

# ASU System Policy

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Effective Date: 1/01/2021

Subject: Student Accounts Receivable, Allowance for Doubtful Accounts, and Bad Debt Expense

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## **Purpose**

The Student Accounts Receivable, Allowance for Doubtful Accounts, and Bad Debt Expense Policy is designed to protect the financial health of the System campuses and to meet the following objectives:

- Guidance for evaluating and accounting for the uncollectible portion of student accounts receivable, including writing off uncollectible receivables and calculating an uncollectible receivable estimate
- Consistency for all campuses in reporting the total student accounts receivable, allowance for doubtful accounts, and bad debt expenses to ensure the effective administration of accounts receivable

## **Definitions**

***Student Accounts Receivable:*** Amounts owed by a student as a result of enrolling at the University. This includes, but is not limited to, amounts for tuition, fees, fines, books, supplies, housing, and meal plans.

***Allowance for Doubtful Accounts:*** Reasonable estimate, based on historical collections or other reasonable rationale, of the amount of accounts receivable that will become uncollectible. This amount is reflected as a contra-asset on the statement of net position.

***Write-Off Process:*** Process to remove an amount owed to the University from the receivable balance after a collection process has been followed. The balance is no longer considered an asset and is not reflected in the financial statements.

***Bad Debt Expense:*** The recognition in the financial records of the write-off process and the adjustment required to bring the allowance for doubtful accounts to its required balance.

## **Policy Statement**

### **Collections**

A receivable becomes past due if payment is not received by the payment due date. A concerted effort should be made to collect accounts. Each campus is responsible for establishing written collection procedures for accounts receivable.

Collection activities include any collection activities authorized by law.

### **Allowance for Doubtful Accounts**

The process of calculating the estimate for uncollectible balances requires a rational estimate that follows Generally Accepted Accounting Principles (GAAP). Each campus will use the allowance method in which estimates of the uncollectible accounts are applied as a percentage of outstanding accounts receivable as of June 30. The goal in recording the Allowance for Doubtful Accounts is to present, as accurately as possible, the net realizable value of accounts receivable on the University's financial statements.

### **Write-Off Process**

While routinely executing collection procedures, some student accounts receivable will be determined to be uncollectible. Accounts should be written-off the University's financial accounting records when the collection process has been completed and management determines the receivable to be uncollectible. Each campus maintains the criteria and guidelines establishing the point at which receivables become uncollectible, and each campus is responsible for consistently performing the write-off of receivables. The abatement (write-off) of student accounts receivable shall be governed by Arkansas Code Ann. §19-2-306, as well as by the guidelines established by the Chief Fiscal Officer of the state.

This ensures an accurate net receivables balance and is an important element of financial reporting. Amounts written-off are no longer reflected in the University's financial records; however, administrative and academic records will continue to reflect the student's enrollment and default status. Financial holds will be placed on the release of academic transcripts/records.

### **Reporting**

Based on audited financial statements and other financial records, the System will report annually to the Board of Trustees the following information:

- Total Accounts Receivable
- Total Student Accounts Receivable
- Allowance for Doubtful Accounts
- Net Student Accounts Receivable
- Total Amount Written-Off
- Bad Debt Expense
- Student Accounts Aging Report

(Adopted by the Arkansas State University Board of Trustees on September 18, 2020, Resolution 20-31.)