Accounting Procedure - Trade Receivables

Section 1 - Background and Purpose

(1) This Procedure should be applied to financial assets that are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

a. those that the University intends to sell immediately or in the near term, which should be classified as held-for-trading, and those that the University upon initial recognition designates as at fair value through the income statement. Refer to the Investments and Other Financial Assets Policy;
b. those that the University upon initial recognition designates as available-for-sale. Refer to the Investments and Other Financial Assets Policy; and
c. those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which should be classified as available-for- sale. Refer to the Investments and Other Financial Assets Policy.

Section 2 - Scope

(2) Refer to the Accounting (Financial) Policy.

Section 3 - Policy Statement

(3) Refer to the Accounting (Financial) Policy.

Section 4 - Procedure

Recognition

(4) Receivables shall be recognised on the balance sheet when the University becomes a party to the contractual provision of the instrument, which is the amount owed to the University.

Provision for Impaired Receivables

(5) The collectability of trade receivables is reviewed on an ongoing basis. A provision for impairments of receivables is to be established when there is objective evidence that the University will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or other financial reorganisation and default or delinquent in making payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the income statement.

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(6) Debts which are known to be uncollectible are to be written off by reducing the carrying amount directly.

Recovery of Previously Written Off Receivables

(7) If the University recovered any amounts that have been previously written off as uncollectable, the amounts recovered should be recognised in the income statement.

Section 5 - Definitions

(8) For the purpose of this Procedure:

a. Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or un-collectability.
b. Effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
c. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the University shall estimate cash flows considering all contractual terms of the financial instrument (e.g., prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.
d. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
e. The University means La Trobe University.

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