

ACCOUNTS RECEIVABLE

8776

(Revised 03/12)

An accounts receivable (AR) is defined as a claim against a debtor, such as a person, business, or governmental entity for money owed to the state. An invoice or other document requesting payment will be prepared. The invoice shall be sent to the debtor as soon as practical and within 30 days after the event giving rise to the AR. Invoices shall include a date for which payment is due. The AR shall be considered delinquent if payment is not received by the due date. Departments may also consider the postmark date to determine if an AR is delinquent.

Departments must ensure prompt and ongoing action is taken for the collection of ARs. See SAM section 8776.6.

Characteristics common to all ARs:

- Legal authority exists to bill for the amount owed.
- Amount due is derived from an arithmetical calculation, schedule of fees, or other method to arrive at the amount.
- Sufficient documentation exists to support the AR. For example, the department must have the debtor name and an invoice or other document identifying the amount owed.

Departments must ensure staff are provided AR training on an ongoing basis. As a resource, the Accounts Receivable Toolkit provides departments with guidelines and further information for managing their ARs. The toolkit is available on the Department of Finance's website at http://www.dof.ca.gov/accounting/fscu/documents/Accounts_Receivable_Toolkit.pdf.

Recording ARs

Departments must ensure ARs are recorded promptly and accurately into the accounting system. The general guideline for recording ARs promptly is within 30 days after the date that the AR arose. For employee payroll ARs, the departments should ensure their human resources unit notifies the accounting office timely to meet the 30-day guideline for recording ARs.

When ARs are collected, the collections will generally be classified as abatements, reimbursements, revenue, or refunds to reverted appropriations. See SAM sections 7620 and 10407 - 10416 for general ledger account descriptions and 10506 for the standard journal entry. Prepayments of ARs should be treated as revenue received in advance or as a liability until the transaction is completed (e.g., revenue is earned). See SAM section 10507 for the standard journal entry.

Reconciling ARs

Departments will review and reconcile ARs in the accounting system to ARs recorded by the State Controller's Office (SCO) and/or those ARs maintained in departmental records (e.g., program records, payroll records, etc.). AR reconciliations will be prepared monthly within 30 days of the preceding month. Periodic reviews of the AR reports should be performed monthly to ensure there is ongoing collection activity.

Documenting and Retaining ARs

Departments must ensure proper recordkeeping is maintained. All efforts made toward the collection of receivables should be documented to include the dates and types of collection effort (e.g., letters, offset, phone calls, e-mails).

AR source documents (e.g., invoices), documentation of collection efforts, and documentation of payments and any adjustments should be retained for at least four years after the receivable has been paid.

(Continued)

SAM-MISCELLANEOUS ACCOUNTING PROCEDURES

(Continued)

ACCOUNTS RECEIVABLE

8776 (Cont. 1)

(Revised 03/12)

Contingent ARs

Contingent ARs are those ARs for which there is some uncertainty of the legal obligation but have a prospect of a favorable settlement. Generally, a contingency involves some future determination, e.g., judgment or settlement. Contingent ARs will be recorded in the accounting records at the time the AR arises, as follows:

Debit: 1380 Contingent Receivables

Credit: 1600 Provision for Deferred Receivables

Contingent ARs will be reversed if reclassified to another AR type (e.g., AR- Revenue). This may occur when either a judgment or settlement is made or the disputed amount has been finalized. Also, it may be appropriate to reclassify an AR to a contingent AR. Such reclassification should be based upon the degree of uncertainty associated with the validity or amount of the AR. The reclassification should not be based solely on a debtor's action to contest an AR.

Reclassifying or Adjusting ARs

Departments must perform an analysis on their ARs to verify the correct amounts are recorded. ARs should be reclassified or adjusted in certain situations:

- Legal authority does not exist to bill for the amount owed.
- Sufficient documentation does not exist to substantiate the AR (e.g., debtor name and an invoice or other document identifying the amount owed).
- Validity or amount of the AR is disputed.

Departments may reclassify, increase, or decrease the amount of an AR to correct the classification or amount owed by making an adjusting entry. Note that an appropriate description of why the adjustment is made must be documented.

Department Responsibilities at Year-End

At year-end, departments are responsible for ensuring AR balances are accurate:

- Assess the amounts owed to the department, including estimates, and when the amounts are expected to be collected.
- Record accrual entries for amounts owed to the department at June 30, but not yet recorded. See SAM sections 10602 and 10610.
- Record entries to reclassify existing ARs when an appropriation reverts. See SAM section 10603.
- Record adjusting entries to reduce AR balances for deferred amounts. The deferred amount is the portion not expected to be collected in the next fiscal year. See SAM section 10610.