt Expense
   Credit: Allowance

2. To decrease allowance:         (JV prepared by department)
   Debit: Allowance
   Credit: Bad Debt Expense

3. To record approved write offs:  (JV prepared by department)
   When the OIC is obtained, departments remove the approved write-offs from
   the accounts receivable and allowance. Some AR subledgers, the SAP module for
   example, contain functions that write off the AR balances and update the AR and
   allowance accounts. No manual journal entries are required in this case. If the AR
   subledger being used does not interface and update the SAP GL, the department
   should record the following journal entry for accounts written off:
   Debit: Allowance
   Credit: Accounts Receivable

4. When account is paid by customer after write-off:   (JV prepared by department)
   Debit: Cash in Transit
   Credit: Prior Year Recoveries

GL Accounts

Most departments:

137100 Allowance for Doubtful Accounts
823100 Bad Debts Expense
535100 Prior Year Recoveries

Other allowance accounts are:

170164 Allowance for Doubtful Accounts - (1200) Agriculture - Farm Loan Board
170184 Allowance for Doubtful Accounts - (8500) Fisheries and Aquaculture Loan Board
170224 Allowance for Doubtful Accounts - (8700) IDA
170234 Allowance for Doubtful Accounts - (8700) Venture
Appendix 11-C

Write Offs Submission Template

<table>
<thead>
<tr>
<th>Name</th>
<th>Line #</th>
<th>Amount</th>
<th>Included in prior year end</th>
<th>Nature of Debt</th>
<th>Date Incurred</th>
<th>Measures Taken</th>
<th>Reason Uncollectible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. John Smith</td>
<td>1</td>
<td>$50.00</td>
<td>Yes</td>
<td>Fee owing from NS resident</td>
<td>1-Nov-2013</td>
<td>Phone Calls, Invoices, Statements</td>
<td>Citizen is deceased &amp; department does not recover from estates.</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>3</td>
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<td></td>
<td>4</td>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of XX</td>
<td></td>
<td>$50.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Steps to complete the Write Offs Submission Template:
1. Enter the most recent fiscal year end in the header
2. Enter the name of the Department/Public Service Entity
3. Complete one line per write off submission
   - Name: Enter the name or Group Category for the submission
   - Line: Cross Reference any back up provided to the Line #, enter more if needed
   - Amount: Enter the Gross amount for that name or group category
   - Included in prior years Y/E Allowance: Choose Yes or No (if No, please explain why)
   - Nature of Debt: Enter a brief description of the debt
   - Date Incurred: Enter the date the debt was incurred
   - Measures Taken: Enter the measures taken to collect the debt (examples):
     - Direct Contact: Phone Calls, Emails, Invoices, Statements
     - Legal Proceedings
     - Legal Settlement
     - Referred to Collections
     - Skip Tracing
     - Cancel, Suspend Service
   - Reason Uncollectible (examples):
     - Citizen is deceased
     - Company is bankrupt
     - Residual balance after settlement
     - Customer location unknown
     - Company closed
     - Efforts to collect are documented but were unsuccessful
     - Sold property but proceeds were insufficient
     - No supporting Documentation to support amount owed
     - Account is old and immaterial
4. Print out the Write Offs Submission Template and attach a signed Ministerial Approval Cover Letter (Appendix 11-D).
   Send the completed template and letter to Minister of Finance and Treasury Board by October 31.
5. Send an electronic copy of the Write Offs Submission Template to Executive Director, Government Accounting by October 31.
Appendix 11-D

Ministerial Approval Letter

The Honourable XXXX XXXXX
Minister of Finance and Treasury Board
7th Floor, Provincial Building
1723 Hollis Street
Halifax, N.S.
B3J 2N3

Dear Minister:

Re. Accounts to be Written Off

Pursuant to Section 23 of The Finance Act, the Department of XXXX requests that the attached accounts be written out of records for the fiscal year ending March 31, 20XX. The total value of the write off is $XX.XX and is supported by the submission attached.

We would also confirm that these uncollected accounts have been included in the allowance for doubtful accounts at the most recent year end.

Yours truly,

XXXX, Minister
Department of XXXX

Encls.