

# 11.1 Accounts Receivable

## Policy Statement

This policy sets government-wide standards for accounts receivable management and creates a framework that can be used to establish procedures for individual departments.

## Policy Objective

The goal of the policy is to establish a framework that will lead to procedures that are consistent across all government departments yet flexible in order to deal with a variety of situations in the most efficient and effective manner possible to improve the cash flow of the province. Billing and collection can generate or require a significant cash flow. Optimum cash management requires good accounts receivable management.

## Application

This policy focuses on invoicing and collection of general accounts receivable or amounts owed to the province by internal and external customers.

## Policy Directives

### **CUSTOMER MASTER FILE RECORDS**

Customer master file records will be maintained by each department.

### **NATURE OF ACCOUNTS RECEIVABLE**

Departmental accounts receivable balances vary by dollar value and volume, depending on the nature and fee structure of the department's billing processes.

### **APPLICATION OF PAYMENTS**

Cash receipts may include payment for numerous invoices and may be partial payments of a particular invoice. Some cash receipts are received in error. Payments will be applied to the particular invoice to which they relate, even if payment is not the same amount as the invoice total. This will leave disputed or unpaid invoices as outstanding on the customer's account for further follow-up and collection efforts.

### **SEGREGATION OF DUTIES**

For internal control purposes, staff who are responsible for the management/ collection of AR must not handle or be responsible for the processing of receipts.

### **REFUNDS**

Payments received in error or paid in excess of the invoice total will be refunded to the payer. No refund will be made if other invoices are outstanding on the customer's account, and attempts should be made to negotiate with the customer to apply any excess payment to outstanding invoices.

### **COLLECTION PROCEDURES**

Every department, board, and agency of the province must establish collection procedures, taking into consideration the dollar amount of outstanding accounts receivable. The effort and cost of collecting accounts receivable depend on the dollar value of the outstanding balance.

#### **Billing**

Invoices will be prepared on a timely basis to permit recording of revenue/ recoveries and generation cash flows.

#### **Statements**

Departments may send follow-up statements of outstanding amounts to customers.

#### **Phone calls**

Departments may follow up on outstanding amounts by phone calls to customers.

#### **Dunning letters (Collection Letters)**

Where the age and amount of an outstanding receivable account warrants it, departments may send collection letters to customers with increasingly urgent messages and details of outcomes if payment is not received.

#### **Assignment of Overdue Accounts**

Debts due to the Province under programs that have been designated by the Minister of Finance and that have accounts receivable that are in arrears for a period of ninety (90) days or more must be submitted to Service Nova Scotia and Municipal Relations for collection purposes. Refer to Chapter 11.5 Corporate Collection Policy for detailed information.

### **ACCOUNTING AND REPORTING PROCEDURES**

#### **Balancing of accounts receivable**

Accounts receivable sub-ledger systems or manual lists must be balanced to the corresponding general ledger accounts, with errors corrected on a monthly basis.

**Aging reports of accounts receivable**

Accounts receivable aging reports, where available, must be produced and reviewed on a timely basis.

**Report to Deputy Ministers**

Large past-due accounts receivable must be reported, on a regular basis, to the Deputy Minister with recommendations for further collection steps.

**Returned cheque charge**

For each returned cheque, a department may charge the customer's account receivable whichever fee is applicable at the time of the cheque return. (Refer to Chapter 11.2 Returned Cheques.)

**Annual review of balances**

Each year, prior to year-end, all accounts receivable must be reviewed in preparation for the audit and to assess the adequacy of the allowance for doubtful accounts. Assessments must be done to determine the need to write off any accounts. (Refer to Chapter 11.3 Bad Debt Write-Off Procedures).

**DISCRETIONARY CREDIT**

All departments, boards, and agencies advancing discretionary credit must establish credit risk-assessment policies. Information to consider includes past credit history with other government departments, the nature of the business, the type and amount of credit, and the ability of the customer to repay. Credit-granting criteria should be reviewed by departments on a regular basis, based on the volume and age of unpaid accounts receivable.

**INTERNAL ACCOUNTS RECEIVABLE/PAYABLE**

At least annually, departments must reconcile their interdepartmental accounts receivable/payable with other departments. Departments must resolve and correct any differences by year end.

**Enquiries**

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