FINANCIAL MANAGEMENT SYSTEMS IMPROVEMENT COUNCIL (FMSIC)

ACCOUNTS RECEIVABLE (A/R)
Functional and Operational Requirements
March 28, 1995

FOR

ACCOUNTS RECEIVABLE SYSTEM
FINANCIAL MANAGEMENT SYSTEMS IMPROVEMENT COUNCIL
MARCH 28, 1995
REVISION **0**

The Financial Management Systems Improvement Council (FMSIC) was created by the Department of Energy in recognition of the need for information sharing and prudent standardization of cost collection and financial reporting among its integrated contractors. A vision statement was developed and adopted during the first Council meeting and states: *IMPROVE CONTRACTOR FINANCIAL MANAGEMENT SYSTEM PROCESSES WHICH WILL RESULT IN INCREASED EFFICIENCY AND EFFECTIVENESS THROUGH (a) THE SHARING OF SUCCESSFUL APPROACHES [best business practices] AND BENCHMARKING AMONG CONTRACTORS and (b) THE DEVELOPMENT OF BUSINESS REQUIREMENTS AND COMMON TERMINOLOGY FOR FINANCIAL MANAGEMENT SYSTEMS, and (c) THE IDENTIFICATION OF SYSTEMS WHICH LEND THEMSELVES TO COMMON PROCESSES AND THE PURSUIT OF STANDARDIZATION WHERE APPROPRIATE.*

Since its inception in June of 1993, the Council has embarked on several initiatives designed to leverage gains from the existing contractor financial management knowledge and experience base. One of these initiatives was the Functional and Operational Requirements (F&OR) effort. The purpose of this effort was to develop and publish a basic set of design requirements for the more commonly used financial management automated information systems. With this requirements document, a contractor could shorten the requirements definition phase of the system development life cycle and could also result in some standardization of system design within the DOE contractor complex.

Contractors are required to review applicable F&ORs prior to the acquisition of or the major modification to a financial management information system. Although these documents are intended to serve as reference material and are advisory in nature, it is the hope of the Council to eliminate redundant system development and unnecessary system procurements among the DOE contractors.

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Accounts Receivable Requirements

I. Purpose

To define the requirements for the Accounts Receivable process for effective management of all receivables from the point of inception through collection or write-off. Many of these requirements originate with DOE Order 2200.6A. Others stem from GAAP and/or good business practices.

II. Definition

Accounts receivable is the accounting treatment of recording, billing, collecting, reconciled aging, reporting, and treatment of uncollectables including write-offs. Receivables come into existence as a result of transactions such as the sale of goods or services (see Appendix A - Types of Receivables).

III. Internal Controls

The following controls should be in place to assure system integrity.

A. Recording

The transaction should be recorded as soon as reasonably possible after the event that gives rise to it. Normally, receivables are recorded as soon as reasonably possible after goods are delivered or accepted, services are performed, power bills are issued, licenses or permits are issued or renewed, interest is earned, or debt determinations involving disallowed costs or other overpayments under acquisition of financial assistance instruments are rendered. If a collection is received before the recording of the related receivable, the receivable should be recorded and the collection should be processed against that receivable. Earned but unbilled receivables should be recorded at the end of each monthly accounting period.

B. Ledgers

Accounts should be kept in a subsidiary ledger by debtor. Balance sheet code should be a primary category. Fund type should be a secondary category or otherwise be identified within the Accounts Receivable subsidiary ledger. Other categories in the subsidiary ledgers should indicate the type of receivable (see Appendix A). Each receivable should be entered into the appropriate general ledger balance sheet account and tracked to the appropriate DOE balance sheet account. The balance sheet accounts should be described in the entity's chart of accounts.

C. Posting

The receivable should be recorded in the appropriation or fund that will be credited when collections are accomplished unless otherwise provided by law or DOE policy. Detailed subsidiary records by debtor and appropriation fund should be kept.

D. Accounts Receivable

Accounts should be aged monthly to DOE's requirements. Reconciled lists of aged receivables should be prepared and submitted to DOE at required intervals. Formats and intervals may vary by Field Office.

Accounts Receivable Requirements

E. Reconcilliation With DOE Systems

It is critical that the receivables detail support the DOE balance sheet accounts.

F. Documentation of Collection Attempts

Documentation of all administrative collection action and detailed documentation of the bases for compromise or for termination or suspension of collection actions should be kept.

G. Statement of Account

Statements of account, if applicable, should be prepared at least monthly.

H. Billing

Request or demand for payment of moneys due should be transmitted to the debtor after recognition of the receivable.

IV. Accounts Receivable Cycle

A. Identification and Billing

Receivables are generally recorded on the books when the sale is made and title to the goods has passed. Receivables for services should be recognized only as services are performed.

Identification of the receivable to customer, fund type, B&R, etc., should be made in accordance with DOE needs and requirements. This information, which may be contract specific, will drive the invoice format, reporting requirements, rates, etc.

The amount that is billed and due from a customer is the net price after all applicable charges and discounts and this is the amount at which the receivable and the related revenue should be recorded. This amount should include late payment interest, penalties and administrative charges that may be applicable.

Some receivables result from transactions not directly related to the sale of goods and services. For example:

Employee Advances
A short term advance to an employee is essentially a lending transaction made in anticipation of future expenses. Advances should be booked as a receivable prior to the recognition of expense.

Freight Allowances

Accounts receivable should be valued at the net amount to be collected. If it is difficult to estimate the actual freight charges that will be incurred, it may be preferable to record the receivable at the gross amount and establish an estimated allowance for freight.

Accounts Receivable Requirements

Sales and Excise Taxes
Many governmental units impose sales and excise taxes on particular products or on the sales transaction itself. If sales and excise taxes are collected as separately disclosed additions to the selling price, they should not be confused with revenue, but should be credited to a liability account. It is generally preferable to record the tax liability at th time of sale or service.

Container Deposits
Customers may be charged for deposits on containers with the understanding that the deposit will be refunded when the container is returned. If the container deposit is collected in cash, the only problem is the correct accounting for the refund obligation. When the container is returned, the liability no longer exists and the difference between the amount of deposit and the cost of the containers not returned represents a gain or loss which should be combined with the account reporting depreciation on containers. When no time limit is set for the return, an estimate should be made of the number of containers that will not be returned and adjustments should be made periodically based on the company's experience.

B. Collection

Collection should be for the maximum portion of any debt due, at the earliest possible time, under the circumstances of each case, without incurring excessive costs.

DOE Field offices should assist in collection of disputed receivables if necessary.

A minimum of three progressively stronger written demands at no more than 30 day intervals must be made unless a response to the first or second demand or other information indicates that further demands would be futile or unnecessary.

Personal contact should be attempted when applicable.

Moneys received must be deposited to the appropriate bank account in a timely manner.

In the case of overcollections, refunding the overpayment becomes an issue. This is easily accomplished by a DOE On-line Payment and Collection (OPAC) reversal if applicable, or the overpayment can be held as a credit toward ongoing work if that is applicable. In the cases, however, where a check is required to refund the overpayment, the check should be issued against the same account to which the payment was deposited.

Although installments are discouraged, if payment by installment is necessary, a legally enforceable written agreement should be obtained (see DOE 2200.6A 5.b.(12)). When the debt is paid in partial or installment payments, the amounts collected should be applied first to accrued penalties and administrative charges as applicable, then to accrued interest, and finally to principal unless otherwise provided by statute, regulation, or contract.

Interest is assessed on principal only, not on interest, administrative charges or penalties, except when a debtor has defaulted on a previous repayment agreement or a judgment has been obtained. The initial interest rate charged should remain in effect for the duration of the indebtedness unless a different rate is prescribed in a repayment schedule. Interest is calculated on a 365 or 366 day year.

Administrative charges, when applicable, should be assessed on all delinquent debts. The amount of administrative charges assessed is based on the additional administrative costs incurred for servicing the delinquent account. Therefore, costs incurred before an account has become delinquent should not be included in the amount determination because there is no statutory

<u>Accounts Receivable Requirements</u>

authority to recover these costs. These charges are first assessed on the date when the debt becomes delinquent and they continue to be assessed with each subsequent demand for payment.

Penalties, when applicable, should be assessed on any principal portion of the debt that is delinquent more than 90 days. When the debt is 91 or more days delinquent, the penalty charge is accrued and assessed from the initial date the debt became delinquent. If a partial payment is received, the penalty is accrued only on the unpaid principal portion of the debt that is still delinquent.

Collection agencies and administrative offset are potential solutions to the collection problem that should be pursued prior to write off. Legal action may also be an option, when the amount warrants.

C. Write Off

The accountant's objective in attempting to anticipate uncollectable amounts is to prevent overstatement of assets and revenue in the period in which sales/services are made. In the balance sheet, the estimate of uncollectable amounts is carried as a credit balance in a valuation account titled Allowance for Uncollectable Receivables. A separate valuation account is used because it is not known which specific accounts will prove uncollectable, and the Accounts Receivable control account should agree with the subsidiary ledger detail. The allowance account is deducted from the gross receivables to arrive at net realizable value of claims against customers. Under no circumstances should the Allowance for Uncollectable Receivables, or any asset valuation account, be shown among liabilities or elsewhere on the credit side of the balance sheet.

DOE directives requires that the allowance for uncollectable receivables be established by using the specific identification method or the general allowance method or a combination of the two. Many of the DOE contractors have opted for the specific identification method. The allowance for uncollectable receivables should be reviewed periodically (perferably monthly) to ensure that adequate provisions have been made to cover estimated losses.

When collection attempts have failed and all reasonable options are exhausted, approval must be obtained from DOE prior to write off. This should be accomplished in a timely manner.

If an account previously written off is later collected, a common procedure is to debit Accounts Receivable and credit Allowance for Uncollectable Receivables. This reverses the entry, erroneously made, and the collection is then recorded in the usual manner. This method has the advantage of providing in the customer's account a complete record of the credit experience.

Write offs from individuals, sole proprietorships, or partnerships must be reported to the IRS on a 1099G form.

APPENDIX A

Representative Types of Receivables
(not comprehensive)

Integrated Contractor Orders
Other Federal Agencies
Other Federal Entities
Parent Organization Internal Agreements
NonFederal Entities
Grants
User Facility Agreements
Licenses
Royalties
InterGovernment Personnel Agreements
Cooperative Research and Development Agreements
Claims for Refunds
Prepaid Expenses
Miscellaneous
- *Containers*
- *Utility Bills*
- *Salvage*
- *Repairs/Maintenance*
- *Travel*
- *A/P Credit Memos*
- *Employee Education*
- *Employee Relocation*
- *Other Advances*