

UNIVERSITY of HOUSTON
MANUAL OF ADMINISTRATIVE POLICIES AND PROCEDURES

SECTION: Finance and Accounting
AREA: Finance and Accounting - General

Number: 05.04.04

SUBJECT:Accounts Receivable

I. PURPOSE

This document establishes guidelines for the prudent extension of credit where deemed permissible and in the best interest of the University of Houston.

II. POLICY STATEMENT

The university is prohibited from entering into a transaction for the sale or lease of goods or services in which the institution extends the credit of the state to the obligor. Prohibition against certain extensions of credit by retail stores owned or operated by institutions of higher education is defined in Article 51.929 of the Texas Educational Code, which states: “(a) Except as provided by Subsection (b) of this section, a retail store that is owned or operated by an institution of higher education may not enter into a transaction for the sale or lease of goods or services in which the institution extends the credit of the state to the obligor.”

In view of this prohibition, colleges or departments may not deliver merchandise or provide services to individuals, associations or corporations in any situation where the use of state appropriated funds are involved, unless payment is received. The prohibition against the extension of credit does not apply to federal, state, county or municipal government agencies; political subdivisions of the State of Texas; tuition and fees installment options as specified in the Texas Educational Code, section 54.007.

Each college or department is responsible for determining whether the extension of credit in specific cases is appropriate and in the best interest of the university to do so. It is the responsibility of the college or department to establish:

- A. A process to ensure that the requested extension of credit is not a prohibited transaction;
- B. A procedure for ensuring that any extension of credit is done so in a prudent manner, including the use of standardized credit applications, commercial credit reports and specification of the level of authority required for approval of the requested credit;
- C. Procedures for billing, accounting and collecting, to record and monitor the credit extended and ensure that the agreed upon payment is received. Such procedures

will include the creation of a reserve for doubtful accounts in cases of on-going credit extensions, or identifying non-state appropriated funds to offset any expenses in other cases; and

- D. A procedure for ensuring compliance with TEXAS GOV'T CODE ANN. 403.055 and similar statutes (known collectively as "warrant hold statutes") which require that state agencies report to the Texas Comptroller of Public Accounts the names of persons who have an indebtedness or tax delinquency to the state.

III. DEFINITIONS

- A. Debtor: Entity purchasing goods or services on credit (i.e., the buyer).
- B. Creditor: Entity selling goods or services on credit (i.e., UH department).
- C. Account Receivable: An asset that represents a claim against another entity for goods or services that have been provided, but for which cash has not been received.

IV. CRITERIA FOR RECOGNIZING AN ACCOUNT RECEIVABLE

An account receivable may be recognized if:

- A. The buyer of the goods or service is not another UH department; however, certain exceptions may apply.
- B. The buyer of the goods or services has entered into a legally binding agreement to purchase the goods.
- C. The goods or services have been delivered to the buyer by the seller.
- D. Payment is due to the seller from the buyer.
- E. The revenue from the transaction has been recognized in the seller's books and records.
- F. The cash payment has not been received (collected) by the seller from the buyer.
- G. Total outstanding accounts receivable for a department are deemed by the Associate Vice President for Finance to be material to the financial records of the department and thus to the university.
- H. The accounts receivable does not represent an extension of credit prohibited by law.

I. The recording is deemed to be appropriate by the university's accounting officers.

V. RECORDING AN ACCOUNT RECEIVABLE

Accounts receivable are recorded in the university financial system by journal entry prepared by the department and submitted to General Accounting with the appropriate supporting documentation. These entries credit the appropriate revenue account and debit the appropriate accounts receivable account in the department's general ledger cost center. The credit may go to more than one revenue account, and if the sale is subject to state and local sales tax, the tax liability must be recognized at the time the revenue is recognized (i.e., the sales tax account control must be credited for the appropriate amount given the amount of the taxable sale).

In the event that goods sold on account are returned, the accounts receivable outstanding balance is reduced by the amount of the return using a journal entry. The receivable is credited, and the revenue is debited (and, if applicable, the sales tax is debited for the appropriate amount).

VI. AGING, COLLECTING, AND RECONCILING ACCOUNTS RECEIVABLE

All departments recording accounts receivable in the financial system must maintain adequate records of those accounts.

Departments will reconcile the departmental records to the financial system monthly,

Departments will maintain a record of the monthly accounts receivable reconciliation and make available to general accounting or internal audit upon request.

Departments must also maintain an aging schedule for all accounts receivable, with the total of the aging schedule balanced to the total recorded accounts receivable. The following standard aging brackets are to be used:

0	To	30 days
31	To	60 days
61	To	90 days
91	To	120 days
121	To	180 days
181	To	360 days
361	To	720 days
	Over	721 days

The department recording the accounts receivable has the sole responsibility for collecting the account. The department must have a documented collection procedure in place and on file in General Accounting for doing so. A suggested schedule of activities for this procedure includes:

<u>Aging Bracket</u>	<u>Recommended Collection Activity</u>
31 to 60 days	Send second copy of invoice stamped (“PASTDUE”).
61 to 90 days	Send standard collection letter demanding payment.
91 to 120 days	Place telephone call to debtor.
121 to 180 days	Send Registered letter and place telephone call each month
Over 180 days	Send letter each month with copy to Office of General Counsel.

All collection activity must be logged and copies kept of all letters sent to the debtor.

VII. WRITE-OFF OF AN UNCOLLECTIBLE ACCOUNT

All accounts receivable to be written off are approved by the Board of Regents (BOR) of the University of Houston System. General Accounting will compile a list of all such accounts receivable for submission to the BOR. Accounts receivable are eligible for write-off once they have been outstanding for 720 days (two years). To be considered for write off, the department must demonstrate that adequate steps were taken to collect the amount due.

Departments with uncollected accounts receivable meeting the criteria for write-off will submit a list of individual accounts to be written-off and a current reconciliation of the department’s accounts receivable to General Accounting. Each individual account to be written-off must be supported by a copy of the original invoice and copies of the collection activity log and all correspondence relating to the collection activities for the account.

The department business manager (and certifying signatory) initiates the journal entry with the account to be debited for the write-off, and departments with a bad debt reserve (see next section) will use that account for the write-off (debit).

VIII. FORGIVENESS OF DEBT VERSUS WRITE-OFF OF UNCOLLECTED ACCOUNTS

The write-off of an uncollected account is a bookkeeping entry only and does not relieve the debtor from financial responsibility to the university. Although the uncollected account has been removed from the books and records the university may still have a claim against the debtor and may still seek legal remedy (e.g., sue for collection in a court of law). Therefore, it is the responsibility of each department to maintain adequate records regarding legal financial obligations (i.e., debts) owed to the university.

Departments that wish to forgive a debtor’s obligation to the university shall seek advice from the university General Counsel and the Office of the Assistant Vice President for Finance (Director of Tax Compliance) regarding any special tax consequences relating to the forgiveness of debt.

IX. ESTABLISHING AND USING A BAD DEBT RESERVE

Departments with recurring write-offs of uncollected accounts should contact General Accounting for assistance in establishing a reserve for bad debts.

X. REVIEW AND RESPONSIBILITY

Responsible Party: Associate Vice Chancellor for Finance

Review: Every two years on or before June 1

XI. APPROVAL

John M. Rudley

Vice President for Administration and Finance

Arthur K. Smith

President

Date of President's Approval: 12/12/02

XII. REFERENCES

Index Terms: Account receivable