ACCOUNTING PROCEDURES – GENERAL
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Issuing Office: Office of the Controller

REVENUE & EXPENSE RECOGNITION POLICY

SCOPE

This establishes UC San Diego's policy regarding recognition of revenues and expenses. It applies to all faculty, staff and agents responsible for the accounting of revenues and expenses at UC San Diego not including the Medical Center or the UC San Diego Foundation.

POLICY SUMMARY

This policy defines the proper timing and recording of revenues and expenses in the University's financial system. UC San Diego reports its revenues and expenses using the accrual basis of accounting according to Generally Accepted Accounting Principles (GAAP), the Government Accounting Standards Board (GASB), and other regulatory requirements. Proper recognition of revenue and expenses aligns accounting practices across all business areas of the University and ensures that operating results are not misstated as a result of revenues or expenses that are unrecorded or improperly recorded. UC San Diego will record accrued revenues and expenses at the end of each quarter during the fiscal year.

DEFINITIONS

Accrual: a method of accounting that recognizes income when earned and expenses when incurred regardless of when cash is received or disbursed.

Revenue: the recognized value of the products and services provided by UC San Diego as well as other income such as state appropriations and gifts.

Expense: the outflow of money to another person or group to pay for a product or service.

Credits to Expense: receipts that offset or reduce University expenses are defined as credits to expense. These credits include and are generally limited to purchase discounts, rebates and allowances, recoveries or indemnities on losses, and adjustments to overpayments and incorrect charges. Credits to expense never include receipts classified as revenue according to GAAP.

POLICY STATEMENT

Recognizing revenues and expenses under the accrual basis of accounting provides an accurate measure of UC San Diego's financial condition during an accounting period, and an accurate picture of the University's assets and liabilities at the end of an accounting period. The University's financial system is shared with the Health System, Campus and the UC San Diego Foundation. The Health System and campus are on the same general ledger and must use the same basis of accounting.

RESPONSIBILITIES

Financial officers are responsible for ensuring financial units and activity under their management abide by this policy and implementing procedures published on Blink.

Internal Controls & Accounting within the Office of the Controller is responsible for maintaining and updating this policy and answering questions relating to this policy.

The Accounts Receivable (AR) team is responsible for ensuring the timely and accurate billing of receivables through the Oracle Accounts Receivable sub-ledger based on billing details provided by the financial units. In collaboration with financial units, the AR team collects outstanding receivables as posted in the Oracle Accounts Receivable sub-ledger, reconciles to the appropriate billing financial unit, evaluates outstanding receivables for reserves, manages collections efforts, and the write-off process.

The Sponsored Projects Finance (SPF) team is responsible for providing award financial management and cost accounting support to financial units in financial expense reporting, cost-share, effort reporting, billing, collections, and reconciliation.

Student Financial Services within the Office of the Controller is responsible for student billing including recording and processing student loan payments.

PROCEDURES

1. Revenue Recognition and Accruals

A. All revenues shall be recorded when they are earned.

B. Revenue is recognized when revenue is earned, meaning when goods are shipped or services provided, not when payment is received for goods and/or services.

C. Revenue is considered earned and should be posted to the University's accounting records when all the following criteria are met (excepting appropriations or gifts):

   i. Evidentiary documentation exists of an arrangement to provide goods or services;

   ii. Goods have been delivered or services have been rendered;

   iii. There is a fixed or determinable price agreement for the goods and/or services. The price is not conditional or dependent on a future event; and

   iv. There is a reasonable assurance that the customer will meet their obligation to the University to pay for the goods and/or services provided.

D. Balance sheet entries will not be recorded for internal transactions. Internal transactions including sales and services between university financial units are not revenue to the University and will not be recorded as revenue nor is there an entry required for the balance sheet.

E. At quarter end, financial units must record accruals above the below thresholds for revenue not yet billed through the accounts receivable subledger. Any premature postings of revenue must be moved to the balance sheet by staff with provisioned access to the general ledger by the end of each fiscal year quarter if greater than the thresholds defined below. Postings under these thresholds may be moved at the financial unit's discretion.

   i. End of each quarter: manual entries are required for items greater than $50,000.

   ii. Year end: manual entries are required for items greater than $10,000.

F. Accounting Rules for Certain Types of Revenue

i. Record revenue offsets for items that reduce revenue such as scholarships applied to student income, rebates, discounts, and adjustments for customer overpayments. Unless a specific object code exists to record income offsets, record these offsets using the same coding for the original transaction for the related revenue.

ii. Do not record revenue for pass through expenses and expense reimbursements or recoveries. Record these as credits to the original expense. Examples include sharing of conference expenses with a sponsor or peer university that partially or fully reimburses the total gross expenses of the conference paid by the University. Those should be credited to the gross expenses recorded for the conference as paid by the University, not recorded as revenue to the University.

iii. Cost reimbursement grants/contracts - Revenue is directly related to the costs incurred. Revenue is recognized as expenses are incurred. Expenditure adjustments may create an adjustment to revenue. While cost reimbursement, by definition, implies that payments are made after costs are incurred, this is not always the case. When payments are received in advance or exceed expenditures to date, the liability, deferred revenue, is recorded. Once the advance payment or excess payment is earned, the liability is reduced, and revenue is recorded.

iv. Event/milestone grants/contracts - These projects provide funding as certain events occur or as milestones are met. An example of this type of project is a clinical trial where funding is based on the number of patients participating in the trial and is received incrementally. Revenue is recognized in conjunction with the milestones. Although the initial payment may be received in advance of achieving the milestone, the revenue is not recognized until the milestone is completed. Deferred revenue is recorded if payments are received in advance of the performance milestone as designated in the contract. Once the milestone is achieved, the liability is reduced, and revenue is recognized.

v. Fixed price contracts – this type of contract sets a fixed price for delivering the work stipulated in the contract, regardless of actual expenses incurred by UC San Diego on the contract. UC San Diego bears a financial risk where expenses exceed the fixed price. These types of sponsored projects may be government-funded or privately funded. Revenue is recognized on a percentage-of-completion basis. The percentage of completion basis records revenue as a percentage of cost incurred to date, divided by the total estimated expenses. The total estimated expense is the fixed price award. Expenses are monitored against the award amount to ensure that expenses do not exceed the award amount. If an expense exceeds the contract award, the expense is transferred to a project with funds available to cover the expense. At the end of the project, if the total award received exceeds the cumulative project expenses, the excess is recorded as revenue. Deferred revenue is recorded if payments are received in advance or in excess of the percentage completed. The liability is reduced once the advance or excess payment is earned, and revenue is recorded.

vi. Deferred revenue results when cash is received in advance of revenue being earned. Deferred revenue is recorded as a liability until it is earned. Once earned, the liability is reduced, and revenue is recorded in the general ledger. It is important to determine whether the cash represents earned revenue or deferred revenue when recording cash receipts.

vii. Percentage of completion - Many projects funded by grants and contracts are long-term, meaning that the projects will continue for one year or more. For long-term contracts, GAAP allows the revenue to be recognized on a percentage-of-completion basis if "circumstances are such that total profit can be estimated with reasonable accuracy and ultimate realization is reasonably assured." Current income recognized under the percentage-of-completion method is based upon (a) the total income projected for the contract at the time of completion, and (b) the expenses incurred to date. The percentage-of-completion is measured using the proportion of costs incurred versus the total estimated cost to complete the contract.

viii. Invoicing and Cash Receipt – Revenue recognition, invoice processing, and cash receipts may or may not occur at the same time. Revenue is recognized when earned while invoicing and cash receipt may occur independently of the entire process. For example, cash may be received at the start of the project before the university incurs any expense or performs any work. Cash and a deferred revenue liability are recorded when cash is received in advance, but revenue is not recognized.

2. Expense Recognition and Accruals

A. Expenses shall be recorded when they are incurred.

B. Expenses are recognized when they are incurred, meaning when the goods are received or when services are provided, irrespective of whether the University has received any invoices or issued payment.

C. All liabilities for obligations shall be recorded. This can include recognizing liabilities on the balance sheet for future expenses if the University has not paid for goods or services when they are received. Financial Units and Central accounting offices are responsible for recording balance sheet entries for certain expenses.

D. Balance sheet entries will not be recorded for internal transactions. No accruals or prepaid expenses will be recorded for transactions between University business areas.

E. Central accounting offices will record accruals for certain expenses at the end of each quarter and at year end such as salaries and wages.

F. At quarter end, financial units must record accruals for expenses not yet paid through the accounts payable subledger. The thresholds for these postings (excluding construction in progress (CIP)) are defined below. A financial unit may record items under the following thresholds at their discretion:

i. End of each quarter: manual entries are required for items greater than $50,000.

ii. Year end: manual entries are required for items greater than $10,000.

G. Credits to Expense: receipts that offset or reduce University expenses are defined as credits to expense. These credits can include but may not be limited to purchase discounts, rebates and allowances, recoveries or indemnities on losses, and adjustments to overpayments and incorrect charges. These must be recorded as credits to the original expense. Credits to expense do not include income that is revenue to the University.

3. Maintain Appropriate Supporting Documentation

Central offices and financial units accruing for revenues and/or expenses must maintain documentation that fully supports revenue and expense accrual entries. This documentation must detail the nature of the goods or services provided or to be provided (for revenues) or received or to be received (for expenses). Detail should include the posting details, the dates goods or services were provided or received, approvals and authorizations for the transactions and customer or vendor information.

4. Review and Reconciliation of Balances

Central offices and financial units must reconcile and maintain supporting documentation for manually recorded quarter and year-end accounts receivable, deferred revenue, and deposit liability balances. In addition the accounts receivable office will review accounts receivable balances for collectability and allowances for bad debts.

Central offices and financial units must also do likewise for manually recorded quarter and year end accrued expenses, prepaid expenses, and deposits paid balances. Any variances will be investigated and corrective action taken on a quarterly basis (at a minimum).

5. Reversing Entries

Central offices or financial units processing manual accruals (revenue or expense) are responsible for reversing the entry when payment is made or goods/services received (revenue) or when payment is received, goods/services provided or any agreement period ends (expenses).

FORMS

None

RELATED INFORMATION

None

FREQUENTLY ASKED QUESTIONS (FAQ'S)

None

REVISION HISTORY

2022-04-06 New policy issued.