

Writing Off Public Expenditure Receivables and Advances

The SGL Board back in 1997 recognized the importance of segregating funded and unfunded expenses. This distinction is critical for preparing the Statement of Financing. Accounts such as 6100 Operating Expenses/Program Costs and 6330 Other Interest Expenses now are only used in conjunction with an expenditure, and unfunded expenses have been given accounts such as 6710 Depreciation, 6720 Bad Debts, 6730 Imputed Costs, and 6790 Other Unfunded Expenses. Agencies have to be careful, though, how they use account 6720 Bad Debt Expense. It can be very easy to accidentally turn it into a funded expense for a particular transaction, which will cause headaches when trying to prepare the Statement of Financing.

The simplest case is this. An agency incurs an expenditure and expense with the standard posting

B102 Debit 6100 Operating Expenses/Program Costs
3107 Unexpended Appropriations - Used
4610 Allotments - Realized Resources
Credit 1010 Fund Balance with Treasury
5700 Expended Appropriations
4902 Delivered Orders - Obligations, Paid

Since the balance of 6100 equals that of 4902, expenses and expenditures are in balance. Now the agency realizes they overpaid, so they recognize a receivable by posting

C212 Debit 1310 Accounts Receivable
Credit 6790 Other Expenses Not Requiring Budgetary Resources

They accrue bad debts with:

D204 Debit 6720 Bad Debt Expense
Credit 1319 Allowance for Loss on Accounts Receivable

Lastly, they write off the receivable with

D206 Debit 1319 Allowance for Loss on Accounts Receivable
Credit 1310 Accounts Receivable

The net effect of all the receivable activity (assuming the accrual is for the same amount as the write off) is debit 6720 Bad Debt Expense credit 6790 Other Unfunded Expenses. Since both these expenses are unfunded, expenses and expenditures are still in balance.

The situation gets slightly more complicated with an asset purchase. An equipment purchase would be recognized with the posting

B302	Debit	1750	Equipment
+ B110		3107	Unexpended Appropriations - Used
		4610	Allotments - Realized Resources
		8802	Purchases of Capitalized Assets
	Credit	1010	Fund Balance with Treasury
		5700	Expended Appropriations
		4902	Delivered Orders - Obligations, Paid
		8801	Offset for Purchases of Capital Assets

If the agency returns the asset, the entry is

C212	Debit	1310	Accounts Receivable
			Credit 1750 Equipment

If one is not careful, one could assume the net posting is debit 1310 3100 4610 credit 1010 5700 4902, which would make the receivable funded. In fact, the 1750 account has to be split into funded and unfunded pieces, just as the expense in the first example was (the expenditure posted to account 6100 while the receivable posted to 6790). The funded piece is associated with account 8802, while the unfunded is not, so expenditures (4902) equal purchases (8802). If the agency collects the amount owed them, then the entry would have to back out the purchase

C138	Debit	1010	Fund Balance with Treasury
		5700	Expended Appropriations
		4902	Delivered Orders - Obligations, Paid
		8801	Offset for Purchases of Capital Assets
	Credit	1310	Accounts Receivable
		3107	Unexpended Appropriations - Used
		4610	Allotments - Realized Resources
		8802	Purchases of Capitalized Assets

It is necessary to zero out the 8802 to recognize the reduction to both the expenditure and receivable. The entries for the write off accrual and write off is the same as in the simple case above. The net effect of all the receivable activity, though, is debit 6720 Bad Debt Expense and credit 1750 Equipment, which are both unfunded (since 8802 has a net zero posting), so expenditures still equal purchases.

Much more complex is the case of an advance write off, since advances are funded. An agency obligates and issues the advance with the entry

B206	Debit	1410	Advances
		4610	Allotments
	Credit	1010	Fund Balance with Treasury

4802 Undelivered Orders – Obligations, Prepaid/Advanced

Now, let us say the advance will not be collected or used. An example of this is a travel advance to an employee who dies before using the advance, and the agency does not want to ask the estate for a refund. A less morbid example is an advance given to a company that goes bankrupt. In order to write off the advance, one must first apply it by liquidating the obligation and recognizing an expenditure

B404 Debit 6100 Operating Expenses/Program Costs
3107 Unexpended Appropriations - Used
4802 Undelivered Orders – Obligations, Prepaid/Advanced
Credit 1410 Advances
5700 Expended Appropriations
4902 Delivered Orders - Obligations, Paid

then recognize the write-off with the combination of standard entries C212, D204 and D206

Debit 6720 Bad Debt Expense
Credit 6790 Other Unfunded Expense

Since the advance was funded, it is necessary to recognize a funded expense (6100), and since an obligation was recorded, it is necessary to liquidate it with an expenditure (4902). Only with these postings is the end result the same as with the simple receivable example above.

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