



## Allowance for Doubtful Accounts

Lawrence Berkeley  
National Laboratory      Financial Policies and Procedures      Part II - Chapter 1.07

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Primary contact:	Manager, Accounts Receivable

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### Summary

The purpose of this policy is to provide guidance for the establishment of an allowance for uncollectible accounts, in compliance with DOE Accounting Handbook, Chapter 8, Receivable, DOE Contract 31, and the Federal Acquisition Regulation (FAR).

### Policy

#### Overview

This policy is applicable to all Laboratory receivables including work for others (WFO), work performed for other DOE entities, technology transfer funds-in agreements, and miscellaneous (non-WFO) receivables.

Accounts Receivable are reported in the financial statements at net realizable value. Net realizable value is equal to the gross amount of receivables less an estimated allowance for doubtful accounts. An estimate is made of the doubtful accounts from the total of outstanding receivables. This estimate is entered as an expense (bad debt) and an indirect reduction in accounts receivable (via an increase in the allowance account) annually.

### Procedures

#### *Review the allowance account*

The allowance for doubtful accounts will be periodically reestimated against the aging of receivables to ensure proper valuation of the accounts receivable balance.

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Situations that may require the establishment of an allowance:

- a. A receivable will not be totally collected
- b. A non-federal debt is referred to DOE/Treasury in the cross-servicing program (a balance greater than \$25 with a TIN, or \$100 without a TIN, and 120 days delinquent)
- c. A debtor has filed for bankruptcy
- d. An estimate should be based upon the aged receivables over 180 days delinquent and the receivable is deemed uncollectible
- e. A collection is received for which an allowance has already been established

### ***Process to establish allowance for loss and approval***

- a. Accounts Receivable Department will determine the amount of the allowance to be established. The allowance is established for the entire amount of the bill or a portion of the bill, depending on the situation. The amount of the allowance should be the expected uncollectible accounts over 180 days past due excluding items on repayment agreement, contract retention with contract terms. In addition, the amount of the reserve should be increased for any items that are referred to DOE/Treasury for collection.

The allowance should be established in the major appropriation or fund type (WA) in BSC account 1517. Unallowable bad debts should be charged to project 358301 (UC Management Fees) after obtaining the appropriate approvals.

- b. Controller will request in writing University's approval to deduct the unallowable bad debts from pre-fee deductions.
- c. After obtaining UC approval, Accounts Receivable may post the allowance journal entry/resource adjustment, and General Accounting may deduct the approved bad debts from the monthly fee payment made to the University via a pre-fee deduction.
- d. If a collection is received after an allowance has been established, Accounts Receivable will reverse the allowance. For example, Treasury collects a debt that had been previously referred. Depending on partial or full payment, the allowance account would need to be re-evaluated or adjusted for correctness.
- e. Accounts Receivable should write-off delinquent debt over two years old. Records of amounts written off should be retained to match against DOE Report on Receivables Due From the Public, SF220.9.

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For example, if an uncollectible invoice is a debit balance the entry is as follows:

	SGL	Description	Account	Project ID	Dept	MARS	Fund	B&R	Resource Type	Resource Category
DR	8132	Bad Debts	672020	358301	XX	OPEXP	WA	YN0100000	MXDAF	57000
CR	1517	Allowance	131917		CFOBAL	73BAL	WA			

### Authority

- Department of Energy (DOE) contract 31, clause I.106
- Federal Acquisition Regulation (FAR) 31.205-3

### References

- [DOE Accounting Handbook, Chapter 8, Receivables](#)
- Financial Policies & Procedures, part I – Chapter 4.11, Cost Allowability, Bad Debts (FAR31.205-3)

### Glossary

- **Bad debts (DOE Contract 31):** Includes actual or estimated losses arising from uncollectible accounts receivable due from customers and other claims, and any directly associated costs such as collection costs, and legal costs are unallowable.
- **Doubtful account:** The Allowance for Doubtful Account is a valuation account (i.e. a contra asset) and is subtracted from trade receivables on the balance sheet.
- **Pre-fee deduction:** This method of payment may only be used for costs which cannot be incurred on government funds. Deductions may be made only with the appropriate approvals and documentation. Approved costs are paid with funds which would otherwise have been paid to the University as part of the monthly fee payment.
- **Work for Others (WFO):** The performance of work for non-DOE entities by DOE/Contractor personnel and/or the use of DOE facilities that is not directly funded by DOE appropriations.
- **Taxpayer Identification Numbers (TIN):** A nine digit employer identification number or social security number.
- **Write-off:** An accounting procedure to remove an account from an entity's assets.