Division of Finance
Standard Operating Procedure

Revenue Recognition

Purpose

To establish a standard operating procedure (SOP) to determine when funds received from external entities must be recognized as University revenue and also to address internal billings and internal transfer natural account codes.

Procedure

I. Revenue Recognition

Use revenue natural accounts to credit revenue.

A. In General

Revenue is generally recognized when funds are received from external entities. In instances where an external entity is billed by the University, revenue is recognized at the time of the billing. Only those instances identified in section II. below are exceptions to recognizing revenue.

B. Rebill Cost Centers

Project segments that begin with UN22 (UN22xxxxx) in combination with 010.0000.29010 are Rebill cost centers. Rebill cost centers are created to facilitate billing select external entities. The first step in the billing process is to internally bill the Rebill cost center at which time the University will recognize revenue. See section V. below.

1. Direct Costing

Rebill cost centers in combination with expense natural accounts may be used on Direct Payment forms, Requisitions and Purchase Orders, PCard transactions and occasionally payroll transactions. In these instances of direct costing, the University will not recognize revenue.

C. Foundation and Student Organization Cost Centers

Fund type 1xx indicates a Foundation cost center. Fund type 080 indicates a Student Organization cost center. The Foundation and Student Organizations are both considered external entities but are billed internally at which time the University recognizes revenue. See section V. below.

II. Exceptions to Revenue Recognition

Exceptions to revenue recognition are listed in A-F below and qualify as exceptions when the receipt of funds is associated with a CURRENT fiscal year expense. Credit the funds to the cost center (including the expense natural account) that was originally charged with the expense. This results in expense reduction.

A. Refund of Actual Expenditures
This is most generally seen when a vendor refunds for the return of goods. If the refund is not processed via a credit memo, then the original document number must be listed in the description of the deposit ticket (i.e., Direct Payment or Purchase Order number).

B. **Purchases Made in Violation of Ohio University Policies and Procedures**
   This would include any personal and/or unauthorized activity inadvertently charged to an Ohio University cost center. There is the expectation that these types of charges are minimal.
   Examples:
   i. Reimbursement of a personal long distance call inadvertently placed on a business account.
   ii. Reimbursement of a personal purchase inadvertently placed on the PCard.
   iii. Third party reimbursement for travel expenditures paid by Ohio University (note: If it is known that third party reimbursement will occur, no such charges should be incurred by, or submitted for reimbursement to, Ohio University – please see Ohio University Policy 41.121). Exception: if the cost of an airline ticket purchased on the PCard for business travel exceeds the travel allowance allotted to an employee, then the department may deposit the monies received from the employee to expense natural account 400000.

C. **Reimbursements from Construction Contractors**
   Reimbursements from construction contractors for their consumption of utilities that are provided to Ohio University by external utility companies. Example: External utility company bills Ohio University, Ohio University pays the external utility company, and then Ohio University bills the construction contractor for the actual cost.

D. **Standard Purchase Rebates**
   In the description of the deposit ticket, indicate that the deposit is for a rebate associated with one specific purchase transaction. See section III.E. below for Contractual Agreement Rebates which are NOT an exception to revenue recognition.

E. **Refunds of Excise Tax for the Ohio University Airport**
   Deposit these dollars to expense natural account code 300000.

F. **Replacement of Library Books for the Ohio University Library**
   Deposit funds received to cover the replacement of books to expense natural account 959000. Rationale: this will prevent the purchase of the book from being capitalized more than once. This qualifies as an exception regardless of when the expense for the replacement book is posted.

G. **Planning Implementation Fees**
   Checks received from external entities may be deposited to internal transfer natural account 990128, by University Planning and Implementation staff or by Plant Accounting staff, in order to avoid booking University revenue twice.

III. **NOT an Exception to Revenue Recognition**
   When the question is asked “Is this an exception to revenue recognition?”, and the answer is determined to be “No.”, the item will appear in this section.

A. **Damages**
   Funds received from individuals and insurance companies to cover damages are recognized as revenue. Rationale: we may not replace in the same fiscal year or replace at all. In any event, we’ll record as revenue.
B. Warranty Claims
Funds received for warranty claims are recognized as revenue.

C. Reimbursements from Students or Student Organizations
Reimbursements for purchases made on behalf of students or student organizations are recognized as revenue. If the student organization has an agency account, then the account must be directly charged for the purchase which makes reimbursement unnecessary.

D. Prior Fiscal Year Expense Association
In regard to exceptions to revenue recognition listed in section II. above: when the receipt of funds is associated with a PRIOR fiscal year expense the exception does not apply - credit the funds to the cost center that was originally charged, but use revenue natural account 040688 instead of the original expense natural account.

E. Contractual Agreement Rebates
Rebates received from vendors as part of a contractual agreement are recognized as revenue.

IV. Refunding Previously Recognized Revenue
When refunding revenue collected in the current fiscal year charge the cost center (including the revenue natural account) that was originally credited. When refunding revenue collected in a prior fiscal year charge expense natural account 700000.

V. Internal Billings
Internal billings are for internally provided products and services. The “Standard Operating Procedure for Internal Billings for Services Provided in Prior Year and Accounting Corrections of Prior Year Activity” is applicable.

A. In General
When products or services are provided internally, the provider’s cost center in combination with an internal transfer natural account, is credited. If a transaction is not a valid accounting correction (does not reference an original transaction) then it is treated as an internal billing (i.e., an internal transfer natural account is credited).

Exception for natural account: Mail charges that are internally billed by Mail Services will use expense natural account code 571000 for both the debit side and the credit side of the transaction.

B. Rebill Cost Centers
When the provider is charging a Rebill cost center, the provider’s cost center in combination with a revenue natural account, is credited. See section I.B. above.

C. Foundation and Student Organization Cost Centers
When the provider is charging a Foundation or Student Organization cost center, the provider’s cost center in combination with a revenue natural account, is credited. See section I.C. above.

1. Correcting an Internal Billing
When a Foundation or Student Organization cost center is internally billed and it is later determined that a University cost center should have been billed (or vice versa) then the original transaction will need completely reversed in conjunction with posting to the correct cost centers and natural accounts. Click here to see transaction examples. Both the “Standard Operating Procedure for Internal Billings for Services
VI. Refund Associated with an Internal Billing

A. Refunding a University cost center:

1. For a Current Fiscal Year Charge
To process a refund for something that was billed internally in the current fiscal year, debit the University cost center (including the internal transfer natural account) that was originally credited, and credit the cost center that was originally debited (including the expense natural account). Click here to see transaction examples.

2. For a Prior Fiscal Year Charge
When processing a refund, for something that was billed internally in a prior fiscal year, debit the University cost center that was originally credited except use expense natural account 700000, and credit the cost center that was originally debited except use internal transfer natural account 990100. Click here to see transaction examples.

B. Refunding a Foundation or Student Organization cost center:

1. For a Current Fiscal Year Charge
To process a refund for something that was billed internally in the current fiscal year, debit the cost center (including the revenue natural account) that was originally credited, and credit the cost center that was originally debited (including the expense natural account). Click here to see transaction examples.

2. For a Prior Fiscal Year Charge
To process a refund for something that was billed internally in a prior fiscal year, debit the cost center that was originally credited except use expense natural account 700000, and credit the cost center that was originally debited except use revenue natural account 040688. Click here to see transaction examples.

VII. Associated Standard Operating Procedures
- Internal Billings for Services Provided in Prior Year and Accounting Corrections of Prior Year Activity
- Sixty (60) Day Rule for accounting corrections

VIII. Example Transactions

A. example associated with section V.C.1. above

1. Printing Resources prepares an internal billing to charge the Division of Finance for copying services. The Division of Finance provided a Foundation cost center for the charge. These are the cost centers used on the internal billing:

   Debit 100.4400.21010.531000.FN2103458 Division of Finance
   Credit 010.0000.20750.040166.000000000 Printing Resources

Division of Finance later determines that their University cost center should have been billed, rather than their Foundation cost center. These are the cost centers used on the accounting correction to: (a) reverse the original transaction, and (b) post to the correct cost centers and natural accounts:
(a) Debit 010.0000.20750.040166.000000000 Printing Resources  
Credit 100.4400.21010.531000.FN2103458 Division of Finance

(b) Debit 010.0000.21010.531000.UN2103663 Division of Finance  
Credit 010.0000.20750.990166.000000000 Printing Resources

2. Printing Resources prepares an internal billing to charge the Division of Finance for copying services. The Division of Finance provided a University cost center for the charge. These are the cost centers used on the internal billing:

Debit 010.0000.21010.531000.UN2103663 Division of Finance  
Credit 010.0000.20750.990166.000000000 Printing Resources

Division of Finance later determines that their Foundation cost center should have been billed, rather than their University cost center. These are the cost centers used on the accounting correction to (a) reverse the original transaction, and (b) post to the correct cost centers and natural accounts:

(a) Debit 010.0000.20750.990166.000000000 Printing Resources  
Credit 010.0000.21010.531000.UN2103663 Division of Finance

(b) Debit 100.4400.21010.531000.FN2103458 Division of Finance  
Credit 010.0000.20750.040166.000000000 Printing Resources

Click here to return to section V.C.1.

B. example associated with section VI.A.1. above

In the current fiscal year Printing Resources prepared an internal billing to charge the Division of Finance for copying services. The Division of Finance provided a University cost center for the charge. These are the cost centers used on that internal billing:

Debit 010.0000.21010.531000.UN2103663 Division of Finance  
Credit 010.0000.20750.990166.000000000 Printing Resources

Also in the current fiscal year the Division of Finance complains that the copying services were poor and Printing Resources agreed to process a refund. These are the cost centers used to process that refund:

Debit 010.0000.20750.990166.000000000 Printing Resources  
Credit 010.0000.21010.531000.UN2103663 Division of Finance

Click here to return to section VI.A.1.

C. example associated with section VI.A.2. above

In the prior fiscal year Printing Resources prepared an internal billing to charge the Division of Finance for copying services. The Division of Finance provided a University cost center for the charge. These are the cost centers used on that internal billing:

Debit 010.0000.21010.531000.UN2103663 Division of Finance  
Credit 010.0000.20750.990166.000000000 Printing Resources
In the current fiscal year the Division of Finance complains that the copying services were poor and Printing Resources agrees to process a refund. These are the cost centers used to process that refund:

Debit  010.0000.20750.70000.000000000  Printing Resources  
Credit  010.0000.21010.990100.UN2103663  Division of Finance

Click here to return to section VI.A.2.

D. example associated with section VI.B.1. above

In the current fiscal year Printing Resources prepared an internal billing to charge the Division of Finance for copying services. The Division of Finance provided a Foundation cost center for the charge. These are the cost centers used on that internal billing:

Debit  100.4400.21010.531000.FN2103458  Division of Finance  
Credit  010.0000.20750.040166.000000000  Printing Resources

Also in the current fiscal year the Division of Finance complains that the copying services were poor and Printing Resources agreed to process a refund. These are the cost centers used to process that refund:

Debit  010.0000.20750.040166.000000000  Printing Resources  
Credit  100.4400.21010.531000.FN2103458  Division of Finance

Click here to return to section VI.B.1.

E. example associated with section VI.B.2. above

In the prior fiscal year Printing Resources prepared an internal billing to charge the Division of Finance for copying services. The Division of Finance provided a Foundation cost center for the charge. These are the cost centers used on that internal billing:

Debit  100.4400.21010.531000.FN2103458  Division of Finance  
Credit  010.0000.20750.040166.000000000  Printing Resources

In the current fiscal year the Division of Finance complains that the copying services were poor and Printing Resources agrees to process a refund. These are the cost centers used to process that refund:

Debit  010.0000.20750.70000.000000000  Printing Resources  
Credit  010.0000.21010.040688.UN2103663  Division of Finance

Click here to return to section VI.B.2.

If there is an activity that isn’t addressed anywhere above, and you think it should be, please email a detailed description to mccall@ohio.edu for review. This SOP is subject to change.

SOP originated:  27-Jun-2003  
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