



## REVENUE RECOGNITION – RESERVES FOR BAD DEBTS PROCEDURES

### PROCEDURES

- **Basic rules for reserves for bad debts (reserves for doubtful accounts):**

Reserves for bad debts, write-offs and recoveries are recorded by Financial Administration for Central Accounts Receivable (A/R), student receivables, student notes receivable (i.e., student loans), and faculty and staff notes receivable (i.e., mortgage and educational loans). The offices responsible for recording these entries for receivables on their respective systems are the Central A/R Office, the Student Receivables Office, the Student Loan Office, and the Mortgage and Educational Loan Office.

Reserves for bad debt are recorded on the Balance Sheet and the corresponding bad debt expense is recorded on the Statement of Changes in Net Assets, at the tub level for Central A/R, student receivables and student notes receivable, and centrally for faculty and staff notes receivable.

The tubs are responsible for recording reserves for bad debts, write-offs and recoveries for any receivables that they have manually recorded. Service units are also responsible for recording reserves for bad debts, write-offs and recoveries for receivables that are recorded through their billing systems. The tubs and service units should utilize the Central A/R guidance that follows to record reserves for bad debts, write-offs and recoveries associated with receivables that they have manually recorded.

Manually recorded receivables must be evaluated for collectibility periodically throughout the year. Individuals evaluating receivables for collectibility should pay particular attention to old outstanding balances. Balances that have been outstanding for more than 90 days (i.e., that have “aged” over 90 days) are generally considered to be past due. In addition to the age of the receivable, factors that the tubs might consider in evaluating collectibility include financial condition of the customer, past payment trends for the customer and communications with the customer regarding the receivable. If the collectibility of a receivable is deemed to be uncertain, then the tub should establish a reserve for bad debt. Establishing a reserve for bad debt generally involves charging/debiting bad debt expense and crediting reserves for bad debt (a contra-asset account).

Reserves for bad debt and bad debt expense are recorded as the tubs, the Central A/R Office, the Student Receivables Office, the Student Loan Office, or the Mortgage and Educational Loan Office deem existing receivables to have less than certain collectibility. If a receivable is deemed to be wholly uncollectible, the balance should be written off. If a previously written-off receivable is later paid, a recovery is recorded.

- **Sales of goods or services to University departments:**

Receivables, reserves for bad debts, write-offs and recoveries are not recorded for sales of goods or services to other University departments. Revenues generated by providing goods or services to other internal departments may not be pre-billed, must be billed in a timely fashion within the correct fiscal year, and must be accounted for in accordance with the University’s Internal Billing Transactions Policy: <http://vpf-web.harvard.edu/ofs/home/content/InternalBillingPolicy.pdf>. The Office for Sponsored Programs’ Treatment of Service Centers Policy contains further information relating to service centers: [http://vpf-web.harvard.edu/osr/support/sup\\_spe\\_serv.shtml](http://vpf-web.harvard.edu/osr/support/sup_spe_serv.shtml).

- **Reserves for bad debts – Central Accounts Receivable:**

Reserves for bad debts for Central A/R are established in two ways:

1. For receivables in the Central A/R system, tubs may choose to reserve individual receivables in whole or in part based upon their determination of collectibility. The tubs must notify the Central A/R Office if they would like to reserve for specific accounts receivable balances on the Central A/R system at year-end.



## PROCEDURES, continued

- An estimated general reserve is calculated and recorded by the Central A/R Office for any Central A/R in object code 0131, "CO^ Central Accounts Receivable" at year-end. This reserve is determined on a tub-by-tub basis by calculating the average past three years' (not including the current fiscal year) tub write-offs, net of current-year recoveries, as a percentage of the average past three years' (not including the current fiscal year) sales. The resulting percentage is multiplied by the June 30th Central A/R balance to determine an estimated general reserve amount at year-end.

In each of these three cases, the following entry is recorded to establish the reserves for bad debt and recognize the associated bad debt expense:

*Debit object code 7761, "Bad Debt Expenses+Recovery"*

*Credit object code 0381, "Rsrv for Bad Debts General A/R" or object code 0382, "Rsrv for Bad Debts Misc A/R"*

Object code 0381 may only be used by the Central A/R Office to record reserves. Object code 0382 may be used by the tubs to record reserves.

The Central A/R Office will only record these entries for accounts receivable that comprise the object code 0131 balance (i.e., the balance for accounts receivable processed through the Central A/R system).

- Write-offs and recoveries – Central Accounts Receivable:**

The Central A/R Office writes off all accounts receivable on the Central A/R system that have been outstanding (i.e., unpaid) for nine months from their invoice dates. If a tub believes that an invoice will be collected in the immediate future, the tub may request prior to the write-off that the invoice remain open for an additional thirty days by submitting a Write-Off Extension Request form: <http://able.harvard.edu/forms/wostareq.doc> and emailing it to [AR\\_Collections@harvard.edu](mailto:AR_Collections@harvard.edu).

The Central A/R Office writes off accounts receivable on the Central A/R system that are deemed fully uncollectible in whole or in part in two different ways, depending upon what object code was originally credited when the account receivable was established. If an income object code was originally credited when the account receivable was established, then object code 5773, "General AR income bad debt write-offs" will be debited and object code 0131, "CO^ Central Accounts Receivable" will be credited in the write-off entry. If an expense object code was credited originally, then that object code will be debited in the write-off entry and object code 0131, "CO^ Central Accounts Receivable" will be credited to reduce the accounts receivable balance.

The Central A/R Office records recoveries received for accounts receivable processed through the Central A/R system via a two-step process: first, the receivable is reinstated through an accounts receivable debit memo to its original 33-digit coding and second, the cash receipt is deposited. ***If the tubs receive monies that relate to accounts receivable that have been previously written off, they must send them to the Central A/R Office immediately so that the receipts may be properly processed as recoveries.***

The Central A/R Office accounts for recoveries received for part or all of an account receivable that was previously written off in several different ways as well, again depending upon what object code was originally credited when the account receivable was established. If the original credit was to an income object code, then object code 5773, "General AR income bad debt write-offs" will be credited and object code 0131, "CO^ Central Accounts Receivable" will be debited for the recovery. If an expense object code was originally credited when the account receivable was recorded, then that object code will be credited for the recovery and object code 0131, "CO^ Central Accounts Receivable" will be debited to reestablish the account receivable. In either case, the Central A/R Office deposits recovered payments to object code 0131, "CO^ Central Accounts Receivable." As a result, accounts receivable is credited/reduced. (Cash is automatically debited when a cash payment is deposited.)



## PROCEDURES, continued

The Central A/R Office will only record write-off and recovery entries for accounts receivable that have been billed through the Central A/R system. The tubs are responsible for recording write-off and recovery entries and instructing the Cash Receipts Office to credit payments properly for any accounts receivable that they have manually booked.

- **Reserves for bad debts – manual accounts receivable:**

The tubs and service units are responsible for following the Central A/R methodology above to calculate reserves and record reserves entries for any accounts receivable that they have manually booked.

- **Write-offs and recoveries – manual accounts receivable:**

If a tub has previously recorded a reserve for bad debt specifically for a manual accounts receivable item that is going to be written off, then the reserve and account receivable must be offset in order to write off the receivable via a write-off journal entry:

*Debit* object code 0382, “Rsrv for Bad Debts Misc A/R”

*Credit* the accounts receivable object code utilized in the original journal entry (0070-0369)

If a tub has not previously recorded a reserve for bad debt specifically for a manual accounts receivable item that is going to be written off, then the tub may write off the accounts receivable that are deemed fully uncollectible in whole or in part in several different ways, depending upon what object code was originally credited when the account receivable was established. If an income object code was originally credited when the account receivable was established, then object code 5773, “General AR income bad debt write-offs” must be debited and the accounts receivable object code must be credited in the write-off entry. If an expense object code was credited originally, then that object code must be debited in the write-off entry and the accounts receivable object code must be credited to reduce the accounts receivable balance.

*Debit* object code 5773, “General AR income bad debt write-offs” if the original receivable entry credited an income object code **or** the appropriate expense object code if the original receivable entry credited an expense object code

*Credit* the accounts receivable object code utilized in the original journal entry (0070-0369)

The tubs must account for recoveries received for part or all of a manual accounts receivable item that was previously written off in several different ways as well, again depending upon whether the amount was previously reserved and, if not, what object code was originally credited when the account receivable was established. In either case, when processing a cash credit voucher, the tub must instruct Cash Receipts to deposit the recovered payment to the appropriate object code. If a reserve was established or the original credit was to an income object code, then the tub must instruct Cash Receipts to credit object code 5773, “General AR income bad debt write-offs.” If an expense object code was originally credited when the account receivable was recorded, then the tub must instruct Cash Receipts to credit the same expense object code.

*Debit* object code 0010, “Cash” (automatically debited when the cash receipt is deposited)<sup>1</sup>

*Credit* object code 5773, “General AR income bad debt write-offs” if a reserve was previously established for the receivable or if the original receivable entry credited an income object code **or** the appropriate expense object code if the original receivable entry credited an expense object code

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<sup>1</sup> Object code 0010, “Cash” is debited on the Central Bank’s balance sheet and a due to/from entry is recorded, crediting object code 0375, “CO^Due to/from Tub” on the Central Bank’s balance sheet and debiting object code 0375 on the appropriate tub’s balance sheet.



## PROCEDURES, continued

- **Reserves for bad debts – student receivables, student notes receivable, and faculty and staff notes receivable:**  
Estimated reserves for bad debts for student receivables, student notes receivable (i.e., student loans), and faculty and staff notes receivable (i.e., mortgage and educational loans) are calculated using methodologies determined by the Student Receivables Office, the Student Loan Office, and the Mortgage and Educational Loan Office, respectively. The Student Receivables Office calculates reserves based upon how recently payments have been applied against student accounts. The Student Loan Office calculates reserves based upon whether students are still in school or have left school, as well as whether their payments are current or delinquent. The Mortgage and Educational Loan Office calculates reserves based upon the overall loan population's five-year write-off history. These offices are responsible for reviewing these methodologies annually and adjusting them as necessary.

Tubs are responsible for providing the 33-digit coding for reserves to the Student Receivables and Student Loan Offices, which record the following reserve entry on the tubs' books:

*Debit object code 7761, "Bad Debt Expenses+Recovery"*

*Credit object code 0380, "A/R Students Rsrv for Bad Debts" or object code 0851, "Rsrv for Bad Debts N/R Student Loans"*

Reserves are recorded centrally for faculty and staff notes receivable, but the tubs are responsible for funding any write-offs from an unrestricted undesignated or unrestricted designated fund. The Mortgage and Educational Loan Office records the following reserve entry centrally:

*Debit object code 7761, "Bad Debt Expenses+Recovery"*

*Credit object code 0881, "Rsrv for Bad Debts Fac/Staff Loans"*

- **Write-offs and recoveries – student receivables:**  
Student receivables that are deemed fully uncollectible in whole or in part are written off by charging/debiting the tub reserve for bad debts and crediting the receivable balance. Recoveries for all or a portion of a receivable are recorded by first reversing this entry (debiting the receivable balance and crediting the tub reserve for bad debts), thereby reinstating the receivable and reserve. When the payment is recovered, it is deposited to the receivable object code, thereby crediting/reducing the receivable. (Cash is automatically debited when a cash payment is deposited.) ***If the tubs receive monies that relate to student receivables that have been previously written off, they must send them to the Student Receivables Office immediately so that the receipts may be properly processed as recoveries.***
- **Write-offs and recoveries – student notes receivable (student loans):**  
Student notes receivable that are deemed fully uncollectible in whole or in part are written off by charging/debiting object code 7761, "Bad Debt Expenses+Recovery" as well as the appropriate student loan fund and crediting the student notes receivable balance. Recoveries for all or a portion of a student note receivable would be recorded by first reversing this entry (debiting the student notes receivable balance and crediting object code 7761), thereby reinstating the student note receivable and reducing bad debt expense. When the payment is recovered, it is deposited to the student notes receivable object code, thereby crediting/reducing student notes receivable. (Cash is automatically debited when a cash payment is deposited.) ***If the tubs receive monies that relate to student notes receivable that have been previously written off, they must send them to the Student Loan Office immediately so that the receipts may be properly processed as recoveries.***
- **Write-offs and recoveries – faculty and staff notes receivable (mortgage and educational loans):**  
Faculty and staff notes receivable that are forgiven or deemed fully uncollectible in whole or in part are written off by charging/debiting object code 7763, "Other Loan Write-Offs" on the tub's chosen unrestricted undesignated or unrestricted designated fund and crediting the note receivable balance. MELO utilizes funds to track its outstanding notes receivable activity. Recoveries for all or a portion of a note receivable would be recorded by first reversing this entry (debiting the note receivable balance and crediting the tub bad debt expense), thereby reinstating the receivable and



## PROCEDURES, continued

reversing the write-off. When the payment is recovered, it is deposited to the note receivable object code, thereby crediting/reducing the note receivable. (Cash is automatically debited when a cash payment is deposited.) ***If the tubs receive monies that relate to faculty and staff notes receivable that have been previously written off, they must send them to the Mortgage and Educational Loan Office immediately so that the receipts may be properly processed as recoveries.***

- **Reserves for gifts receivable (pledges):**

Unconditional gifts and non-federal sponsored grants that have been promised to the University are recorded on the General Ledger by University Accounting Services as pledges receivable with corresponding reserves for doubtful accounts, using data from the Advance system. The University's Pledges Receivable Policy should be referenced for further information on the accounting for pledges receivable and the related reserves for doubtful accounts.

- **Sponsored revenue receivables and reserves:**

Given the nature of federal government receivables, there is generally no need for reserves associated with them. It is assumed that federal government receivables will be collectible. Should there be a case where federal receivables are deemed uncollectible, the expenses must first be transferred to object code 8450, "Expenses Ineligible for Federal Reimbursement, General." The Office for Sponsored Programs will then write off the expense balances.

Nonfederal sponsored receivables are treated similarly to Central A/R and must therefore be evaluated for collectibility and reserved and/or written off as necessary. Any questions regarding sponsored revenues and receivables should be directed to the Office for Sponsored Programs.

- **Timing of recording reserves for bad debts and write-offs:**

Reserves for bad debts and write-offs should be recorded for individual receivables throughout the year, if they are deemed to be uncollectible, and must be recorded no later than year-end. Quarterly recording of reserves for bad debts and write-offs is encouraged. The Central A/R Office, the Student Receivables Office, the Student Loan Office, and the Mortgage and Educational Loan Office record estimated reserves for bad debts annually at year-end.

- **Reserves for bad debts dollar thresholds:**

Reserves for bad debts associated with Central A/R (i.e., those receivables recorded through the Central A/R system) are recorded on a tub-by-tub basis. A tub-level reserve is recorded if the tub's reserve requirements are calculated to be equal to or greater than \$5,000. For other types of receivables, there are no specific dollar thresholds for recording reserves for bad debts.

- **Fund accounting for reserves for bad debts:**

The 33-digit coding for income and expenses, including bad debt expense, must include a fund number between 000001 and 999999; however, balance sheet items such as reserves for bad debts (a contra-asset account) should generally not be recorded in a specific fund. The 33-digit coding for the balance sheet side of an entry to record reserves for bad debts should generally contain 000000 as the fund number, unless a fund is being used for specific tracking and recording purposes (e.g., if funds are used for separate programs and the tub would like to track balance sheet amounts for each program). Funds are also used to distinguish activity associated with student notes receivable (i.e., student loans) and faculty and staff notes receivable (i.e., faculty mortgages and educational loans).



**Accounting for Reserves for Doubtful Accounts**  
**Examples of the Proper Coding of Certain Types of Transactions**

*Note: The following examples are progressive, all based upon one accounts receivable fact pattern.*

- In June 2006, the Alumni Affairs Office manually records a \$250,000 account receivable for amounts due to the University from classes that recently held reunions.**

*Given that this bill is not processed through the Central A/R Office, the Alumni Affairs Office would record a manual journal entry to recognize the revenue and record the receivable at year-end. By recording this accounts receivable entry, the revenue is appropriately recognized when it is earned in fiscal year 2006, even though payment is not received until fiscal year 2007.*

DEBIT/CHARGE object code <b>0130</b> <i>A/R Accruals</i>	\$250,000
CREDIT object code <b>5360</b> <i>Event+Program Svcs, External, GENERAL</i>	\$250,000

- In July 2006, the class of 2001 pays \$150,000 of its \$250,000 outstanding portion of this balance.**

*The Alumni Affairs Office instructs the Cash Receipts Office to credit the account receivable for this amount when it is deposited.*

DEBIT/CHARGE object code <b>0010</b> <i>Cash</i> <i>(Cash is automatically debited when the cash receipt is deposited.)<sup>2</sup></i>	\$150,000
CREDIT object code <b>0130</b> <i>A/R Accruals</i>	\$150,000

- In September 2006, the Alumni Affairs Office learns that the class of 2001 will likely not be able to pay the \$100,000 remaining balance.**

*Given that this bill was not processed through the Central A/R Office, the Alumni Affairs Office is responsible for recording a manual journal entry to establish a \$100,000 reserve for bad debts due to the uncertainty surrounding the remaining \$100,000 account receivable's collectibility.*

DEBIT/CHARGE object code <b>7761</b> <i>Bad Debt Expenses+Recovery</i>	\$100,000
CREDIT object code <b>0382</b> <i>Reserve for Bad Debts Misc A/R</i>	\$100,000

<sup>2</sup> Object code 0010, "Cash" is debited on the Central Bank's balance sheet and a due to/from entry is recorded, crediting object code 0375, "CO^Due to/from Tub" on the Central Bank's balance sheet and debiting object code 0375 on the appropriate tub's balance sheet.



**Accounting for Reserves for Doubtful Accounts**  
**Examples of the Proper Coding of Certain Types of Transactions, continued**

4. As of June 30, 2007, the class of 2001 has not yet paid the \$100,000 remaining balance due to the Alumni Affairs Office. The Alumni Affairs Office deems this \$100,000 to be fully uncollectible after its having been outstanding for twelve months.

*The Alumni Affairs Office is responsible for recording a manual journal entry to write off the \$100,000 account receivable. Given that a reserve was previously recorded for the amount, the write-off would be charged/debited to object code 0382, "Reserve for Bad Debts Misc A/R." The account receivable is credited to write off the remaining balance.*

DEBIT/CHARGE object code <b>0382</b> Reserve for Bad Debts Misc A/R	\$100,000
CREDIT object code <b>0130</b> A/R Accruals	\$100,000

5. In September 2007, the class of 2001 notifies the Alumni Affairs Office that they will be able to pay an additional \$5,000 of their balance. A \$5,000 check is received the next month.

*Since a reserve was previously recorded for the outstanding balance, the Alumni Affairs Office would instruct the Cash Receipts Office to credit object code 5773, "General AR income bad debt write-offs" for the \$5,000 amount from the class of 2001 when a cash credit voucher is processed.*

DEBIT/CHARGE object code <b>0010</b> Cash <i>(Cash is automatically debited when the cash receipt is deposited.)<sup>3</sup></i>	\$5,000
CREDIT object code <b>5773</b> General AR income bad debt write-offs	\$5,000

**Summary (in thousands):**

<-----Fiscal Year 2006 Entries----->					
	Beginning Balance	Entry #1	Entry #2	Entry #3	Ending Balance
0010	0		150		150
0130	0	250	-150		100
0382	0			-100	-100
5360	0	-250			-250
5773	0				0
7761	0			100	100

<-----Fiscal Year 2007 Entries----->				
	Beginning Balance	Entry #4	Entry #5	Ending Balance
0010	150		5	155
0130	100	-100		0
0382	-100	100		0
5360	0			0
5773	0		-5	-5
7761	0			0

<sup>3</sup> Object code 0010, "Cash" is debited on the Central Bank's balance sheet and a due to/from entry is recorded, crediting object code 0375, "CO^DUE to/from Tub" on the Central Bank's balance sheet and debiting object code 0375 on the appropriate tub's balance sheet.



Policy Title: Revenue Recognition  
Responsible Office: University Accounting Services  
Effective Date: July 1, 2007  
Revision Date:  
Policy Number: FA5

## FORMS

N/A

## CONTACTS AND SUBJECT MATTER EXPERTS

Local tub finance offices

Tub finance offices may contact the University Accounting Services analyst or manager assigned to their tub or the Senior Manager of Accounting Policy

Central Accounts Receivable (A/R) Office

Student Receivables Office (SRO)

Student Loan Office (SLO)

Mortgage and Educational Loan Office (MELO)

Office for Sponsored Programs (OSP)

Key subject matter experts who provided input in the development of this policy were the Financial Managers Forum and managers throughout Financial Administration.

## RELATED POLICIES

Revenue Recognition: <http://vpf-web.harvard.edu/ofs/home/content/RevenueRecognitionPolicy.pdf>

Student Accounts Receivable: <http://able.harvard.edu/policies/acct/aa002p/index.html>

Internal Billing Transactions: <http://vpf-web.harvard.edu/ofs/home/content/InternalBillingPolicy.pdf>

Treatment of Service Centers: [http://vpf-web.harvard.edu/osr/support/sup\\_spe\\_serv.shtml](http://vpf-web.harvard.edu/osr/support/sup_spe_serv.shtml)

Pledges and Pledges Receivable (under development)

## RELATED DOCUMENTS

Unabridged object code listing: <http://able.harvard.edu/coa/csma/userguide/unabridged-object-code-list.xls>

Accounts and Notes Receivable Procedures: <http://vpf-web.harvard.edu/ofs/home/content/ReceivablesProcedures.pdf>

Write-Off Extension Request form: <http://able.harvard.edu/forms/wostareq.doc>

## DEFINITIONS

N/A

## APPENDIX

N/A

