

Appendix C: Examples of Proper Revenue Recognition Accounting

Accounting for Receivables Example

FAS Core rents space at the Smithsonian Astrophysical Observatory to the Smithsonian Institution. FAS Core manually bills the Smithsonian Institution \$420,000 per quarter in rent. FAS Core is recording the fiscal year 20X1 fourth quarter billing, for which payment will be received in fiscal year 20X2.

Given that this bill is not processed through the Central A/R Office, FAS Core would record a manual journal entry to recognize the revenue and record the receivable at year-end. This entry is presented in the first column. By recording this accounts receivable entry, the revenue is appropriately recognized when it is earned in fiscal year 20X1, even though payment is not received until fiscal year 20X2.

When payment is received in fiscal year 20X2, the Cash Receipts office would be instructed to credit the payment directly to object code 0130, "A/R Accruals." The entry in the second column reflects the cash receipt and offset to the receivable.

| Fiscal year 20X1 | Fiscal year 20X2 |
|--|--|
| Debit/charge object code 0130: A/R Accruals | Debit/charge object code 0010*: Cash (automatically debited when the cash receipt is deposited) |
| Credit object code 4710: Real Estate Rentals, Nonstudent External, GENERAL | Credit object code 0130: A/R Accruals |

If the fiscal 20X2 cash receipt were initially credited directly to rental income instead, the following journal entry would be necessary in fiscal year 20X2 to properly offset the receivable and reverse the double-booked revenue.

| | |
|--|--|
| Debit/charge object code 4710: Real Estate Rentals, Nonstudent External, GENERAL | Credit object code 0130: A/R Accruals |
|--|--|

Accounting for Deferred Revenue Example

The Business School's Publishing Corporation (HBSPC) offers subscriptions to the "Harvard Business Review" (HBR). A one-year basic subscription costs \$99. The subscription payments are deposited and recorded as subscription sales income.

Because all of the HBR subscriptions are treated collectively as one item that exceeds \$5,000, the revenues associated with future HBR issues must be deferred at quarter-end. This amount could either be determined by using individual subscriber data or by estimating a deferral based upon subscription trends. The deferral entry would be updated each quarter based upon new and lapsed subscriptions as well as monthly subscription issuances (i.e., earning the revenue). Use the entry in the first column to record the initial deferral or additional deferrals; use the entry in the second column to reduce the deferral amount.

| Recording the initial deferral/ increasing the deferred revenue amount | Reducing the deferred revenue amount |
|---|--|
| Debit/charge object code 4670: Subscriptions, External Sales, GENERAL | Debit/charge object code 2608: Deferred Subscription Revenue, GENERAL |
| Credit object code 2608: Deferred Subscription Revenue, GENERAL | Credit object code 4670: Subscriptions, External Sales, GENERAL |

Ideally, HBSPC would initially deposit each subscription payment to object code 2608, "Deferred Subscription Revenue, GENERAL" instead of subscription revenue upon receipt and thus avoid recording the initial deferral entry in the first column.

*Object code 0010 "Cash" is debited on the Central Bank's balance sheet and a due to/from entry is created crediting object code 0375 "CO^Due to/from Tub" on the Central Bank's balance sheet and debiting object code 0375 on the appropriate tub's balance sheet.

Accounting for Refundable Deposit Receipts Example

HRES receives refundable security deposits from tenants. HRES asks the Cash Receipts office to deposit these amounts as security deposit liabilities.

| |
|--|
| Debit/charge object code 0010*: Cash (automatically debited when the cash receipt is deposited) |
| Credit object code 2481: Security Deposits |

Refundable deposit receipts must be recorded as a deposit liability upon receipt or no later than quarter-end. If HRES had initially credited the receipt to a revenue object code, a journal entry would need to be processed to debit income and credit the security deposit liability prior to quarter-end.

When the security deposit is returned to the customer at the end of the lease term, HRES would charge/debit the payment to object code 2481, "Security Deposits" in order to reduce the deposit liability.

Accounting for Nonrefundable Deposit Receipts Example

HSPH receives nonrefundable admission deposits in April, May and June from students matriculating in September. The admission deposit payments are deposited and recorded as graduate student fee income.

The admission deposits must be deferred until the beginning of the 20X1-X2 academic year, when the revenue will be earned. The deferral entry is recorded as of June 30, 20X1 (presented in the first column) and reversed in the first quarter of fiscal year 20X2 (presented in the second column). The net effect of the following two entries is to reduce revenue in fiscal year 20X1 and move it to fiscal year 20X2.

| Fiscal year 20X1 | Fiscal year 20X2 |
|---|---|
| Debit/charge object code 4060: Grad+Professional Degree Tuition, GENERAL | Debit/charge object code 2604: Admission Deposits, GENERAL |
| Credit object code 2604: Admission Deposits, GENERAL | Credit object code 4060: Grad+Professional Degree Tuition, GENERAL |

Ideally, HSPH would have initially deposited the admission fees to object code 2604, "Admission Deposits, GENERAL" instead of graduate student fee income and thus could have avoided recording the entry in the first column.

*Object code 0010 "Cash" is debited on the Central Bank's balance sheet and a due to/from entry is created crediting object code 0375 "CO^Due to/from Tub" on the Central Bank's balance sheet and debiting object code 0375 on the appropriate tub's balance sheet.