

9. RECEIVABLES

9.1 Description

A receivable is recognized first, when the NPO actually earns the revenue, the grant or donation, and the right to receive the money; and second, when the receivables are ultimately collectible or enforceable on the part of the NPO. The recognition of a receivable is recorded in the general journal and in the receivable subsidiary ledgers, while collection is recorded in the cash receipts book.

Receivables are stated at the net realizable value, or the amount certain of collection. Management should continually assess collectibility and determine possible losses from non-collection of unpaid receivable.

9.2 Contributions Receivable

An NPO recognizes the certainty of a grant or donation based on the commitment of the donor and the fulfillment by the NPO of the conditions set by the donor and sets up a receivable. Receivable is collected either totally or partially. The NPO continually assesses the collectibility of the unpaid receivable, and determines whether it should set up a provision for doubtful accounts or not.

Practical Example:

On March 15, 2005, Evita Peron Foundation (EPF) committed through a **contract**, to donate to Ilocos Agricultural Research, Inc. (IARI), P10,000 to be credited to IARI's bank account with PDB at the end of the month.

March 15	Contribution receivable	10,000	
	Grant		10,000

To record receivable from EPF

On March 31, IARI checked its balances with PDB and found out that P8,000 was credited to its savings account

March 31	Cash in bank – PDB SA # 110	8,000	
	Contributions receivable		8,000

To record collection of receivable from EPF.

IARI received no further notice from EPF that it would fulfill its commitment. On June 30, 2005, the Board of Trustees of IARI decided to recognize the probability that it may no longer collect the balance of P2,000 and advised management to set up an allowance for that amount.

June 30	Provision for doubtful accounts	2,000	
	Allowance for doubtful accounts		2,000
	<i>To set up an allowance for doubtful accounts</i>		

9.3 Accounts Receivable

Accounts receivable are funds that individuals or other organizations owe the NPO due to services provided or goods sold. For example, a not-for-profit day care center may provide services to a local government for children whose day-care the government is paying for. Once the services are provided, the NPO has a receivable from the local government until it is paid for those services. Also, an NPO may bill its members for services that have been provided and are due to the members but have not yet been paid.

Pro-forma Entries:

Date	Accounts receivable – C.B.A.	1,000	
	_____ income (or fees)		1,000
	<i>To record billing of _____ services rendered to C.B.A. for the month of March.</i>		
Date	Cash	1,000	
	Accounts receivable – C.B.A.		1,000
	<i>To record collection of AR from CBA per billing statement number ____.</i>		

9.4 Advances and Other Receivables

Other receivables consist of cash advances for operating expenses, salary loans and other advances to officers and staff. This category also includes advances to individuals or organizations that are not intended in the normal operations of the NPO. Because these receivables come from the NPO's operational fund, intended for the delivery of programs and services, these receivables should be collected or may be offset against other activity costs' fund approved projects.

Cash Advances

Officers attending to assigned projects may be given specific amounts of cash advances which they can spend for the duration of their visit to these projects. These advances are computed based on the NPO's administrative and financial policies. Upon their return to the office, they should liquidate their advances by presenting a summary of their actual expenses together with the excess money, or a computation of the amount the NPO still owes them. This is not a problem though when advances equal the actual expenses.

Practical Example:

IARI is based in Laoag City. On April 1, 2005, Mr. Expedito Salazar, a project officer of IARI obtained a cash advance for his out-of-town meeting with EPF directors to be held in Manila. A PDB check amounting to P10,000 was issued to him.

April 1	Advances to officers and employees	10,000	
	Cash in bank – PDB CA # 111		10,000

To record advances to Mr. Salazar for his trip to Manila.

Assumption A. Actual Expenses < Cash Advance Amount

On April 15, Mr. Salazar came home from his assignment and prepared a liquidation of his expenses, as follows:

Transportation	P2,000
Meal allowance	675
Hotel accommodation	4,500
Laundry	<u>500</u>
Total expenses	7,675
Cash advance	<u>10,000</u>
Advances still due	<u>P2,325</u>

Assuming that Mr. Salazar pays in cash and IARI deposits it to PDB, the entry would be:

April 15	Cash in bank – PDB CA # 111	2,325	
	Transportation expense	2,000	
	Meal allowance	675	
	Hotel accommodation	4,500	
	Laundry	500	
	Advances to officers and employees		10,000

To record expenses incurred by Mr. Salazar and receipt of excess cash upon liquidation.

On May 30, when the first monthly deduction was made from his payroll, the entry would be:

May 30	Salaries and wages	45,000	
	SSS, Medicare and Pag-ibig premiums expense	1,270	
	Salary loans receivable		1,000
	Interest income		120
	Withholding tax payable		9,962
	SSS and Medicare premiums payable		1,920
	HDMF premiums payable		200
	Cash in bank – PDB CA#111		33,068

To record salaries of F. Santos and his first monthly loan and interest deduction for his salary loan.

The same entry will be made until the loan is repaid by F. Santos, except for the amount of interest income which is to be computed based on the outstanding balance of his loan.

There are times when the employee would make a loan from the Social Security System (SSS) with the same arrangement, that is, payment would be through monthly salary deduction. In this case, there would be no entry for the loan, but the monthly deduction would be a credit to SSS loans payable. The NGO is obliged to remit the amount deducted to the SSS.

The entry would be:

May 30	Salaries and wages	45,000	
	SSS, Medicare and Pag-ibig premiums expense	1,270	
	SSS loans payable		1,000
	Withholding tax payable		9,962
	SSS and Medicare premiums payable		1,920
	HDMF premiums payable		200
	Cash in bank – PDB CA#111		33,188

To record salaries of F. Santos and his first monthly loan SSS salary loan deduction.

On June 10, the NGO remitted the amount to the SSS.

June 19	SSS loans payable	1,000	
	SSS premiums payable		1,420
	Cash in bank – PDB CA#111		2,420

To record remittances to SSS for salary loans and premiums for the month of May 2005.