



BUCKINGHAMSHIRE  
NEW UNIVERSITY

EST. 1891



# Debt Management & Bad Debt Write- Off Policy

## **Contents**

<b>Background</b>	<b>2</b>
<b>Purpose Statement</b>	<b>2</b>
<b>Applicability and Scope</b>	<b>2</b>
<b>Responsibilities</b>	<b>2</b>
<b>Definitions</b>	<b>3</b>
<b>Key Policy Actions</b>	<b>3</b>
Principles for the Management of Bad Debts	3
Calculation of the bad debt provision	4
Management Reporting	4
Year-end procedures for write-off	4
<b>Appendix A: Financial Delegated Authorities Table</b>	<b>5</b>

Approved by: **Audit Committee**  
Version No. **1.0**  
Owner: **Finance Department**

Date first published: **Jun-2016**  
Date updated: **Jun-2016**  
Review Date: **Jun-2017**

This document has been designed to be accessible for readers. However, should you require the document in an alternative format please contact the Academic Quality Directorate.

## Background

- 1 As part of the management of its financial resources, Bucks New University needs to try and ensure the most effective cash collection procedures are in place and that income generated is reported at the correct levels.
- 2 Income to the University, reported through the Income and Expenditure Account is calculated to reflect the income generating activity for that time period regardless of whether or not the cash has been received by the University.
- 3 Customers of organisations do not always pay for the services they have used (e.g.; tuition fees, or commercial income). If despite best efforts to collect the outstanding income it is deemed to be irrecoverable it is referred to as a bad debt and would normally be written off to the income and expenditure (I&E) account as a reduction in income.
- 4 Treating income as a bad debt should be the final stage of the University debt collection process. To support this a detailed 'Student Payment and Debt Procedures' policy for the collection of income is in place and is in the process of being updated and reviewed.
- 5 To mitigate against the impact of writing off bad debts, the University makes an annual provision in the accounts (referred to as the bad debt provision).

## Purpose Statement

- 6 The purpose of this document is to outline the policy for the calculation of the bad debt provision and the writing off of any bad debts.

## Applicability and Scope

- 7 This policy applies to all staff involved in the raising of income and debt collection activities.
- 8 The scope of this policy covers Bucks New University income across all accounting headings including; tuition fees, commercial/enterprise income, accommodation and other miscellaneous income.

## Responsibilities

- 9 Leadership of this policy lies with the University Senior Management Team.
- 10 The Finance Director will be responsible for the management and administration of the policy. The policy will be reviewed on an annual basis to ensure it reflects current accounting practices and is reflective of the financial risks around income collection faced by the University.
- 11 All staff involved in the raising of sales invoices are responsible for ensuring that the information contained is correct to reduce the risk of queries and subsequent late

payments. They are also required to provide the relevant information and documentation for any debt collection process.

- 12 All enquiries relating to this policy should be directed to the Finance Operations Manager in the first instance.

## Definitions

- 13 **Debtor:** A person or organisation that owes money to the University.
- 14 **Bad debt:** An outstanding sum of money owed to the University or its subsidiaries which have not been paid despite repeated efforts to collect the debt (deemed irrecoverable) or it is uneconomic to pursue the debt further.
- 15 **Bad debt provision:** This is a provision which is made in the University accounts against outstanding income which may not be collectable. It ensures that future periods' results will not be adversely impacted if debts need to be written off.
- 16 **Write-off:** This is a procedure used in accounting when a debtor (or other asset) is determined to be uncollectable and is therefore considered to be a loss.

## Key Policy Actions

### Principles for the Management of Bad Debts

- 17 The University is keen to maximise its cash collection and in the first instance the debt recovery policy will be followed. Where the income remains outstanding and no payment plan has been agreed the following procedure will be followed:
  - Debts greater than 90 days and less than £100 may be referred to a debt agency or written off, dependent on circumstances.
  - Debts greater than 90 days and over £100 will be referred to our debt collection agency – any income recovered is between 88% and 100% of the original amount. Collection charges are passed on, but not always collected.
  - Debts greater than 90 days and over £5,000 will be pursued by our external debt collection agency and may be referred for litigation.
  - Interest may be chargeable on outstanding debt where this is deemed necessary.
- 18 **Student Debt:** Where a student debt has been written off the individual record in the student database will have the appropriate debtor flag attached.
- 19 **Commercial Debt:** Where the commercial debt is written off, the University may be able to claim VAT bad debt relief. A copy of the document and a printout will be made available for the VAT return if required.
- 20 The University can reinstate debts and attempt to collect them if new information comes available.
- 21 The accounting entries to be followed by finance will be:
  - DR – Bad debts expense account

- CR – Debtors Account - (Within Sales Ledger Control Account) – ACR ledger journal.

### **Calculation of the bad debt provision**

- 22 A bad debt provision will be calculated at the year-end (31<sup>st</sup> July) to be posted to the financial statements based on the following calculation:
- Any debts over 120 days – 50%
  - Any debts over 150 days – 75%
  - Any debts over 180 days – 100%
- 23 These threshold amounts will be reviewed regularly to ensure they reflect the natural cycle of debt management processes and are relevant to the Bucks New University business model.

### **Management Reporting**

- 24 In order to enable the Finance Director to effectively monitor the University debtor levels a monthly aged debt report will be produced. This will identify movements of debtor balances and contain narrative commentary of key risks, issues and updates on debt collection activities.

### **Year-end procedures for write-off**

- 25 During the financial year once it is established that debts are likely to be irrecoverable or uneconomic to pursue further the debt will be recommended for write-off.
- 26 Appendix A: Financial Delegated Authorities Table shows the delegated authority limits for the writing off of bad debts. Each proposed bad debt will be presented to the relevant body for approval.
- 27 A final year-end report will be prepared for the June Resources Committee detailing all debts written off during the year and any outstanding items requiring approval for that financial year.

## Appendix A: Financial Delegated Authorities Table

3.1.1.1 Approval of transactions within approved budgets and business plans

3.1.1.4 Writing off debt

<b>Title / Role Authority</b>	<b>Limits</b>	<b>Notes</b>
<b>Director of Finance</b>	£25,000	Examples include student related debt
<b>Resources Committee</b>	£50,000	Examples include partnership invoices
<b>University Council</b>	Unlimited	Variations to approved budgets and financial forecast subject to HEFCE fiduciary duties and trustee obligations