ACCOUNTING POLICY – TRADE RECEIVABLES

Purpose

To establish decisions, directions and precedents which act as a reference for financial reporting and are the basis from which the University’s accounting procedures are determined.

Scope

This Policy should be consistently applied by the University, as well as all of its controlled entities, for both their financial reporting responsibilities and group consolidation purposes.

This Policy 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:

- 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;
- those that the University upon initial recognition designates as available-for-sale. Refer to the Investments and Other Financial Assets Policy; and
- 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.

Recognition

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.

Measurement

Trade receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest methods, less provision for impairment. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.
**Provision for Impaired Receivables**

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.

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

**Recovery of Previously Written off Receivables**

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

**Definitions**

*Amortised cost* is part of the cost of an asset which is written off as amortisation or depreciation in the account books, and represents accumulated amortisation or depreciation to date.

*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.

*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.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm’s length transaction. It is the quoted price in an active market, where it needs to be determined by using a valuation technique in an inactive market.
The University means the University of New South Wales.

References

AASB 7 – Financial Instruments Disclosures
AASB 139 – Financial Instruments: Recognition and Measurement

Appendix A: History

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