

Northwest Louisiana Technical Community College

Allowance Write-off Policy

Original Adoption: February 10, 2008

Effective Date: May 2, 2008

Last Revision: January 1, 2023

PURPOSE

LCTCS Policy #5.009 titled "Allowance/Write Off Policy" requires each of its colleges to establish an allowance for bad-debt and write-off policy. In addition, the policy requires notification to the LCTCS President of any account to be written off that is greater than \$5,000. LCTCS Policy #5.008 titled "Accounts Receivable" requires that students, individuals or entities whose obligations were previously written-off by the College to repay their debt before conducting any further business with the College to whom the debt is owed. Government Accounting Standards Board procedures (GASB) require that revenues generated and expenses incurred in generating those revenues should be reported in the same reporting year. This is identified as the matching principle. In accordance with this principle, the College will use the allowance method for recording uncollectible receivables. Northshore Technical Community College will utilize the allowance method to record the College's estimated uncollectible receivables. Annually, the Director of Accounting will review the College's accounts receivable accounts to determine which accounts are uncollectible. Those accounts which are 180 days or more past due will be fully reserved at the end of the year. If the account is still outstanding after 2 years, then the account will be written off.

GENERAL POLICY

1. The direct write-off method will be used for non-student receivable accounts that are less than or equal to \$250. Since the direct method does not conform to the matching principle of GAAP, this method should only be used for uncollectible amounts that are immaterial. Immaterial for this purpose has been defined as \$250 or less
2. When an accounts receivable amount that is greater than \$250 must be written off due to it being uncollectible, such amounts are always recorded to the related reserve for doubtful accounts and not as a reduction of revenue.
3. All decisions to write off an account are based on a review of documented collection efforts that demonstrate that due diligence was exercised in the pursuit of payment.
4. An accounts receivable may be canceled or adjusted versus written off because 1) the College is not entitled to collect the funds and was never entitled to collect the funds, or 2) the debtor qualifies for a waiver or refund. An accounts receivable will not be canceled to avoid the write-off procedures.
5. An accounts receivable amount is determined to be uncollectible when it meets one of the following criteria:

- a. All reasonable collection efforts have been exhausted.
 - b. The cost of further collection action will exceed the amount recovered.
 - c. The debtor cannot be located.
 - d. d. The debt was discharged in bankruptcy.
 - e. The statute of limitations for collection of the debt has expired.
 - f. It is not in the public interest to pursue collection of the debt.
6. Determining that the debt is uncollectible does not cancel the legal obligation of the debtor to pay the debt, except as noted in criteria d and e. The College shall continue to seek collection of the account.
 7. In accordance with LCTCS policy # 5.008, the College must not conduct any further transactions with any student or public/private entity whose debt was written off by the College until such debt is subsequently paid by the student or public/private entity.

DETAILED OPERATING PROCEDURES

1. Establishment of the Allowance

- a. When an account is deemed “uncollectible”, it should be considered as “inactive” before being written off.
- b. When an account is considered inactive, it should be fully reserved during the year in which it is classified as such.
- c. The classification of an account as inactive should be made by the Vice Chancellor of Finance and Administration.
- d. Documentation of the collection efforts that have occurred on the account should be on file.
- e. Establishment of the allowance is completed by a journal entry directly to the general ledger as shown in the “required journal entries” section of this policy.

2. Write-Off of inactive non-student receivables that are \$250 or less [After 2 years]

- a. Student accounts receivables are written-off utilizing a bad debt payment detail code and a bad debt charge detail code. The debit and credit FOAPAL entries are shown in the “required journal entries” section of this policy

3. Write-Off of inactive receivables that are greater than \$250 but less than \$5,000 [After 2 years]

- a. Louisiana Community and Technical College System, in accordance with LCTCS policy # 5.009. a bad debt payment detail code and a bad debt charge detail code. The debit and credit FOAPAL entries are shown in the “required journal entries” section of this policy.

4. Write-Off of inactive receivables that are \$5,000 or greater [After 2 years]

- a. Louisiana Community and Technical College System, in accordance with LCTCS policy # 5.009., utilizing the allowance write-off method.

REQUIRED JOURNAL ENTRIES/DETAIL CODES

Utilizing the Direct Write-Off Method [Non-student or \$250 or less Accounts]

DR 7809zz Bad Debt Expense
CR 1xxxzz Accounts Receivable

Utilizing the Allowance Method

1. *To record the allowance for the inactive accounts.*

DR 5102zz A/R Write Offs [contra revenue]
CR 1420zz Allowance for Doubtful Receivables [Finance Entry]

2. To write off receivables that have been deemed to be uncollectible and approved for write-off under the allowance method.

a. DR 1420zz Allowance for Doubtful Accounts Finance Entry [non-student accounts]
CR 1xxxx Accounts Receivable [non-student accounts]

b. For student accounts, a bad debt payment detail code should be entered on the student's account (if not writing off the entire account, t-pay the payments to those transactions being written-off. The TSAADSP form would easily handle this entry). A bad debt charge detail code should be entered on the student's account for the amount to bad debt to be written off. A write-off hold "WO" should be placed on the student's account. The ultimate effect of the detail codes, after application of payments runs, is a debit to Allowance for Doubtful Accounts [1401zz] and a credit to student accounts receivable.

If an account that was reserved through the allowance account and written off is subsequently paid, then the following entries are necessary, in addition to the deposit of the funds received:

1. To reestablish the receivable and the associated allowance account.

a. DR 1xxxx Accounts Receivable [non-student accounts] CR 1420zz Allowance for Doubtful Receivables Finance Entry [non-student accounts]

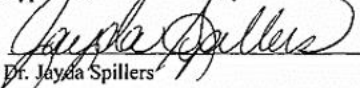
b. For student accounts, reverse the bad debt payment detail code and the bad debt charge Policy & Procedure No. FIN-018 Northshore Technical Community College 4 detail code in the same amount that the student is paying. If the student paid the full amount of the bad debt; remove the write-off and collections hold from the student's account.

2. To adjust the allowance for doubtful accounts balance.

DR 1420zz Allowance for Doubtful Receivables Finance Entry
CR 5102zz A/R Write Offs [contra revenue]

Policy Reference: LTC Policy #FS1930.301 Allowance/Write-Off policy
LCTCS Policy #5.009
LCTCS Policy # 5.008

Approved:



Dr. Jayda Spillers

Chancellor