

DOUBTFUL DEBTS AND BAD DEBTS PROCEDURES 2018

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1 Purpose and application

- (1) These procedures apply to:
- (a) the process by which the University identifies, calculates and reports on provision for doubtful debts and writes off bad debts; and
 - (b) staff involved in calculating and reporting the provision for doubtful debts.

2 Commencement

These procedures commence on 1 January 2019.



3 Interpretation

bad debt	means a debt that is uncollectable after all reasonable collection efforts have been made.
central trade debtor	means a debtor in relation to which a record is established under the Trade Debtor Procedures 2017 and recorded directly into the finance system's trade debtors sub-ledger. It does not include a trade debtor recorded in any satellite trade debtor system.
collective provision	means a provision established to provide for the impairment of groups of debtors with similar credit risk characteristics.
doubtful debt	means a debt in relation to which the probability of recovery is uncertain.
FCT	means the Financial Control and Treasury unit in the University's Finance professional services unit.
impairment event	means the circumstances that lead to the recognition of impairment losses and the reversal of such losses.
individually assessed provision	means a provision established to provide for debts which have a high risk of being unpaid.
satellite trade debtor system	means a subsidiary system in which records of trade debtors are established and recorded under the Trade Debtor Procedures 2017 and which has balances recorded in the finance system's general ledger at regular intervals through the month.
student fees	means amounts payable by students to the University, which are: <ul style="list-style-type: none">• subject to the Student Debtor Sanctions Policy 2014; and• recorded in the student fee sub-ledger.
student loan	means a loan provided to a student under the Student Loan Procedures and which is recorded in the student loan sub-ledger.
trade debtor	means a debtor in relation to which a record is established under the Trade Debtor Procedures 2017 and recorded in the finance system's trade debtors sub-ledger.
third party	has the meaning given in the Third Party Payment of Student Fees Policy 2014 which at the date of these procedures is: <p>an individual or entity, other than a student, who has agreed to bear costs associated with full or partial payment of student fees and expenses for a specified unit or units of study or for a specified period of time.</p>
University's terms of credit	means the University's standard debtor payment terms, which are 30 days from the invoice date.

4 Types of provisions

- (1) The University applies Accounting Standard [AASB 9 Financial Instruments](#) which specifies the impairment requirements to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition, whether assessed on an individual or collective basis, considering all reasonable and supportive information. The credit risk is forward-looking and no longer requires a credit event to have occurred before credit losses are recognised.
- (2) There are two areas of impairment provisions under AASB 9:
 - (a) an entity does not wait until the receivable is past due before a provision is raised; and
 - (b) the amount of credit loss recognised is based on forward-looking estimates that reflect current and forecast credit conditions.

5 Central trade debtors

(1) Overview

- (a) Annually at the end of December, Financial Control and Treasury will generate an aged debt analysis report for central trade debtors exceeding the payment due date by 90 days or more. This report provides the basis for calculating the provision for doubtful debts.
- (b) The central trade debtors aged debt analysis report will be divided into the following categories:
 - (i) government organisations;
 - (ii) semi-government organisations;
 - (iii) health services and public hospitals; and
 - (iv) non-government organisations.

(2) Calculating provisions for doubtful debts

- (a) Order to Cash, FCT will calculate a provision for doubtful debts and post the variation in the general ledger each year.
- (b) Individually assessed provisions will be created for any central trade debtor if:
 - (i) no receipt has been recorded in the past 12 months; or
 - (ii) Order to Cash, FCT assesses that the debtor is in financial difficulties and is unable to pay their debt.
- (c) In calculating the collective provision, the value of the individually assessed provisions will be excluded from the value of balances in arrears on the aged debtor analysis report.
- (d) The central trade debtors collective provision will be calculated as follows:
 - (i) Step 1 – Review the debtors that are doubtful

Note: Debts that are outstanding for more than 90 days where the debtor has paid a portion of their debt in the last 12 months are considered doubtful because



they are in arrears. In addition, a forward-looking credit loss estimate will be reflected in the evaluation of debtors' current and forecast credit conditions.

- (ii) Step 2 - Separate the doubtful debts into the categories specified in subclause 5(1)(b).
- (iii) Step 3 – For each debtor category, calculate the trade debtors' recovery rate using the formula:

current year trade debtor receipts (12 months)

divided by adjusted trade debtors

Note: Adjusted trade debtors is the opening trade debtor balance plus trade debtor sales (12 months) minus trade debtor individually assessed provisions.
- (iv) The percentage derived from the calculation of the trade debtors' recovery rate will be applied to each category of debtors specified in subclause 5(1)(b).

(3) **Journal entries for provisions for doubtful debts**

- (a) If the provision for doubtful debts calculated in accordance with subclause 5(2) varies from the current provision stated in the general ledger, Financial Control and Treasury will process the variation.

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

(4) **Writing off bad debts**

- (a) The Order to Cash Manager, FCT will recommend a debt to be written off in accordance with the [University of Sydney \(Delegations of Authority\) Rule 2020](#), after the debt recovery action specified in the [Trade Debtor Procedures 2017](#) has been followed.
- (b) Bad debts written off will be expensed against the relevant school or department.

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

6 **Student tuition fees, student services and amenities fees and student third party arrangements**

(1) **Overview**

- (a) Annually at the end of December, Order to Cash, FCT will generate an aged debt analysis report for student tuition fees, student services and amenities fees and student third party arrangements exceeding the payment due date by more than one year. This report provides the basis for calculating the provision for doubtful debts.
- (b) The student fees debtors aged debt analysis report will be divided into the following categories:

- (i) **Domestic students**

The provision of doubtful debts for domestic students will consist of fees owed by students that exceeds the payment due date by more than one semester.



(ii) **International students and student third party arrangements**

The provision of doubtful debts for international students will consist of fees owed by students on extended instalment payment plans that exceed the payment due date by more than one year.

(iii) **Student services and amenities fees**

The provision of doubtful debts for student services and amenities fees will be based on uncollected fees for Semester 1 and 2 in the enrolment year.

(2) **Calculating provisions for doubtful debts**

- (a) Order to Cash, FCT will calculate a provision for doubtful debts and post the variation in the general ledger at the end of December each year.
- (b) Individually assessed provisions will be created for:
 - (i) the value of student services and amenities fees which exceeds more than one semester period; and
 - (ii) any tuition fee that relates to cancelled enrolment, instalment payment plans for international students, or third party arrangements.
- (c) The value of all individually assessed provisions will be excluded from the value of balances in arrears for the purposes of calculating the collective provision.

(3) **Journal entries for provisions for doubtful debts**

- (a) The Group Controller, FCT must approve any provision for doubtful debts calculated in accordance with subclause 6(2) which varies from the current provision stated in the general ledger.

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

(4) **Writing off bad debts**

- (a) The Order to Cash Manager, FCT will recommend a debt to be written off in accordance with the [University of Sydney \(Delegations of Authority\) Rule 2020](#).
- (b) Bad debts written off will be expensed against the relevant school or department.

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

7 Student loans

(1) **Overview**

- (a) Annually at the end of December, Financial Control and Treasury will generate an aged debt analysis report for student loans exceeding the payment due date by 90 days or more. This report provides the basis for calculating the provision for doubtful debts.
- (b) The student loans sub-ledger contains information on specified loan funds administered by the University.

Note: Further details can be found in Appendix A to the [Student Loan Procedures](#).



(2) **Calculating provisions for doubtful debts**

- (a) Financial Control and Treasury will calculate a provision for doubtful debts and post the variation at the end of December each year.
- (b) Individually assessed provisions will be created for the value of all student loans which are 90 days or more in arrears.
- (c) The value of all individually assessed provisions will be excluded from the value of balances in arrears for the purposes of calculating the collective provision.

(3) **Journal entries for provisions for doubtful debts**

- (a) The Group Controller, FCT must approve any provision for doubtful debts calculated in accordance with subclause 7(2) which varies from the current provision stated in the general ledger.

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

(4) **Writing off bad debts**

- (a) The Order to Cash Manager, FCT will recommend a debt to be written off in accordance with the [University of Sydney \(Delegations of Authority\) Rule 2020](#), after the debt recovery action specified in the [Student Loan Procedures](#) has been followed.

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

8 Salary overpayments

(1) **Overview**

- (a) Annually at the end of December the Human Resources Service Centre will provide a list of outstanding salary overpayments with the status of follow up action for each overpayment to Group Controller, FCT to support the preparation of the provision for doubtful debts calculations.

(2) **Calculating provisions for doubtful debts**

- (a) Financial Control and Treasury will calculate a provision for doubtful debts and post the variation at the end of December each year.
- (b) Each overpayment will be assessed individually and a provision will be raised for the outstanding amount.

(3) **Journal entries for provisions for doubtful debts**

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

(4) **Writing off bad debts**

- (a) The Director, Human Resources Service Centre will recommend a debt to be written off in accordance with the [University of Sydney \(Delegations of Authority\) Rule 2020](#).

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

9 Scholarship overpayments

(1) Overview

- (a) Annually at the end of December, the Higher Degree by Research Administration Centre (HDRAC) will provide a list of outstanding scholarship overpayments with the status of follow up action for each overpayment to Financial Control and Treasury to support the preparation of the provision for doubtful debts calculations.

(2) Calculating provisions for doubtful debts

- (a) Financial Control and Treasury will calculate a provision for doubtful debts and post the variation at the end of December each year.
- (b) Each overpayment will be assessed individually and a provision will be raised for the outstanding amount.

(3) Journal entries for provisions for doubtful debts

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

(4) Writing off bad debts

- (a) The Deputy Vice-Chancellor Education will recommend a debt to be written off in accordance with the [University of Sydney \(Delegations of Authority\) Rule 2020](#).

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

10 Controlled entities

(1) Overview

- (a) Annually at the end of December each controlled entity will provide aged debt analysis reports to Reporting and Compliance, FCT to support the preparation of the provision for doubtful debts calculations.

(2) Calculating provisions for doubtful debts

- (a) Controlled entity debts will be assessed individually and a provision calculated based on a history of debt recovery within the requirement of Accounting Standard AASB 9.
- (b) Each controlled entity will assess individual debt for risk of debt recovery and provide details on debts that are likely to become doubtful.
- (c) Controlled entities provisions will be calculated on debts exceeding more than one year.

(3) Journal entries for provisions for doubtful debts

- (a) The Group Controller, Financial Control and Treasury must approve any provision for doubtful debts calculated in accordance with subclause 8(2) which varies from the current provision stated in the general ledger.

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

(4) Writing off bad debts



- (a) The Order to Cash Manager will recommend a debt to be written off in accordance with the [University of Sydney \(Delegations of Authority\) Rule 2020](#).

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

11 Satellite trade debtors

(1) Overview

- (a) Annually at the end of December, the relevant manager will provide aged debt analysis reports for each satellite trade debtor system to Financial Control and Treasury to support the preparation of the provision for doubtful debts calculations.

Note: Satellite trade debtors include Animal Information System, Events Pro, OnCourse, StarRez, SydPay, NAB Asset Servicing.

(2) Calculating provisions for doubtful debts

- (a) Satellite trade debtors will be assessed individually and a provision calculated based on a history of debt recovery within the requirement of Accounting Standard AASB 9.
- (b) Each department will assess individual debt for risk of debt recovery and provide details on debts that are likely to become doubtful.
- (c) Satellite trade debtor provisions will be calculated on debts exceeding more than one year.

(3) Journal entries for provisions for doubtful debts

- (a) The Group Controller, Financial Control and Treasury must approve any provision for doubtful debts calculated in accordance with subclause 9(2) which varies from the current provision stated in the general ledger.

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

(4) Writing off bad debts

- (a) The Order to Cash Manager will recommend a debt to be written off in accordance with the [University of Sydney \(Delegations of Authority\) Rule 2020](#), after the debt recovery action specified in the Trade Debtor Procedures has been followed.

Note: Refer to [Doubtful and Bad Debts Financial Journal Entries](#) for details on journal entries.

12 Debt recovery

- (1) The Order to Cash team, FCT will process the bad debt write-off entries and adjust them against the provision account accordingly. Any recovery of these debts will be reflected against the provision account on a half yearly and yearly basis.
- (2) The subsequent recovery of a written off bad debt will be receipted to the department responsibility centre against the classification for other sundry income.

13 Internal controls

FCT responsibilities and accountabilities for implementing these procedures are as set out in the table below.

Officers	Responsibilities
Trade Receivables and Student Loans Team, Order to Cash	<ol style="list-style-type: none"> 1. Monitoring aged analysis reports for student loans and trade debtors 2. Recovery and debt management process for student loans and trade debtors
Billing and Collection Specialist, Order to Cash	<ol style="list-style-type: none"> 1. Compilation of the information provided in aged analysis of student loans and trade debtors 2. Collection Specialist to provide feedback on selected customer for calculation purposes 3. Calculations for the provision of doubtful debts for student loans and trade debtors 4. Substantiation by way of calculations for any variation in the provision for doubtful debts.
Manager, Order to Cash	<ol style="list-style-type: none"> 1. Preparation of the calculations for the provisions for doubtful debts for student loans and central trade debtors. 2. Co-ordination of the provision of doubtful debts for the University, including provisions for satellite debtor systems 3. Review of the procedure governing the provision for doubtful debts 4. Final approval of variation to the value for the provision for doubtful debts.

NOTES

Doubtful Debts and Bad Debts Procedures 2018

Date adopted: 29 October 2018

Date commenced: 1 January 2019

Date amended: 1 July 2020 (administrative amendments only)

Administrator: Director, Financial Control and Treasury

Review date: 29 October 2023

Rescinded documents:

Related documents:

Australian Accounting Standard AASB 9

Chart of Accounts

University of Sydney (Delegations of Authority) Rule 2020

Student Loan Procedures – Accounts Receivable

Trade Debtor Procedures 2017

AMENDMENT HISTORY

Provision	Amendment	Commencing
4	Amendments following the accounting standard change to AASB 9 from AASB 139	1 January 2019
Various	Administrative amendments for new delegations	1 July 2020