Accounts Receivable Guide Sheet

What is Accounts Receivable (AR)?

Also known as AR, Accounts Receivable is part of the financial management system used to track legally enforceable claims for payment held by a business for goods supplied and/or services rendered for which customers/clients have ordered but not paid. Accounts Receivable are considered an asset on the tribal entity's statement of net position.

What are effective AR practices?

Receivables are booked into an accounting system only after proper documentation, such as an invoice, has been prepared.

A **subsidiary ledger** (or accounting module) is usually used to track receivables. Items are entered into the AR ledger when bills or invoices are sent to the customers/clients. Then, monthly statements are generated from this source documentation for each customer/client. If possible, use accounting software for invoicing and statements. Accounting software supports creation of consistent and accurate documents which can be easily reproduced and analyzed in monitoring reports.

AR is monitored for **aging of the accounts**. This means printing reports with lists of unpaid invoices by date ranges in 30-day segments. It provides information about which accounts are overdue for payment. An invoice which is past 30-60 or 60-90 days old may be a sign of a mistake or some problem with the invoice. Effective AR practices include taking timely actions to resolve problems or issues and settle accounts.

Establish the criteria for extending credit to your customers/clients such as:
- What amount of credit is extended to each customer?
- What period of time do you allow for payments?
- Will you offer discounts for early payments or charge penalties for late payments?
- Are there any other conditions which will impact how you set up your AR?
- Is the request allowable by the funding source?

When a sale is made to an approved AR account, steps to follow include:
- Create invoices with the date of the sale, the description of the product or services, cost for each item, and total amount due. Make the information on the invoice as clear and complete as possible. Include the payment terms, such as "net 30."
- Give each invoice a unique tracking number.

How is AR reflected in our accounting system?

Because AR is an asset account in your financial statements, it is important to record and account for AR correctly. If you are using **cash-basis accounting**, sales become revenue when you receive payment. AR is tracked separately from your revenue. If you use an **accrual-basis of accounting**, sales become revenue when the sale is made. If you do not receive payment for a sale, the loss may be charged to an expense account, such as bad debt.

Resources

- **TFMC Basis of Accounting Guide Sheet**
  https://mcusercontent.com/1603316364d7d2df3ca86736d/files/627e1397-bb3e-437a-980c-f657485d35f1/Basis_of_Accounting_Guide_508Ready.pdf
- **TFMC Accounting Software Guide**
  https://mcusercontent.com/1603316364d7d2df3ca86736d/files/d8a1f863-3917-4cdc-b1ad-936770bccad7/AccountingSoftware.pdf

The **OVC Tribal Financial Management Center (OVC TFMC)** provides **training, technical assistance, and resources** to support American Indian and Alaska Native communities as they successfully manage the financial aspects of their federal awards. OVC TFMC also offers support via our Virtual Support Center (VSC) to Office for Victims of Crime (OVC) grantees and those seeking federal funding from OVC for the first time. **Email questions or requests for grant financial management technical assistance to** TFMC@OVCTFMC.org or call **703.462.6900**. Visit OVCTFMC.org for additional resources and information.

Feedback Requested

OVC TFMC will continually work to provide resources to support grantees as they successfully manage their OVC financial awards. Your feedback assists us in creating these resources to meet your needs. To help us provide the most useful resources, we would appreciate your feedback on this guide sheet. Please send any comments or suggestions to Evaluation@OVCTFMC.org.

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◆ Building Organizational Financial Management Capacity ◆

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