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| Policy Title: | Bad & Doubtful Debts |
| Audience: | Staff Only |
| Policy Date: | August 2021 |
| Policy Revision Date: | August 2024 |
| Policy Locations: | N Drive: Staff Intranet: |

1. Introduction

Most of RHSU's income comes in the form of grants or cash/credit card sales, which don't result in any debtor balances, however there are a number of instances where we raise sales invoices to customers who pay at a later date. This gives rise to the potential for bad and doubtful debts.

This policy covers the accounting policy for dealing with aged outstanding debt.

2. Responsibilities

The Head of Finance & Business Reporting is responsible to the Chief Executive and Trustees for all elements of debtor management. Day to day responsibilities may be delegated to staff, but overall responsibility for related policies and procedures may not be delegated.

3. Debtor management

The standard payment terms for customers is within 30 days of the invoice date, though there may be exceptions to this (eg where payment is required in advance of a service being provided). Overdue debts will be reviewed monthly, and reminders sent to customers requesting immediate payment.

Where a debt becomes 90 days overdue, it will be referred to the Head of Finance & Business Reporting for review. At this stage a formal notice will be issued and if required an external collection agent may be engaged to pursue the debt if it is viewed as a cost effective solution.

4. Providing for doubtful debts

All outstanding debt over 6 months old should be provided for, with the exception of those deemed to be likely to be settled in the foreseeable future. Exceptions must be approved by the Head of Finance & Business Reporting and the Chief Executive. Examples potential exceptions include:

- a) Where a debtor has made clear their intention to do so and there is no doubt over their ability to settle the outstanding invoice(s) in full
- b) Where it is clear that the customer has not been aware of the debt for the full period and there is confidence that settlement can be achieved
- c) Where the customer has disputed the invoice and a resolution is still being sought, provided that the customer accepts liability for at least part of the debt (the solution may involve a partial credit)

Provisions will be made at least annually (as at 31 July) as part of the year end process, but may be made more frequently if this results in better management information.

Provisions will be approved, in line with the above, by the Head of Finance & Business Reporting. Movements in the provision will be posted as an expense to the Statement of Financial Activities. The account entry will be:

Dr Bad Debts (expense)
Cr Bad Debt Provision (liability)

5. Writing off bad debts

Where a debt has been outstanding for more than 1 year it should be written off, unless an exception is approved by the Head of Finance & Business Reporting and the Chief Executive, with a clear rationale similar to that stated above. All exceptions will be reported to the Trustees (either by circulation, full Board or a subcommittee).

The write offs will be accounted for as a reduction in debtors (assets) and a reduction in the provision (liabilities). There will be no impact on the Statement of Financial Activities, except in exceptional circumstances where the debt has not previously been provided for. The accounting entry will be:

Dr Bad Debt Provision (liability)
Cr Debtors

6. Settlement of bad and doubtful debts

If a debt that has previously been provided for is settled, the provision shall be reversed and the net movement to the provision posted to the Statement of Financial Activities as an expense (a net reversal will show as a negative expense). The accounting entry will be:

Dr Cash
Cr Debtors
Dr Bad Debt Provision (liability)
Cr Bad Debts (expense)

Similarly, if a debt that has previously been written off is settled, it shall be posted to the Statement of Financial Activities as an expense. Since the provision has already been removed the accounting entry will be:

Dr Cash
Cr Bad Debts (expense)

7. VAT on write offs

Where applicable, VAT relief will be claimed on bad debt write offs in accordance with relevant HMRC regulations (currently VAT Notice 700/18).

8. Reporting bad debts

A summary of debts written off will be provided to the finance staffing and risk subcommittee of the board of trustees annually, upon closure of the accounts.

COVID ADDENDUM:

The organisation will approach collection of outstanding debts and consideration of bad debts in the context of the covid 19 pandemic, and will proceed with leniency in terms of collection date targets for suppliers whose activity was markedly impacted by lockdown or ongoing social distancing requirements. Cases will be treated on an individual basis, with medium term repayment plans agreed with debtors where appropriate.