

THIS IS NOT A POLICY

DRAFT POLICY AND INTERIM GUIDELINES

REVENUE & EXPENSE RECOGNITION POLICY

SCOPE

This establishes UC San Diego's policy regarding recognition of revenues and expenses and 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 timing and proper recording of revenues and expenses in our 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 consistently aligns accounting practices across all business areas of the University and ensures the operating results of University business entities 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 a more accurate measure of UC San Diego's financial condition during an accounting period, and a more 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 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.

General Accounting within the Office of the Controller is responsible for maintaining this policy and answering questions relating to this policy.

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Accounts Receivable Office (Central A/R) is responsible for ensuring the timely and accurate billing of receivables through the Oracle Accounts Receivable subledger based on billing detail provided by the financial units. The Central A/R Office collects outstanding accounts receivable as posted in the Oracle Accounts Receivable subledger, reconciles to the appropriate billing financial unit, evaluates outstanding receivables for reserves, manages collections efforts and determines and manages the write-off process.

The Office of Post Award Financial Services (OPAFS) is responsible for coordinating with financial units and the Central A/R Office to support billing of awards, and reconciling cash receipts as applied to awards and non-federal grants.

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

PROCEDURES

Revenue Recognition and Accruals

- Accrual accounting rules require UC San Diego to record revenues when they are earned and to record expenses when they are incurred.
- We recognize revenue in our accounting system when revenue is earned meaning when goods are shipped or services provided, not necessarily when payment is received for goods and/or services.
- Revenue is considered earned and should be posted to the University's accounting records when all these criteria are met (excepting appropriations or gifts):
 - Evidentiary documentation exists of an arrangement to provide goods or services
 - Goods have been delivered or services have been rendered
 - 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.
 - There is a reasonable assurance that the customer will meet their obligation to the University to pay for the goods and/or services provided.
- Balance sheet entries for revenue: there are several balance sheet entries that should be considered when goods or services have been provided but remain unpaid by the customer or group, i.e., an accounts/notes receivable asset, a deferred revenue liability, or a deposits paid liability.
- Balance sheet entries will not be recorded for internal transactions. Internal transactions including sales and services between university financial units is not revenue to the University and will not be recorded as revenue nor is there an entry required for the balance sheet.
- At quarter end, financial units must record accruals above these 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.
 - End of each quarter: manual entries are required for items greater than \$50,000.
 - Year end: manual entries are required for items greater than \$10,000.
- Accounting Rules for Certain Types of Revenue

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- 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.
- 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.

Expense Recognition and Accruals

- Accrual accounting rules require UC San Diego to record expenses when they are incurred.
- We recognize expenses in our accounting system when expenses are incurred meaning when the goods are received or when services are provided irrespective of whether we have received any invoices or issued payment.
- The University needs to record liabilities for obligations. 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.
- Balance sheet entries will not be recorded for internal transactions. No accruals or prepaid expenses will be recorded for transactions between University business areas.
- Central accounting offices will record accruals for certain expenses at the end of each quarter and at year end such as salaries and wages.
- 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 these thresholds at their discretion.
 - End of each quarter: manual entries are required for items greater than \$50,000.
 - Year end: manual entries are required for items greater than \$10,000.
- 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.

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.

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

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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).

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
