Responsible Office: Financial Accounting and Reporting
Date First Effective: 7/1/ 2007
Revision Date: 6/30/2013

Revenue Recognition

Policy Statement

This policy establishes when revenue must be recorded at the University. The University reports its revenues on the accrual basis, meaning when they are earned, not necessarily when payment is received. Revenues are generally earned when goods are shipped or services are performed.

Reason for Policy

This policy exists to ensure adherence with Generally Accepted Accounting Principles (GAAP) and other regulatory requirements, to promote consistent accounting treatment across the University, and to ensure the operating results of University units are not misstated as a result of revenues unrecorded or recorded improperly.

Who Must Comply

All Harvard University schools, tubs, local units, Affiliate Institutions, Allied Institutions and University-wide Initiatives must comply.

Procedures

1. Understand accrual rules for revenue recognition.

A. Accrual accounting rules require Harvard to record revenue when it is earned, meaning when the goods are shipped or the services are provided, NOT necessarily when payment is received. Revenue is considered earned when four criteria are met:
   a. Persuasive evidence of an arrangement (i.e., sufficient documentation) exists
   b. Delivery has occurred or services have been rendered
   c. The seller's price to the buyer is fixed or determinable (i.e., the price is not conditional upon a future event)
   d. Collectibility is reasonably assured (i.e., the customer is expected to pay for the goods or services).

B. Balance sheet entries: if the customer doesn’t pay for the goods/services in the same quarter they are provided, different types of balance sheet entries are required depending on when the customer pays for the goods/services relative to when Harvard ships the goods/performs the services: accounts/notes receivable asset, a deferred revenue liability, or a deposits paid liability. See Appendix A.

C. **Do not record income for internal transactions.** Sales of goods or services to other University departments must not be recorded as income to the University, nor should they be recorded on the balance sheet (i.e., receivables and reserves, deferred revenue and deposits). See the University’s Internal Billing Transactions Policy.

2. Record balance sheet entries as needed.

A. Responsibilities by revenue type: Central offices process certain types of revenue, such as gifts and sponsored awards; see Appendix B for school/tub responsibilities by revenue type.

B. Thresholds: at the end of each quarter, tubs must record manual entries for items not billed through the Central A/R system, if over these thresholds. Items prematurely recorded as revenue must be moved to the balance sheet by quarter-end if over these thresholds. Smaller items may be recorded at each tub’s discretion.
   a. Quarter-end: manual entries are required for items of $50,000 or more ($100,000 for large schools – FAS, HMS, HBS, SPH).
   b. Year-end: manual entries are required for items greater than or equal to $10,000.

3. **Apply special accounting rules for certain types of revenue.**
    A. 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 in the same coding as initially used to record the related revenue.

    B. Pass-throughs: DO NOT record revenue for pass-through expenses and expense reimbursements or recoveries, record these as credits to the original expense coding. For example: if Harvard partners with another university to hold a conference and receives reimbursement for some of the conference costs (i.e., NOT conference attendance fee revenue), the reimbursement should be credited to the appropriate expense object code or codes, not recorded as revenue.

4. **Maintain appropriate supporting documentation.**
    A. The tubs must maintain documentation supporting revenue transactions that details the nature of the goods or services provided (or to be provided), such as account coding to credit, the date the goods or services were (or will be) provided, authorization from the customer ordering the goods or services, and customer contact information.

    B. Departments are encouraged to provide a copy of this documentation to the customer, and must retain the original documentation locally in accordance with the University's document retention policies.

5. **Review and reconcile balances.** All tubs must reconcile and maintain supporting documentation for manually-recorded quarter-end accounts receivable, deferred revenue, and deposit liability balances. Investigate variances and take corrective action on a quarterly basis at minimum. In addition, tubs must review manually recorded accounts receivable for collectibility and bad debt reserves.
    A. Periodically evaluate manually recorded receivables for collectibility throughout the year. Pay particular attention to old outstanding balances; those older than 90 days are generally considered to be past due.
    B. Record allowances for doubtful accounts and write-offs. If the collectibility of a receivable is deemed to be uncertain, then the tub must establish a reserve for bad debt. See the Reserves for Bad Debts Policy.

6. **Reverse or reduce entries as needed.** The unit that processes a manual accounts receivable, deferred revenue or deposit entry is responsible for reversing the entry (or applying the payment directly to the receivable) when payment is received, goods/services provided or the agreement period ends.

Responsibilities and Contacts

Financial deans or equivalent tub financial officers are responsible for ensuring that local units abide by this policy and the accompanying procedures. The tubs have ultimate responsibility for Central and manual accounts receivable, student receivables, institutional student loan notes receivable, and mortgage and educational loan notes receivable, as well as all related reserves balances.

Financial Accounting and Reporting (FAR), within the Office of the Controller, is responsible for maintaining this policy and for answering questions regarding the policy. ***Contact: (617) 495-8032***

Central Accounts Receivable Office (Central A/R Office) is responsible for billing receivables through the Oracle accounts receivable (A/R) system, based on information provided to their office by the tubs. The Central A/R Office collects outstanding accounts receivable that have been billed through the Oracle A/R system, evaluates outstanding receivables for reserves, and identifies receivables requiring write-off. ***Contact: (617) 495-9497***

Office for Sponsored Programs (OSP) is responsible for assisting the tubs in determining whether certain revenues represent gifts or awards and for processing cash receipts related to all sponsored awards and non-federal grants. ***Contact: (617) 496-4771***

Recording Secretary's Office (RSO) is responsible for assisting the tubs in determining whether gift revenue may be recognized and ensuring that it is appropriately recorded. ***Contact: (617) 495-1750***

Student Receivables Office (SRO) is responsible for student billing and for processing student payments. ***Contact: (617) 495-4670***

Student Loan Office (SLO) is responsible for student loan billing, recording and for processing student loan payments. ***Contact: (617) 495-0802***

Mortgage and Educational Loan Office (MELO) is responsible for billing faculty and staff notes receivable for mortgage and educational loans and recording them in the GL, and for collecting payments on these loans. ***Contact: (617) 495-8858***

Definitions

N/A

Related Resources

Internal Billing Transactions: http://vpf-web.harvard.edu/ofs/home/content/InternalBillingPolicy.pdf
Office for Sponsored Programs Program Income Policy: http://vpf-web.harvard.edu/osr/managing/man_pos_income.shtml

Revision History

6/30/2013: Updated format, required material transactions to be recorded on a quarterly basis (instead of annually).

Appendices

Appendix A: Revenue Recognition Quick Reference Guide
Appendix B: Guide to Revenue Recognition by Revenue Type
Appendix C: Examples of Proper Revenue Recognition Accounting

Revenue Recognition Appendix A - Quick Reference Guide

	Accounts Receivable	**Deferred Revenue**	**Nonrefundable Deposits**	**Refundable Deposit**
When is it needed?	When Harvard ships goods or performs services BEFORE the customer pays for them, Harvard recognizes the revenue and records an ACCOUNT RECEIVABLE asset	When the customer pays BEFORE Harvard ships goods or performs services and Harvard won't provide the goods/service until the next quarter, Harvard records a DEFERRED REVENUE liability until it actually ships the goods or performs the services	When the customer pays a nonrefundable deposit on goods or services BEFORE Harvard provides them, Harvard records a DEFERRED REVENUE liability until it actually ships the goods or performs the services.	When the customer pays a refundable deposit (like a security deposit on a lease) that will be returned to the customer at the end of the lease or other agreement, Harvard records a DEPOSIT liability until the end of the related lease or other agreement.
How do I record it?	Process a journal entry: DEBIT other accounts receivable asset (0130-0299) CREDIT revenue (4000-5899)	Deposit check/cash on a credit voucher: DEBIT cash 0010* CREDIT deferred revenue liability (2600-2613)	Deposit check/cash on a credit voucher: DEBIT cash 0010* CREDIT deferred revenue liability (2480-2599)	Deposit check/cash on a credit voucher: DEBIT cash 0010* CREDIT deposit liability (2480-2599)
When do I reverse the original entry?	Reverse/reduce the account receivable when Harvard receives the customer payment.	Reverse the deferred revenue liability and recognize the revenue when Harvard ships goods or performs services.	Reverse the deferred revenue liability and recognize the revenue when Harvard ships the goods or performs the services.	Reverse the deposit liability when the deposit is returned to the customer, generally at the end of the lease or other agreement.
What is the reversal entry?	DEBIT cash 0010* CREDIT accounts receivable asset (0130-0299)	DEBIT deferred revenue liability (2600-2613) CREDIT revenue (4000-5899)	DEBIT deferred revenue liability (2480-2599) CREDIT revenue (4000-5899)	DEBIT deposit liability (2480-2599) CREDIT cash 0010*
Examples	Rent, trademark revenues: record as revenue when service performed, reduce receivable when customer payment is received	• Subscription revenues paid in advance: defer based on months subscription provided versus total months in subscription period, recognize revenue monthly • Advance ticket sales: defer until event takes place, then recognize the revenue	• Admission deposits: defer until students begin classes, then recognize the revenue • Advance deposits for events/functions: defer until event/function takes place, then recognize the revenue	Security or other lease-related deposits: record as liability until lease term ends and amount is returned to customer

*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.

Appendix B: Guide to Revenue Recognition by Revenue Type

Revenue Type	School/Tub Responsibilities
Student income	**Schools/tubs must process journal entries to defer student income until they are earned.** Student Financial Services bills students for tuition before each semester and records tuition revenue for each school. Since SFS records this as revenue before the classes are concluded and the revenue is earned, schools must defer a portion of the tuition revenue each quarter until the semester ends. See below for detailed instruction by student income type.
Sponsored awards/program income	**Schools/tubs do not need to process journal entries to recognize, accrue or defer sponsored revenue in the General Ledger.** Federal and non-federal sponsored award revenues and program income are earned and recognized as the related sponsored project expenses are incurred. Revenues for sponsored awards and related balance sheet amounts are recorded centrally as part of the month-end close in the general ledger. Contact the Office for Sponsored Programs for more information.
Gifts	**Schools/tubs do not need to process journal entries to recognize, accrue or defer gifts in the General Ledger.** Pledges, outright unconditional gifts and unconditional non-federal sponsored grants are recognized as revenue immediately upon receipt in the Advance system; information from Advance is entered into the General Ledger centrally. See the University's Pledges and Pledges Receivable Policy and the Gift Policy Guide for further information.
Student Loans	**Schools/tubs do not need to process journal entries to recognize or accrue revenue from student loan repayments in the General Ledger.** The Student Loan Office records payments from student loans. However, schools are responsible for providing SLO with loan fund information to the SLO to establish the receivables.
Mortgage and Educational Loans	**Schools/tubs do not need to process journal entries to recognize or accrue revenue from faculty and staff loan repayments in the General Ledger.** The Mortgage and Educational Loan Office records payments from faculty and staff loans.
Other Revenue Billed Through Central Accounts Receivable (A/R)	**Schools/tubs do not need to process journal entries to recognize, accrue or defer revenue billed through Central Accounts Receivable.** Central AR automatically records revenue, receivables, and deferrals throughout the year, regardless of amount. If a tub receives a payment for an invoice that was billed through Central A/R, it should send the payment to A/R for processing.
Other Revenue NOT Billed Through Central Accounts Receivable (A/R)	**Schools/tubs MUST process quarterly journal entries to recognize, accrue or defer other revenue items NOT billed through Central Accounts Receivable and that meet reporting thresholds.** Units that record accruals or deferrals are responsible for reversing them timely where necessary.

Student Income

Tuition and fees are billed and recorded at the beginning of each term. Tubs must defer tuition revenue as described below for any individual program for which the total balance sheet impact at quarter-end is $50,000 or more (i.e., $50K in deferred revenue or accounts receivable).

Fall Semester (degree program)	Break this semester out evenly across four months – September through December. Under this approach, ¼ (1 month) of the tuition for the semester should be recorded as revenue in Q1 of each year and ¾ (3 months) in Q2. For the period ended 12/31/XX, the full amount of the fall tuition should be recorded as revenue in the year-to-date revenues.
Spring Semester (degree program)	Due to timing, this semester will be broken out using a half-month convention. For the months of January and May, a half month of revenue should be recognized. For February through April, a full month should be recognized. Under this approach, 2 ½ months of the tuition for the semester should be recorded as revenue in Q3 of each year and 1 ½ months in Q4. For the period ended 12/31/XX, NO Spring semester tuition should be recognized as revenue – all spring semester revenue recorded prior to January 1, whether through billing transactions in SIS or cash received from students if SIS was not used, should be recorded as deferred tuition revenue.
Executive and Continuing Education	For any programs exceeding the threshold of $50,000 ($100,000 for large schools), the program revenues should be recorded based on days that the program ran during the given quarter. For example, if a program runs for 10 days and 5 of those days fall in Q2, 50% of the total program revenues should be recorded for Q2. The difference between the revenue that should be recorded and the payments received from participants should be recorded as deferred tuition revenue.
Year round enrollment(GSAS/doctoral students)	For instances where the student's enrollment is year round, the revenue should be recognized evenly over a 12-month period, with three months of revenue in each quarter.
Room	Student room fees should be recognized as revenue in the same manner as discussed above for Fall and Spring semesters, or for other forms of room, should be recognized over the period that the student will be utilizing University housing (similar to the approach for executive and continuing education).
Student Services and/or Other Mandatory Fees	These should be recognized as revenue over the same period of time as the related tuition revenue is recognized by combining these fees in with tuition revenue for purposes of recording necessary deferrals.
Dining	Dining Services recognizes revenue related to board charges on a weekly basis, based on the annual board rate, the number of annual operating days per dining hall, and the number of students "on board" per dining hall. The difference between what has been recognized as revenue for the year-to-date and what was received from SIS is recorded as deferred revenue.

Student Income, *continued*

Student Health Fees	University Health Services recognizes revenue related to student health fees each month based on information from the student term bills. The student health fee is recognized evenly over a 12 month period, as this fee covers students for the full calendar year. Therefore, 1/12 of the fee (1/6 of the fee charged to the students for each semester), is recorded as revenue monthly, with the difference recorded as deferred revenue.
Intertub Transfers	Schools/Tubs should record intertub transfers over $50K ($100K for large schools) that reflect student revenue sharing on a quarterly or semiannual basis through the use of a journal transfer, which ensures that both units' GLs reflect the offsetting revenue. NO internal receivable or payable may be recorded.

Other Related Accruals

Student Financial Aid	Student financial aid should be recognized over the same period as the related tuition revenue (matching principle). Tubs may use estimation processes to record financial aid costs each quarter that most accurately reflects the matching principle. The estimation process used will be left to the discretion of the individual tub; however, the tub must be able to back up its approach to recognizing financial aid. To assist in the estimation process, it is recommended that Schools look at historical data, combined with budgeted/forecasted financial aid and any other known factors that may impact financial aid. For example, if a School knows that the budgeted data is the best estimate for student financial aid, the budget can be used to assess the percentage of financial aid as compared to student income. Then, once student revenue is recognized each quarter in accordance with the instructions stipulated above, the amount of financial aid to be recorded can be calculated and the School will need to ensure that this estimated aid figure is what is recorded in the GL for the quarter. Do **NOT** adjust the sponsored portion of student financial aid. Only non-sponsored financial aid should be adjusted. For student aid transactions that require DFF information, the bulk payroll HUID of 99999999 should be used. Schools/Tubs should record intertub transfers that reflect student financial aid sharing on a quarterly or semiannual basis through the use of a journal transfer, which ensures that both units' GLs reflect the offsetting expense. NO internal accruals/deferrals should be made, meaning any intertub transfers need to be coordinated between both tubs to agree upon the timing of the transfer.

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.