Finance Procedure - Revenue

Section 1 - Purpose

(1) This procedure describes the requirements for revenue recognition at Charles Sturt University (the University), including how:

a. these are treated in the accounts of the University and its controlled entities (the Group)
b. the principles set out in Finance Management Policy apply to revenue recognition and measurement in accordance with Australian Accounting Standards.

Document context

Scope		All employees, consultants and contractors of the Group who have responsibilities or accountabilities for revenue recognition, revenue assessment, or monthly/quarterly/year-end revenue processing for entities in the Group.
Compliance drivers		Government Sector Finance Act 2018
Policy suite	**Policy**	Finance Management Policy
	Procedure	Finance Procedure - Revenue (this document)
	Guidelines	NA
Related documents		As indicated in text or listed on the Associated Information tab
Review requirements		As per Policy Framework Policy
Document class		Management

Section 2 - Procedures

Accounting for revenue

(2) The principles in this procedure apply to accounting for revenue arising from the following transactions and events:

a. Government grants and assistance
b. Student fees and charges
c. Research revenue
d. Sale of goods
e. Interest, royalties and dividends
f. Other revenue.

Measurement

(3) Revenue is measured at the fair value of the consideration received or receivable. In most instances, consideration is received in the form of cash or cash equivalents.

Recognition – general principles

(4) Revenue is recognised when, or as, the University transfers control of goods or services to a customer at the amount the University expects to be entitled or when cash is received.

(5) A transfer occurs when the customer obtains control of the good or service. Control is obtained when the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

(6) Revenue recognition is determined by reference to the applicable Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB):

a. This procedure applies to the assessment of revenue under AASB 15 Revenue from Contracts with Customers (AASB 15) and AASB 1058 Income of Not-for-Profit Entities (AASB 1058).
b. Where an agreement or contract includes components that require the University to transfer cash to students or third parties, those components do not represent revenue and are accounted for separately under AASB 9 Financial Instruments.

(7) The Group is a not-for-profit entity and accounting policies are selected on that basis.

(8) Depending on whether certain criteria are met, revenue is recognised either:

a. over time, in a manner that depicts the University's satisfaction of the performance obligations, or
b. at a point in time, when control of the promised goods or services is transferred to the customer.

(9) For the purpose of clause 8, the key criteria are:

a. whether the contract is enforceable, and
b. whether the performance obligations are sufficiently specific.

(10) A five-step model is applied to determine when to recognise revenue, and at what amount. The model considers the following criteria:

a. Identify the contract
b. Identify the performance obligations
c. Determine the transaction price
d. Allocate the transaction price
e. Recognise revenue.

(11) Where the underlying agreement relating to funding is primarily to further the University's objectives and does not require the Group to transfer any goods or services to a customer, income is recognised in the period when the cash is received.

Government grants and assistance

(12) Financial assistance provided by Commonwealth, State or other government bodies is assessed to determine whether the funding represents a contribution, a contract with a customer, or another form of financial arrangement.

(13) A contribution arises where the University receives an asset without being required to provide goods or services of equal value in return.

(14) Where the funding arrangement does not contain performance obligations, income is recognised as revenue when both of the following conditions are satisfied:

a. The University obtains control of the contribution or the right to receive the contribution
b. It is probable that the contribution will flow to the University.

(15) Control is generally obtained on receipt of the funding or when the University has an enforceable entitlement to the contribution.

(16) Where contributions are received subject to conditions that require repayment if the conditions are not met, revenue is not recognised until those conditions are satisfied. Such amounts are recognised as income received in advance or monies held on behalf of government until the conditions are fulfilled.

(17) Where the funding arrangement contains enforceable and sufficiently specific performance obligations, income is recognised as revenue either over time or at a point in time, as per clause 8.

(18) Material contracts need to be assessed against the financial accounting process to confirm appropriate revenue recognition treatment has been applied, as per the 'Financial accounting assessment process' heading below.

Student fees and charges

(19) Student fees and charges are recognised as revenue in the period in which the relevant teaching or educational services are provided.

(20) Student fees and charges received in advance that relate to services to be provided in a future reporting period are recognised as income in advance until the services are delivered.

Research revenue

(21) Research revenue arising from contracts to provide services is recognised where the contract with the customer is:

a. legally enforceable, and
b. contains sufficiently specific performance obligations.

(22) Revenue associated with the provision of research services is recognised by reference to the satisfaction of performance obligations at the reporting date, where progress toward completion can be measured reliably.

(23) The University recognises revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services.

(24) Key requirements include:

a. the transaction price is allocated to identified performance obligations, and
b. performance obligations comprise goods or services that are distinct in the context of the contract.

(25) Revenue is recognised either over time or at a point in time, as per clause 8.

(26) Material contracts need to be assessed against the financial accounting process to confirm appropriate revenue recognition treatment has been applied, as per the 'Financial accounting assessment process' heading below.

Sale of goods

(27) Revenue from the sale of goods comprises revenue earned from the supply of goods or products to external parties, net of returns, discounts and allowances.

(28) Revenue is recognised at a point in time when the performance obligations are satisfied, being when control of the goods transfers to the customer.

Interest, royalties and dividends

(29) Interest income is recognised on a time proportion basis using the effective interest method.

(30) Where a financial asset is impaired, the carrying amount is reduced to its recoverable amount, calculated as the estimated future cash flows discounted using the original effective interest rate. The unwinding of the discount continues to be recognised as interest income.

(31) Fees and royalties received for the use of the University's assets are recognised on an accrual basis in accordance with the substance of the relevant agreement.

(32) Dividend income is recognised when the dividend is declared by the investee or controlled entity.

Other revenue

(33) Other revenue comprises miscellaneous income and other grant income not arising from the University's core activities. The revenue is recognised when the income is earned and control is obtained.

Financial accounting assessment process

(34) The financial accounting assessment aims to ensure all revenue arrangements entered into by the Group are assessed to determine the appropriate accounting treatment in accordance with Australian Accounting Standards, including AASB 15 and AASB 1058.

(35) A financial accounting revenue assessment must be completed where any of the following apply:

a. A new or amended funding agreement, contract or arrangement is entered into
b. Revenue arrangements are non-routine, material or judgemental in nature
c. Terms and conditions differ from established or previously assessed arrangements
d. An assessment is requested by Financial Accounting and Treasury as part of a periodic review, audit or quality assurance processes.

(36) Revenue assessments are performed by using the approved revenue assessment tool. The tool applies a structured assessment framework to:

a. identify whether an arrangement contains a contract with a customer
b. determine whether enforceable and sufficiently specific performance obligations exist
c. assess whether AASB 15 or AASB 1058 applies
d. document the basis for revenue recognition (over time, at a point in time, or on receipt)
e. support the consistent classification of timing of revenue recognition.

(37) The assessment must be completed based on the executed agreement and any related documentation, with outcomes supported by reference to relevant contract clauses.

(38) Completed revenue assessments will be prepared and reviewed by the Financial Accountant (Reporting), the Associate Director, Financial Accounting (Reporting and Assets), or Director, Financial Accounting and Treasury.

(39) Financial Accounting and Treasury will make the final determination of the applicable accounting treatment and may request additional information or clarification to support the assessment.

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(40) Contracts or enquiries should be submitted to Financial Accounting and Treasury via email to finaccounting@csu.edu.au

(41) Completed revenue assessments form part of the official accounting record and must be retained in accordance with University record-keeping requirements. Records must be available to support internal reviews and external audit, and be updated where agreements are materially varied or circumstances change.

Section 3 - Glossary

(42) For the purpose of this procedure:

a. Contract – means an agreement between two or more parties that creates enforceable rights and obligations, assessed by reference to its terms and applicable law.
b. Control - means the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset. Control is transferred when the customer can decide how and for what purpose the asset is used.
c. Customer - means a party that has contracted with the University to obtain goods or services that are an output of the University's ordinary activities in exchange for consideration.
d. Enforceable agreement - means an arrangement where the rights and obligations of the parties are legally enforceable, including the University's obligation to transfer goods or services and the counterparty's obligation to provide consideration.
e. Financial accounting - means the process by which the University and its controlled entities records and reports its financial transactions and balances.
f. Income received in advance - means amounts received by the University for which the associated goods or services have not yet been transferred to the customer and are therefore recognised as a liability until the performance obligations are satisfied.
g. Performance obligation - means a promise in a contract to transfer a distinct good or service (or a series of distinct goods or services) to a customer.
h. Revenue - means income arising from the ordinary activities of the University, recognised in accordance with applicable Australian Accounting Standards.
i. Revenue assessment tool - The standardised financial accounting tool used by the University to assess revenue arrangements and determine the appropriate accounting treatment under AASB 15 or AASB 1058.
j. Sufficiently specific – in relation to performance obligations, means the nature, timing and extent of the goods or services to be provided are clearly identifiable, allowing the University to determine when the obligation has been satisfied.
k. Transaction price - means the amount of consideration the University expects to be entitled to in exchange for transferring promised goods or services to a customer.

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