

Revenue and Accounts Receivable



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Revenue Types

- Government funding – ISC, Health Canada, CMHC, etc.
- Own source revenue – VLT operations, tobacco, gas and groceries sales, internet and phone services for community members, etc.
- Trust distributions.
- Other income – legal settlements, interest/investment income, gain on sale of assets, etc.



Revenue Accounts

- Revenue accounts are at the top of the income statement; other income accounts can be at the bottom, below the expenses.
- Accounts can be set up by funder and by revenue type.
- It's best to set up accounts based on funder and audit requirements; important to consider what makes most sense for the user.
- Sample income statements review.



Recording Revenue

- Customer invoice – used when there's a time lag between billing a customer and receiving a payment (two-step transaction).
- Sales receipt – used when billing and customer payment happen at the same time (one-step transaction).
- Journal entries – can be used to record monthly funding; auditors will review a 100% of journal entries.
- Accounting software may have different terms and methods for recording revenue.

Accounts Receivable

- Amounts owed by customers/funders – an asset on the balance sheet.
- When we prepare an invoice/customer billing, the amount is held in AR until payment is received and applied.
- Accrual basis of accounting requires recording AR.
- Aged AR report shows amounts owing by customer and their aging; important to update and review on a regular basis to ensure accuracy and collection of amounts owing to us.
- Example of Aged AR report.



Accounting Walk-Through

Invoice

	AR	Revenue	Bank	JE
Invoice	1,000	1,000		DR AR/CR revenue \$1,000
Customer payment	- <u>1,000</u>	<u>-</u>	<u>1,000</u>	DR bank/CR AR \$1,000
	-	1,000	1,000	

Sales receipt

	Revenue	Bank	JE
Sales receipt/direct deposit	<u>1,000</u>	<u>1,000</u>	DR bank/CR revenue \$1,000
	1,000	1,000	

Accounts Receivable - Continued

- Adjusting AR must be through individual customer accounts, otherwise adjustments will be unapplied and can create a discrepancy.
- Best way to adjust AR is through customer credit.
- Review aged AR report for uncollectable amounts regularly.
- Uncollectable AR should be written off to bad debt expense:
 - Doubtful AR should be allowed for in allowance for doubtful accounts (separate account next to AR on the balance sheet, balance remains in AR)



Accounts Receivable Write Off

Example	
Accounts receivable	100,000
Revenue	100,000
\$8,000 is uncollectable	
Accounts Receivable	92,000
Revenue	100,000
Bad debt expense	- 8,000
\$8,000 is doubtful	
Accounts Receivable	100,000
Allowance for doubtful AR	- 8,000
Net AR	92,000
Revenue	100,000
Bad debt expense	- 8,000



Government Funding

- Contribution agreement sets the terms including conditions of funding, deposit timing, and reporting requirements.
- Important to review and understand contribution agreements, can be obtained from the funding officer
- Some funding is ongoing with automatic monthly or quarterly bank deposits. We don't have to issue an invoice (create an AR) for ongoing funding, recording a receipt or a bank deposit is sufficient (some accounting software may require using an invoice for all revenue transactions)
- Project based funding is normally received in several payments based on the contribution agreement. We only need to issue an invoice if funding deposit is delayed. This is in order to record revenue in the period it belongs to
- Period-end verification procedure – agreeing funding revenue in the accounting system to government payment or direct deposit reports.



ISC Funding Types

- Set contribution – surplus must be repaid.
- Fixed contribution/flexible/grant funding – can carry over surplus to next year until carry-over exceeds annual funding.
- Flexible contribution with a term – can carry over for the duration of the funding agreement, must repay surplus at the end of the term.
- 10-year grant funding – gives the most spending flexibility; surpluses prior to entering into the new funding agreement must be repaid.
- ISC funding confirmation example.

Practical Application for First Nations Finance

Thank you for your time



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