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# Sales and Service Training Outline

Bill Stauff June 22, 2006

# High lights

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- Carry Over Policy
- Year-end accounting procedures
  - Deferrals
  - Prepayments
  - Accounts Receivable
  - Handling checks
- Business Plan
  - Rate calculation –new template
    - Expense driven
    - Breakeven



# High lights

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- Carry Over Policy

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- Year-end accounting procedures
  - Deferrals
  - Prepayments
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- Business Plan
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    - Breakeven



# Fiscal Management@UGA

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Departmental Sales &  
Revenue Recognition

# Goals

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- Define different types of activities accounted with Departmental Sales & Service (DSS) accounts
- Discuss billing rate or fee development
- Discuss one way to manage departmental sales
- Awareness of yearend responsibilities
- Accounts Receivable Procedures
- DSS Issues/Concerns



# Departmental Sales & Service (DSS)

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This source of funding is used to classify both revenues and expenditures for sales and services operations that are supported by sales or fees collected for services on a self-supporting basis. Departmental Sales and Services operations are not normally supported by state appropriations. (BOR-USG BPM 2.4.2)

At UGA, DSS accounts are also called:

- Income accounts
- Sales accounts
- “D” accounts

# Types of DSS activities

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Departmental business activities are categorized as one of two classifications:

1. Sales & Service of Educational Activities
2. Service Centers

The classification of the DSS activity depends on its relation to the education process and its relationship to the consumer.

# Sales & Service of Educational Activities

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This category includes:

- Revenues that are related incidentally to the conduct of instruction, research, and public service
- Revenues of activities that exist to provide an instructional or laboratory experience for students and may incidentally create goods and services that may be sold to students, faculty, staff, and the general public

# Sales & Service of Educational Activities

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## Examples:

- Sales of by-products from instructional or research related activities
- Conference & Workshops
- Testing or analysis services\*
- Film rentals\*
- Sales of scientific and literary publications
- Clinical services\*
- Lab Supply Fees

*\* Could also be a Service Center*

# Sales & Service of Educational Activities

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Since the revenues of this category are incidental to academic type activities:

- The sales price of by-products is usually determined by the market for that item
- The fee for the service is calculated to cover costs such as labor and supplies for providing the service

# Sales & Service of Educational Activities

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## Account Code Structure:

- Resident Instruction (fund group 10) sales & services of educational activities use departmental sales accounts (operation code D)
  - 10-1x-DHddd-ppp = Instructional DSS
  - 10-2x-DRddd-ppp = Research DSS
  - 10-31-DEddd-ppp = Public Service DSS
  - 10-31-DWddd-ppp = PS Conference/Workshop DSS
  - 10-4x-DTddd-ppp = Academic Support DSS
  - 10-5x-DSddd-ppp = Student Service DSS

*x = any valid detail functional code*

*ddd = department number, ppp = project number*

# Sales & Service of Educational Activities

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## Account Code Structure:

- Other organized activities use a companion revenue account with object code 40830 to record sales & services of educational activities revenue
  - 25-00-Gzddd-ppp-40830 tied to 25-26-Gzddd-ppp
  - 26-00-GEddd-ppp-40830 tied to 26-31-GEddd-ppp
  - 27-00-GE337-ppp-40830 tied to 27-31-GE337-ppp

*z = any valid activity code for experiment station  
ddd = department number, ppp = project number*

*Note: these accounts are not used for conference/workshop activities for funds 20 through 34, instead “D” accounts are used.*



## **Sales & Service of Educational Activities**

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These accounts are considered general funds and lapse at the end of the fiscal year on June 30 if not spent or obligated (encumbered).

# Service Centers

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- An operating unit providing specialized or unique services and/or products to one or more University departments. The services may range from routine to highly specialized functions. Such a service might be available from commercial sources, but for reasons of convenience, cost, regulatory compliance, quality, or fiscal control, are often provided more effectively through an on-campus unit.



# Types of Service Centers

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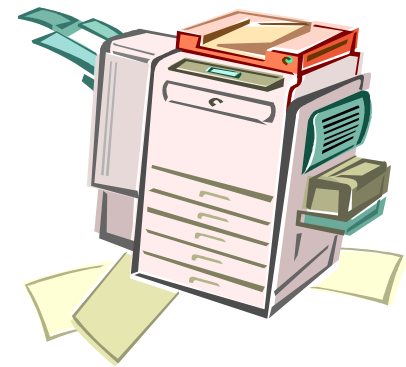
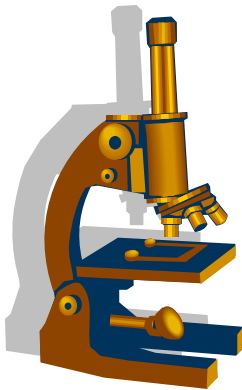
There are three types of Service Centers

1. Recharge Activities
2. Service Centers
3. Specialized Service Centers

# Recharge Activities

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- Activities that are established to provide services to customers within a college or department, not university-wide. A Recharge Activity has annual revenues less than \$100,000.



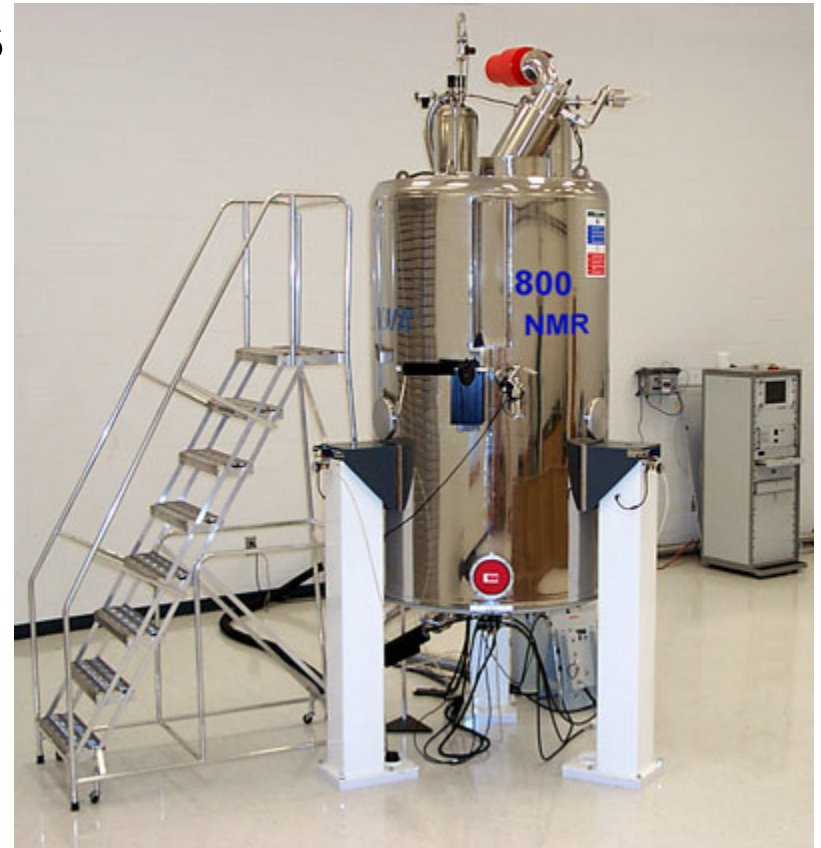
# Service Centers

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- A business unit established for the purpose of providing goods and services to university departments, and maybe to customers outside the university. Their mission is to serve university-wide.
- Service centers may offer goods and services
  - that are unique,
  - benefit the effectiveness of the University when conveniently available,
  - require special controls or subject to federal and/or state regulations,
  - or are not readily available from external sources.
- Service Center annual revenues are greater than \$100,000.

# Service Centers

- UGA examples:
  - Campus Scientific Stores
  - Campus Mail
  - Central Duplicating
  - Glass Blowing Shop
  - NMR Regional Facility
  - Center for Applied Isotope Studies
  - Bioexpression and Fermentation Facility



# Specialized Service Centers

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- A service center with highly complex or specialized facilities. Any service center which meets all four of the following criteria must be classified as a Specialized Service Center (SSC):
  1. The facility incurs substantial annual expenditures and charge-out volume of \$1 million or greater. In other words, annual revenues (operating budget) is \$1 million or greater.

# Specialized Service Centers

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2. If the indirect costs of the SSC were included as part of the University's overhead pool, those costs would "materially" affect the University-wide overhead rate.
3. Its services are not easily available from external vendors.
4. Its services are required in support of a very limited number of research activities.

# Specialized Service Centers

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- UGA Examples:
  - Computer Center
  - Animal Care Facilities
  - Research Services (some)



# Service Centers

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## Account Code Structure:

- Resident Instruction (fund group 10) and other organized activities Service Centers use departmental sales accounts (operation code D)
  - 10-1x-DHddd-ppp = Instructional DSS
  - 10-2x-DRddd-ppp = Research DSS
  - 10-31-DEddd-ppp = Public Service DSS
  - 25-26-Dzddd-ppp = AES Research DSS
  - 26-31-DEddd-ppp = CES (public service) DSS

*x = any valid detail functional code, z= experiment station  
ddd = department number, ppp = project number*



# Service Centers

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These accounts are considered general funds and lapse at the end of the fiscal year on June 30 if not spent or obligated (encumbered).

# New Policy and Procedures

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- The University has established new Service Center policies and procedures that became effective January 1, 2006.
  - Policy:  
[http://www.busfin.uga.edu/disclosure/pol\\_pro/service%20center.pdf](http://www.busfin.uga.edu/disclosure/pol_pro/service%20center.pdf)
- All Service Center activities must either support or relate to the University's instruction, research, or public service and outreach missions.

# Departmental Responsibilities

## (Service Center Policy Section 6.1)

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- Managers of service centers are expected to comply with the University's policies and procedures.
- Individual departments are responsible for any disallowance, fine, or penalty for failure to comply with these policies and procedures.
- Departments and colleges are required to assume financial responsibility for failed activities.
- Departments and colleges must thoroughly review and analyze proposed service center activities prior to submitting requests to central administration.

# Goals

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- ✓ Define different types of activities accounted with Departmental Sales & Service (DSS) accounts
- Discuss billing rate or fee development
- Discuss one way to manage departmental sales
- Awareness of yearend responsibilities
- Accounts Receivable Procedures
- DSS Issues/Concerns

# Billing Rates

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- Departments are responsible for the development and review of billing rates.
- The billing rate for internal customers (including grants) is the dollar amount charged for each unit of goods or services provided based on annual costs.
- The rate must be constructed to not recover more than cost. The goal is to break even. (Service Center Policy Section 6.6)
- The same rate schedule should be used for all internal customers.

# Billing Rates

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- $\text{Estimated Total Annual Costs} / \text{Total Estimated Billing Units} = \text{Billing Rate per Unit.}$
- If a Service Center provides different types of products and services to users, separate billing rates must be established for each service that represents a significant activity.
- When separate billing rates are used for different services provided by a Service Center, the costs related to each service must be separately identified through a cost allocation process.

# Billing Rates

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- The rates charged are generally formulated to recover operating costs, which would include, but not be limited to:
  - Salaries and wages, employee benefits
  - Cost of materials and supplies
  - Travel
  - Depreciation
  - Departmental administrative salaries & costs

# Sample Billing Rate Template

1 Service Center Operation Title:  
 Department/Division Name and Number:  
 Responsible Person - Name and Phone:  
 Account Number:

|                    |
|--------------------|
| Sample Testing Lab |
| Dept of Physics    |
| Dr. John Smith     |
| 1026DR850100       |

2 Period rate is effective: From:  To:

3 Estimate Costs:

a. Projected salary and fringe benefit costs (include all personnel by name or position number that will be charged to this center. Provide additional list if necessary)

| Individual/Position | Salary Budget      | Fringe Benefits    | Total               |
|---------------------|--------------------|--------------------|---------------------|
| 1 Dr. Smith         | \$10,000.00        | \$2,500.00         | \$12,500.00         |
| 2 Res Tech          | 40,000.00          | 10,000.00          | 50,000.00           |
| 3 Lab Asst          | 30,000.00          | 7,500.00           | 37,500.00           |
| 4                   |                    |                    | 0.00                |
| 5                   |                    |                    | 0.00                |
| 6                   |                    |                    | 0.00                |
| <b>Total</b>        | <b>\$80,000.00</b> | <b>\$20,000.00</b> | <b>\$100,000.00</b> |

b. Cost of Goods sold, including supplies, services and miscellaneous expenditures (provide description of type of expense and estimate the amount to be charge to the service center/recharge)

| Expense Type          | Amount             |
|-----------------------|--------------------|
| 1 Reagents            | \$2,500.00         |
| 2 Glassware           | 3,000.00           |
| 3 Lab Supplies - misc | 5,000.00           |
| 4                     | 0.00               |
| 5                     | 0.00               |
| 6                     | 0.00               |
| <b>Total</b>          | <b>\$10,500.00</b> |

If service center continue, else go to 4.

# Sample Billing Rate Template

c. Equip Depreciation - include actual depreciation amounts from movable equipment listing

| Equipment Desc.       | EUL | Original Cost     | Less:<br>Accumulated<br>Depreciation | Current Year<br>Deprec. | Undepreciated<br>Balance |
|-----------------------|-----|-------------------|--------------------------------------|-------------------------|--------------------------|
| 1 Electron Microscope |     | \$50,000.00       | \$20,000.00                          | \$10,000.00             | \$20,000.00              |
| 2 Simulator           |     | 25,000.00         | 2,500.00                             | 2,500.00                | 20,000.00                |
| 3 Laser Refractor     |     | 60,000.00         | 24,000.00                            | 12,000.00               | 24,000.00                |
| 4                     |     | 0.00              | 0.00                                 | 0.00                    | 0.00                     |
| 5                     |     | 0.00              | 0.00                                 | 0.00                    | 0.00                     |
| 6                     |     | 0.00              | 0.00                                 | 0.00                    | 0.00                     |
| <b>Total</b>          |     | <b>135,000.00</b> | <b>46,500.00</b>                     | <b>24,500.00</b>        |                          |

Service Center Operation Totals

4 Expense Recap

|   |              |
|---|--------------|
| Salaries & Fringe                                       | \$100,000.00 |
| Expenses Other  | 10,500.00    |
| Depreciation  | 24,500.00    |
| Prior Year Adjustment - (subtract) surplus/ add deficit | 0.00         |

Total Expenses

\$135,000.00

5 Estimated Number of Units Produced/Consumed (describe units as hours, minutes, pieces, test, etc)

|                    |     |
|--------------------|-----|
| Sponsored Research | 800 |
| Home department    | 100 |
| Other departments  | 50  |
| Outside University | 10  |

Total Units

960

6 Rate calculation (cost per unit is determined by dividing the total expenses by total units). Note: if operation provides multiple services, then multiple rates must be determined.

Cost per unit

\$ 140.63

# Goals

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- ✓ Define different types of activities accounted with Departmental Sales & Service (DSS) accounts
- ✓ Discuss billing rate or fee development
- Discuss one way to manage departmental sales
- Awareness of yearend responsibilities
- Accounts Receivable Procedures
- DSS Issues/Concerns

# Managing DSS accounts

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- Need a budget
  - For guidance (not real money to spend)
  - Use budget to “authorize” charging of expenses at beginning of fiscal year
  - How to calculate budget
    - Based on historical revenue & expenses or
    - Estimate of amount to expect
  - Budgeted revenue = budgeted expense
    - Expenditure driven (i.e., What is the total amount of expenses to provide expected service over fiscal year?)

# Managing DSS accounts

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- Operate like a business
  - GAAP (generally accepted accounting principles) basis – not cash basis
  - Begins with no cash (no real funding)
  - Start providing service and incur expenses
  - Process/post these expenses using budget
  - When service complete or partially complete, invoice (bill) customer
    - Record revenue to recognize earned income because service has been provided
    - Also record accounts receivable (A/R) – customer now owes DSS activity money

# Managing DSS accounts

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- Operate like a business (continued)
  - When service complete or partially complete, invoice (bill) customer (continued)
    - Revenue/receivable recognition should be done internally during FY, but booked at the institutional level at fiscal year end with JV through Accounting (only external customers\*)
    - Entry:  
Debit (DR) Accounts Receivable \$100  
Credit (CR) Revenue (41114) \$100

\* *UGA can only record A/R for outstanding invoices to non-UGA customers*

# Managing DSS accounts

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- Operate like a business (continued)
  - When payment received, apply to A/R
    - During FY, payment applied to internal A/R
    - For A/R booked at institutional level, payment (checks/cash/credit card) are deposited directly to A/R account
    - Entry:  
    DR Cash \$100  
    CR A/R \$100

# Managing DSS accounts

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Example 1: DSS activity provides service to another UGA department. Service costs \$1,000 and is completed on March 15<sup>th</sup>. Invoice submitted to UGA department on March 16<sup>th</sup>.

Internal bookkeeping entry on March 16<sup>th</sup> :

DR Accounts Receivable \$1,000

CR Revenue \$1,000

# Managing DSS accounts

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Example 1 (continued):

Intra-University charge or payment form (ticket) processed and posted on March 28<sup>th</sup> with the following entry:

DR UGA department (customer) \$1,000

CR DSS account revenue (41114) \$1,000

DSS makes this entry in its internal records:

DR Cash\* \$1,000

CR A/R \$1,000

\* No cash was actually received, but internal records should show it as cash (GAAP)

# Managing DSS accounts

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Example 2: DSS activity provides service to external customer. Service costs \$2,000 and is completed on March 15<sup>th</sup>. Invoice sent to customer on March 16<sup>th</sup>.

Internal bookkeeping entry on March 16<sup>th</sup> :

DR A/R \$2,000

CR Revenue \$2,000

# Managing DSS accounts

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Example 2 (continued):

DSS activity receives check on March 27<sup>th</sup> for invoice payment and deposits (cash receipt) on March 28<sup>th</sup> via Bursar's office that creates the following entry:

DR UGA Cash \$2,000

CR DSS account revenue (41114) \$2,000

DSS makes this entry in its internal records:

DR Cash \$2,000

CR A/R \$2,000

# Managing DSS accounts

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Example 3: DSS activity provides service to external customer. Service costs \$3,000 and is completed on June 20<sup>th</sup>. Invoice sent to customer on June 21<sup>st</sup>.

Internal bookkeeping entry on June 21<sup>st</sup> :

DR A/R \$3,000

CR Revenue \$3,000

# Managing DSS accounts

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Example 3 (continued):

On June 23<sup>rd</sup>, DSS determines payment will not be received by UGA cash receipt cutoff. DSS prepares and sends JV with copy of invoice to Accounting by June JV cutoff with the following entry:

DR UGA A/R \$3,000

CR DSS account revenue \$3,000

# Managing DSS accounts

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Example 3 (continued):

DSS activity receives check on July 5<sup>th</sup> for invoice payment and deposits (cash receipt) on July 6<sup>th</sup> via Bursar's office that creates the following entry:

DR UGA Cash \$3,000

CR UGA A/R \$3,000

DSS makes this entry in its internal records:

DR Cash \$3,000

CR A/R \$3,000

# Managing DSS accounts

Example at August 10<sup>th</sup>

|                    | <u>Budget</u>  | <u>Actual</u> |
|--------------------|----------------|---------------|
| 10-26-DR850-100    |                |               |
| 41114 Revenue      | \$200,000      | \$ 5,000-     |
| 5xxxx S&W/Benefits | 120,000-       | 10,000        |
| 64000 Travel       | 5,000-         | 0             |
| 71000 OS&E         | <u>75,000-</u> | <u>12,000</u> |
| Total              | \$ 0           | \$17,000      |

Expenses are more than realized revenue because DSS is providing service, but job not complete yet. Budget is balanced (revenue=expense), but account is actually in the red (more expenses than revenue).

# Managing DSS accounts

Example at May 10<sup>th</sup>

|                    | <u>Budget</u>  | <u>Actual</u> | <u>Budget Balance</u> |
|--------------------|----------------|---------------|-----------------------|
| 10-26-DR850-100    |                |               |                       |
| 41114 Revenue      | \$200,000      | \$170,000-    | \$30,000              |
| 5xxxx S&W/Benefits | 120,000-       | 100,000       | 20,000-               |
| 64000 Travel       | 5,000-         | 5,000         | 0                     |
| 71000 OS&E         | <u>75,000-</u> | <u>80,000</u> | <u>5,000</u>          |
| Total              | \$ 0           | \$ 15,000     | 15,000                |

Revenue Budget Balance of \$30,000 shows that DSS has not met its expected budget yet. OS&E Budget Balance shows that DSS has gone over its expected OS&E budget.

# Managing DSS accounts

Example at June 10<sup>th</sup>

|                    | <u>Budget</u>  | <u>Actual</u> | <u>Budget Balance</u> |
|--------------------|----------------|---------------|-----------------------|
| 10-26-DR850-100    |                |               |                       |
| 41114 Revenue      | \$200,000      | \$210,000-    | \$10,000-             |
| 5xxxx S&W/Benefits | 120,000-       | 110,000       | 10,000-               |
| 64000 Travel       | 5,000-         | 5,000         | 0                     |
| 71000 OS&E         | <u>75,000-</u> | <u>90,000</u> | <u>15,000</u>         |
| Total              | \$ 0           | \$ 5,000-     | 5,000-                |

Revenue Budget Balance of \$10,000- shows that DSS has exceeded its expected budget. OS&E Budget Balance shows that DSS has gone over its expected OS&E budget. Per GA lapsing rule, need to spend \$5,000, but consider unrecorded revenue (A/R) and possible unearned revenue.

# Goals

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- ✓ Define different types of activities accounted with Departmental Sales & Service (DSS) accounts
- ✓ Discuss billing rate or fee development
- ✓ Discuss one way to manage departmental sales
  - Awareness of yearend responsibilities
  - Accounts Receivable Procedures
  - DSS Issues/Concerns

# DSS Yearend Accounting

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- Remember to operate DSS as business
  - GAAP basis – not cash basis
  - Accrual accounting
    - Match earned revenue with incurred expenses in same FY
- In May/June (and March before Budget cutoff) look at current actual balances, budget balances, and status of jobs and expectation of future jobs to be completed by end of June
- In June, consider any outstanding invoices to non-UGA customers.
  - Follow-up with overdue invoices
  - Determine if valid A/R and send JV/info to book them by June cutoff

# DSS Yearend Accounting

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- In May/June, consider any unearned revenue from non-UGA customers.
  - Document that unearned revenue is a prepayment for services to be provided during next fiscal year.
  - Send specific letter to Accounting by deadline requesting unearned income be deferred.
- Accounting will verify excess revenue and prepare deferred income JV at yearend
- Accounting will reverse deferred income JV at beginning of new fiscal year to record revenue as earned

# DSS Yearend Accounting

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June 30<sup>th</sup> JV example:

DR DSS revenue (41114) \$10,000

CR UGA Deferred Revenue \$10,000

July 1<sup>st</sup> JV example:

DR UGA Deferred Revenue \$10,000

CR DSS revenue (41114) \$10,000

# Goals

---

- ✓ Define different types of activities accounted with Departmental Sales & Service (DSS) accounts
- ✓ Discuss billing rate or fee development
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- ✓ Awareness of yearend responsibilities
- Accounts Receivable Procedures
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# A/R Procedures for Departmental Sales

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- **Granting Credit**

Credit may be granted to the general public, which may include students and staff, by campus departments that are authorized to provide services or products.

Credit is automatically extended to governmental units and foundations during the time claims for reimbursement are outstanding.

Payment will be made in full upon receipt of a bill.

# A/R Procedures for Departmental Sales

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- **Departmental Maintenance and Physical Security of Records**

Must be stored according to current Records Retention Standards published by the State of Georgia.

- **Reference Numbers**

All source documents will carry reference numbers that will appear in the computer-produced records. These must be kept in the departmental business office and must be available for review by auditors.

- **Departmental Reconciliation and Review**

It is the individual departments responsibility to ensure that the appropriate accounts receivable balances are recorded on the University's financial accounting system at each fiscal year end.

# A/R Procedures for Departmental Sales

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## ■ Division of Responsibility

- Establishment of credit
- Recording of charges
- Approval of write-off requests and other types of non-cash credits, such as cancellations
- Processing of documents
- Accounting
- Billing
- Collection follow-up

# A/R Procedures for Departmental Sales

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- **Bi-annual Reporting Requirement**

UGA submits an aged receivable analysis to the BOR twice each year.

- **Billing**

Information must be maintained on the status of all unbilled accounts to insure that all actions necessary for the preparation of the bill have been taken as required.

- **Collections**

- **Collection Agencies**

# A/R Procedures for Departmental Sales

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- Uncollectible Accounts
- Provision for Bad Debts
- Assigning Receivables to Third Party  
Collection Agencies Write-off Policy

# A/R Procedures for Departmental Sales

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## ■ Death of a Debtor

A claim against the estate of a Georgia resident must be prepared in accordance with specific regulations and filed within six (6) months after first publication of notice to creditors.

## ■ Recoveries

All recoveries will be recorded by reversing the entry made to create the allowance for uncollectible accounts, with the exception of uncollectible accounts charged to bad debts expense. Recoveries of this nature will be recorded as miscellaneous income.

# Goals

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- ✓ Define different types of activities accounted with Departmental Sales & Service (DSS) accounts
- ✓ Discuss billing rate or fee development
- ✓ Discuss one way to manage departmental sales
- ✓ Awareness of yearend responsibilities
- ✓ Accounts Receivable Procedures
- DSS Issues/Concerns

# DSS Issues & Concerns

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- Independently Verify Cash Receipts
  - Does the Office Manager who is responsible for monitoring outstanding balances and verifying transactions posted to the monthly account status report also have access to the corresponding cash receipts and prepares the deposits?
  - Does the Department prepare a record of payments received to independently verify deposits?
  - Are the receipt documents sequentially controlled or used to independently verify that all funds have been deposited?

# DSS Issues & Concerns

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- Deposit cash receipts in a timely manner
- Establish Effective Accounts Receivable Records
  - Are charges adequately documented, bills prepared in a timely manner, and accounts receivable records properly created or monitored?
  - Are the duties relating to preparing bills and maintaining the accounts receivable records performed by the Department's Accountant who also receives the funds and prepares the deposit?

# DSS Issues & Concerns

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- Restrictively Endorse Checks
  - Restrictively endorsing checks immediately upon receipt reduces the risk of loss between the time checks are received and subsequently deposited

**For Deposit Only**

**The University of Georgia**

**Department Name**

# DSS Issues & Concerns

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- Adequately Document Deferred Income and Encumbered Funds
  - Is there documentation to support the request to defer unearned revenue into the following year?
  - Is there evidence that balances carried at year end represented deferred income
- Ensure that billing rates are based on costs
- Ensure proper and timely revenue recognition

# **FY2005 State Audit Finding Revenue Recognition Example**

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- In December 2004, Department “A” provides training to the XYZ Group.
- The cost of the training is \$20,000.
- Department “A” invoices the XYZ Group on June 1, 2005, but does not record the A/R and corresponding revenue.
- Department “A” receives the XYZ Group check for \$20,000 on July 15, 2005 and posts the receipt as FY2006 revenue.

# What Went Wrong?

- Six month delay in billing the customer.
- Service was rendered in FY2005, but revenue was not recognized until FY2006.
- Revenues and expenditures are not matched.

| FY2005   | FY2006  |
|--|---|
| <ul style="list-style-type: none"><li>➤ Service provided, recorded \$20,000 in expenditures</li><li>➤ Untimely invoicing</li><li>➤ Recorded \$0 in revenue</li></ul> | <ul style="list-style-type: none"><li>➤ Recorded \$0 in expenditures</li><li>➤ Recorded \$20,000 in revenue</li></ul> |

# What Went Wrong?

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- The deposit of the check is pulled for “subsequent cash receipt” testing by the auditors and the back-up documentation shows that services were rendered in FY2005 but the revenue was recorded in the subsequent fiscal year. This practice is not GAAP.
- Auditors give UGA an audit finding for not following generally accepted accounting principles and Department “A” has the \$20,000 in revenue taken from them since it was revenue in the prior year.

# FY2005 State Audit Finding Revenue Recognition Example

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## How Do We Correct This?

Per Board of Regents Business Procedures  
Manual Section 10.0 Accounts Receivable:

*Each institution must establish procedures to ensure that accrued and unbilled receivables are continuously reviewed, and that billings are issued and recorded without undue delay.*

# Correct Approach

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- In December 2004, Department “A” provides training to the XYZ Group.
- The cost of the training is \$20,000.
- Department “A” invoices the XYZ Group in December 2004 and records a receivable and the revenue.
- Department “A” receives the XYZ Group check and deposits it against the receivable.

# Correct Approach

By following generally accepted accounting principles regarding revenue recognition, we achieve:

- Proper matching of revenues and expenditures
- Timely invoicing
- Timely collections/reduces uncollectible accounts
- Improved cash flow

| FY2005  | FY2006   |
|---|--|
| <ul style="list-style-type: none"><li>➤ Service provided, prompt invoicing</li><li>➤ Recorded \$20,000 in expenditures</li><li>➤ Recorded \$20,000 in revenue</li><li>➤ Payment receipted</li></ul> | <ul style="list-style-type: none"><li>➤ Recorded \$0 in expenditures</li><li>➤ Recorded \$0 in revenue</li></ul> |

# FY2005 State Audit Finding

## Deferred Revenue Example

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- In April 2005, “Z” Best Service Center @ UGA collects \$140,000 in pre-payments from non-UGA customers to provide services in FY2006.
- “Z” Best Service Center records \$140,000 deferred revenue at 6/30/2005.
- In FY2006, State audit reviews “Z” Best Service Center documentation for deferring the \$140,000 of revenue and discovers that service was provided (\$30,000 incurred expenses) for one of the customers in June 2005. State audit disallows the \$30,000 of deferred revenue and records the amount as FY2005 revenue and then therefore takes the surplus funds.
- “Z” Best Service Center could not substantiate the need to defer all of the \$140,000 at year end.



# Departmental Sales & Revenue Recognition

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Remember:  
Fiscal Management @ UGA is our collective  
responsibility.

[http://www.busfin.uga.edu/accounting/DSS\\_fiscal\\_management.ppt](http://www.busfin.uga.edu/accounting/DSS_fiscal_management.ppt)

# Departmental Sales & Revenue Recognition

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Questions?

