

Federal Accounting Corner by Simcha Kuritzky, CGFM CPA

Writing Off Bad Debts Related to Revenue

0304

FASAB's Standard 7 discusses accruing and writing off bad debts. The commercial GAAP model is to accrue bad debts by debiting bad debts expenses and crediting receivables using an Allowance for Doubtful Accounts contra account. The bad debt is written off by reducing both the receivable and the allowance account. By recording an expense, the entity recognizes that bad debts are an expense of doing business, and also matches expenses against the risky revenue. FASAB 7 said that the commercial GAAP model was appropriate only when the receivable was incurred for exchange revenue and the loss was due to credit problems with the debtor.

Write-Off Entries in the SGL

Using fines and administrative fees as an example (since they can be exchange or non-exchange, based on circumstance), the SGL postings for exchange transactions are [additional accounts for custodial revenue are in brackets]:

Recognize revenue:

dr.	1360 Penalties, Fines and Administrative Fees Receivable
[C202]	[5991 Accrued Collections for Others]
C216	cr. 5320 Penalties, Fines, and Administrative Fees Revenue
	[2980 Custodial Liability]

Allow for bad debts:	dr.	6720	Bad
Debt Expense			
[D214]		[2980 Custodial Liability]	
D204	cr.	1369	
Allowance for Loss on P/F/Admin Fees Receivable			[6190 Contra Bad Debts Expense
- Incurred for Others]			

Write off bad debts:	dr.	1369
Allowance for Loss on P/F/Admin Fees Receivable		
D205	cr.	1360
Penalties, Fines and Administrative Fees Receivable		

If all these entries are made the same year for the same amount, the net effect is to debit Bad Debts Expense and credit Revenue (custodial funds will also debit the revenue contra-account and credit the expense contra-account). When non-exchange revenue is used, the entries are essentially identical, except that the allowance for bad debts entry posts to a contra-revenue, and not an expense account, as follows:

Allow for bad debts:	dr.	5329	Contra
Revenue for Penalties and Fines			

D202

cr.

1369

Allowance for Loss on P/F/Admin Fees Receivable

Write-Offs of Reimbursable Expenses

That is the SGL model in a nutshell. What the SGL does not discuss is what to do about funding, since receivables from the public are supposed to be unfunded. However, a large and increasing number of federal agencies perform reimbursable work to supplement their appropriations. Frequently, the reimbursable work is in the same Treasury Symbol as the direct appropriation, and the expenditures have to be allocated between the agency's internal use and clients. If a client successfully disputes an amount billed, the "write off" is really a transfer of the original expenditure from reimbursable to direct authority. This wouldn't be run through the Allowance for Doubtful Accounts, because it has nothing to do with credit problems. The entry would have to reverse the original receivable and revenue, show appropriations used, and restore the reimbursable agreement amount, as follows:

dr. 5200 Revenue from Services Provided
3107 Unexpended Appropriations - Used
4221 Unfilled Customer Orders Without Advance
cr. 1310 Accounts Receivable
5700 Expended Appropriations
4251 Reimbursements and Other Income Earned - Receivable

Comments, suggestions, and critiques are welcome. Send them to Simcha.Kuritzky@ams.com, and not to the AGA.