

Revenue Definition & Recognition ^[1]

In Brief

- At CU, financial transactions are processed as revenues if they result in an increase in financial resources and also meet certain other criteria.
- Organizational units need to look at every dollar received from an outside source and decide if it's revenue (as opposed to balance sheet activity or reduction of expense) and then ensure that any revenue is recorded in the appropriate revenue classification.

Quick Look

Procedural Statement - *effective date: 03/01/2018*

Introduction

This sets forth the processes governing the definition and recognition (categorization and reporting) of revenue. Correctly identifying revenue is critical from an accounting and financial reporting standpoint. The first task in identifying revenue is to look at every dollar received from an outside source (as opposed to dollars received from another FOPPS) and decide whether it is revenue, a balance sheet activity, or a reduction of expense. The second task is to record any revenue in the appropriate revenue classification.

Revenues

The following types of financial transactions result in an increase in financial resources and should be recorded as revenues. This is not an all-inclusive list.

- Tuition and fees
- Sales and services of educational departments
- Payment for "travel costs" by an external entity where the University is rendering services related to our mission. Agreements by the University may separately list travel costs, but if it is part of payment for officially rendered University services, then it is revenue.
- Sponsored project revenues (reimbursements) arise from sponsored project awards to the University from an external sponsor who both restricts the use of funds/property and stipulates conditions with which the University must comply (note that advance

payments on these are recorded as liabilities). This includes sponsor payments to cover IRB (Institutional Review Board) fees.

- Gifts or sponsorships
- Receipts from sales of buildings, equipment, or other capital assets of the University to the extent those receipts exceed net book value.
- External resale of items purchased internally from a service center (Expense Purpose Code 2100 such as Printing). Example: Department orders printed material from Printing Services and resells the material to students. Since the materials were purchased from a service center and therefore no revenue has been recognized for external reporting purpose, the sale to students should be recorded as revenue (as opposed to the resale of items purchased internally from a true auxiliary, which is found under reduction of expense, below).
- Proceeds received from insurance entities related to property and casualty losses incurred by the University (provided that such recovery does not occur in the same year as the loss). This is revenue because we have the option to not replace the lost property, unlike insurance payments related to workers compensation claims (which are under reduction of expense, below).
- Investment income
- Royalty and commission payments received by the University from external entities

The majority of resources coming into the University are revenues. However, there are exceptions, and sometimes a payment meets the definition and criteria of a balance sheet transaction or a reduction of expense. See below.

Balance Sheet Activity

The balance sheet presents financial position as of a specified date. The following types of transactions are examples of payments received by the University that are not revenues and that should instead be posted to a balance sheet account: This is not an all-inclusive list.

- Proceeds from debt issuance by the University
- Liquidations of investment principal by the University Treasury
- Accounts receivable (if payment from a customer on account)
- Loans receivable (if principal payment on an outstanding loan due from a student or other)
- Travel advance or expense advance (if employee is returning an unused advance)
- Sales tax payable (if sales tax collected on a sale)
- Unearned revenue (if payment from a customer in advance of your providing the goods/services)
- Undistributed receipts (if payment purpose is not evident and therefore payment must be deposited while its purpose is still being researched - this balance should be brought as close to zero as possible at month end and should be zero at year end)
- Financial resources received that are held in trust for others by the University acting as custodian or fiscal agent (these funds are generally accounted for in Agency Funds);
- Deposits held in custody if payment held as security for issuance of something (e.g., a lab tray, key, blueprints, agency fund deposits, etc.) to be held and returned to depositor upon satisfactory return of the issued item
- Bonds or other debt payable (if debt was issued)

Contra Expense

. In some cases, recording a payment as contra expense is an admission that University resources were improperly used to pay for the transaction initially. The following types of transactions are examples of payments received by the University that are not revenues and that should instead be recorded as a reduction of the related business expense. This is not an all-inclusive list.

- Refunds or rebates received directly by the University from a vendor for goods and/or services purchased by the University from the vendor. An example include when the University returns goods to a vendor and receives a complete or partial refund of the purchase price, or when a vendor provides a rebate to the University based upon the volume of business.
- Reimbursement of incidental usage of University resources by employees and associates when the resources involved typically are not used to provide services on a fee-for-service basis. Examples include reimbursement for copy machine, equipment, and space usage.

Sample comparison, application of revenue vs. expense reduction: A campus copy center charges all users on a per copy basis. Since the copy center has been established as a fee-for-service business, all monies received by the copy center in exchange for services are recorded as revenue. Now consider a departmental copy machine, inadvertently used by an employee to make personal copies. The employee subsequently reimburses the department for the copies made. Since the departmental copy machine was not established as a self-supporting service center, the monies received by the department are recorded as a reduction of the related business expense.

Other examples include:

- Payment of worker's compensation claims from an insurance company (since this reduces the cost of lost productivity)
- Payment for jury pay remitted to the University, applying to exempt employees only; since classified employees keep jury pay (again, this reduces the cost of lost productivity).
- Cost-sharing agreements with external entities whereby the University and the external entity agree to share the expenses of a particular activity that is not related to any mission-related service provided by the University.
- Payment by an employee to help defray part of a travel cost. This may be reimbursement of inadvertently claimed travel expenses or cost sharing by the employee..
- Resale of items purchased internally from a true auxiliary (EPC1 2000 such as Bookstore or Parking). For example, a department purchases one-day parking passes to resell to patients. Since Parking is a true auxiliary and therefore revenue has already been recognized for external reporting, the sale by the department should be credited to expense (unlike the external resale of items purchased internally from service centers, which are included under revenues, above).
- Reimbursements from employees or students for lost University property.

Categorizing Revenue

All revenue must be recorded in the Finance System using one of the three broad revenue classifications, or categories, listed below. Within each of these categories, revenue is further categorized to reflect the type of revenue. The SRECNP (Statement of Revenues, Expenses, and Changes in Net Position) ^[2]Table identifies all revenue accounts and their respective categories.

Operating Revenues - Revenues derived from activities that are associated with providing goods and services for instruction, research, public service, or related support to entities separate from the University and that are exchange transactions. Examples include student tuition and fees, sales and services of auxiliary enterprises, significantly all grants/contracts, and interest on student loans.

Nonoperating Revenues - Revenues that do not meet the definition of Operating Revenues

(above) or of Other Revenues (below) are considered nonoperating. Nonoperating Revenues are primarily derived from activities that are non-exchange transactions. Examples include gifts and contributions, revenue from sources defined as such by GASB (Governmental Accounting Standards Board) Statement No. 9 (e.g., investment income); and, state appropriations, Pell Grants, and other sources defined as such by GASB Statements Nos. 33 and 34. This is not an all-inclusive list.

Other Revenues - Revenues derived from capital activities and endowment. Examples include capital appropriations, capital grants and gifts, and additions to permanent endowments. This is not an all-inclusive list.

Revenue must be recorded under the accrual basis of accounting:

- For operating revenue, this occurs when services or goods are provided. Nonexchange transactions are recognized as revenue when all eligibility requirements are met as prescribed by GASB No. 33 Accounting and Financial Reporting for Nonexchange Transactions (GASB No. 33.)

Furthermore, revenue must be recorded in the correct Fund.

- The Fund identifies the source of the money being received and spent. For a list of Funds that appear on the University's financial statements, refer to the Finance System Values resource [3].

Revision Log

Questions?

Questions about these procedures should be directed to the appropriate campus controller [4], who will consult with the Associate Vice President & University Controller, as appropriate.

Exceptions

Unless approved by the Associate Vice President & University Controller, there are no exceptions to this procedural statement. Requests for exceptions must be submitted through the appropriate campus controller's office [4].

Questions & Feedback [5]

Feedback or Question *

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Source URL:<https://www.cu.edu/controller/procedures/accounting-handbook/revenue-definition-recognition>

Links

[1] <https://www.cu.edu/controller/procedures/accounting-handbook/revenue-definition-recognition>

[2] <https://www.cu.edu/controller/srecnp-statement-revenues-expenses-and-changes-net-position-table>

[3] <https://www.cu.edu/controller/accounting-finance/chartfields-attributes/finance-system-values>

[4] <https://www.cu.edu/controller/campus-controllers-finance-offices>

[5] <https://www.cu.edu/controller/forms/questions-feedback-0>