

Revenue Definition & Recognition ^[1]

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This sets forth the processes governing the definition and recognition (categorization and reporting) of revenues received by University funds.

Identifying What Constitutes 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.

Revenues

The following types of financial transactions, which result in an increase in financial resources, should be recorded as revenues. Note: These are examples, and the list is not intended to be all-inclusive.

- 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. It is important, however, to be aware of exceptions and to understand how to determine if a payment meets the definition and criteria of a balance sheet transaction or of a reduction of expense.

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: (Note: These are examples, and the list is not intended to be all-inclusive.

- 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); and,
- Bonds or other debt payable (if debt was issued).

Contra Expense

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. In some cases, recording a payment as contra expense is an admission that University resources were improperly used to pay for the transaction initially.

Note: The following are examples, and the list is not intended to be all-inclusive.

- 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.

- 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 University's Finance System using one of the three broad revenue classifications, or categories, listed below. Note that 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) Table ^[2] identifies all revenue accounts and their respective categories.

Operating Revenues

Revenues derived from activities that (a) are associated with providing goods and services for instruction, research, public service, or related support to entities separate from the University, and, (b) are exchange transactions as defined in Section D. Examples include student tuition and fees, sales and services of auxiliary enterprises, significantly all grants/contracts, and interest on student loans. (This list is not all-inclusive.)

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 as defined in Section D. Examples include (a) gifts and contributions, (b) revenue from sources defined as such by GASB (Governmental Accounting Standards Board) Statement No. 9, such as investment income; and, (c) state appropriations, Pell Grants, and other sources defined as such by GASB Statements Nos. 33 and 34. (This list is not all-inclusive.)

Other Revenues

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

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 Financial System Values - ChartField document at <https://www.cusys.edu/controller/fin-system-values.html> [3].

Exceptions

Unless approved by the Associate Vice President/University Controller, there are no exceptions to this procedural statement.

Questions

Questions about the classification of revenue, or which Fund to use for a transaction, should be directed to the appropriate campus finance office.

Groups audience:

Controller

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Links

[1] <https://www.cu.edu/controller/revenue-definition-recognition-effective-date-draft-080612>

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

[3] <https://www.cusys.edu/controller/fin-system-values.html>