

Business Requirements Document

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REVENUE RECOGNITION PROCEDURE
APPENDIX FOUR – NON-TEACHING REVENUE ALLOCATION MODEL
BUSINESS REQUIREMENTS DOCUMENT – VERSION 0.8.2 APPROVED DEC 2018

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1 INTRODUCTION

1.1 Background

A series of new revenue accounting standards will come into effect from 1 January 2019. AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* replaces existing accounting guidance and introduces a comprehensive revenue recognition model aimed at harmonising revenue recognition practices.

The main impact of these accounting standards is that there will be a deferral of revenue recognition upon the University satisfying sufficiently specific performance obligations. The following University Management Reporting (MR) hierarchy classes will be impacted by the new accounting standard requirements:

- Research – Australian government grants (MR_1.01.01);
- State and local government financial assistance (MR_1.01.02);
- Income from lead partners (MR_1.01.03);
- Contract research (MR_1.01.04);
- Payments to non-lead partners (MR_1.02);
- Consultancy and contracts (MR_3.01.04); and
- Education grants (MR_3.01.06).

Teaching revenue is out of scope of this business requirements document. A revenue deferral solution is already in place for this revenue class managed by the Planning and Performance team in Finance.

Currently revenue is recognised for the above MR hierarchy classes when the University obtains control of funds or raises an invoice for customer funding. From 2019 onwards, revenue will only be allowed to be recognised as or when sufficiently specific performance obligations are satisfied by the University. This would result in a shift in timing of revenue recognition and changes in the revenue recognition policy for the Non-Teaching revenue space. To ensure accurate and compliant revenue recognition post adoption of the new revenue standard, there needs to be certain changes made in the current revenue recognition process. A manual solution would not be a feasible or efficient process given the large volume of bespoke revenue contracts entered into by the University. A system solution is a preferred option to ensure compliance with the new revenue standard. This document covers in detail the business requirements for a system solution for the Non-teaching revenue referred to as “**Non-Teaching Revenue Recognition Model**”.

1.2 Purpose

The purpose of this document is to define for stakeholders the key requirements for the Non-Teaching Revenue Recognition Model that will be employed to ensure compliance with new revenue accounting standards.

1.3 Intended audience

This document is intended to be understood by the Revenue and Leases Project Team and Systems Project Team for the preparation of a system solution.

1.4 Business objective

The objectives of this business requirements document are to:

- Develop a **Non-Teaching Revenue Allocation Model** in Finance One that can be run on both the Project and Operations Ledger where revenue can be recognised based on a series of rules and calculations defined in this document.
- Creation of selection codes and types assigning different revenue recognition methods for each natural account in Finance One.
- Creation of new natural accounts to record unearned revenue and contra income and expense amounts computed by the **Non- Teaching Revenue Allocation Model** in Finance One.

2 DEFINITIONS

The following terms are used throughout this document and are defined as follows:

- **Accrued revenue:** An asset class for goods or services that have been provided to a customer but the associated revenue has not yet been billed to the customer.
- **Australian Research Council (ARC):** A Commonwealth entity that awards Commonwealth Government funding for research projects.
- **Active Accounts:** An account within Finance One which can be used for posting transactions (this covers accounts such as major and natural accounts in all ledgers)
- **Business Logic:** The script developed which determines in which natural account the contra journal is to be posted and the corresponding amount.
- **Calumo:** BI tool used by University Finance to analyse actual and budgeted results. This tool also hosts the Management Reporting and Financial Accounting hierarchy.
- **Carry forward balance:** The accumulated balance of the major account from the previous year. The carry forward balance is recorded in the Finance One natural account 9901.
- **Commonwealth:** Commonwealth entities that are not the Australian Research Council (ARC) or National Health and Medical Research Council (NHMRC).
- **Contract:** An agreement between the University and other parties that creates enforceable rights and obligations.
- **Customer:** A party that has contracted with the University to obtain goods or services that are an output of the University's activities. This term covers all external entities that provide funding to the University. The definition includes, but is not limited to, the Commonwealth Government, state governments, local governments, government-controlled entities, private sector companies, grantors, donors, research partners, students and third parties.
- **End of month (EOM):** An accounting procedure or journal undertaken at the end of the month to close out the current posting period.
- **Expense:** Money spent, or cost incurred, in the University's effort to satisfy contractual performance obligations (i.e. to earn revenue). In Finance One these accounts are within the range 2000-5999. Expenses will include internal funding and capex expenses.
- **Finance One:** The accounting ERP system used by the University to record financial transactions.
- **Financial liability:** A contractual obligation to deliver cash to another entity or person.

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- **Major Account:** A 7-digit project / sub group number in the Project ledger and an 8 digit Discipline / Activity combination in the Operations ledger within which transactions of similar nature/activities are grouped.
- **Major account deficit:** The ending balance of a major account where the sum of revenues is less than the sum of the expenses.
- **Major account surplus:** The ending balance of a major account where the sum of revenues is greater than the sum of the expenses.
- **National Health and Medical Research Council (NHMRC):** A Commonwealth entity that awards Commonwealth Government funding for health and medical research.
- **Natural Account:** A set of 4-digit account code that groups transaction of similar nature.
- **Performance obligation:** A promise in a contract with a customer to deliver specified goods or services to a customer or a third party.
- **Revenue:** In accounting, revenue is the income that a University earns from its normal activities, usually from the delivery of goods or services to customers. In Finance One these accounts are within the range 1000-1999
- **Revenue recognition:** The accounting principles that determine the specific conditions under which revenue is recognised or accounted for. Revenue is generally recognised only when a specific critical event has occurred (i.e. the satisfactory completion of contractual performance obligations) and the amount of revenue is measurable.
- **Teaching Income:** Fees and charges received to provide teaching / tuition services to the students of the university.
- **Unearned revenue:** A liability that reports money received in advance of providing goods or services. When the good or service is provided, this liability balance is decreased, and revenue is recognised in its place. It represents the University's outstanding obligations to provide goods or services to a customer for which money has already been received from the customer.
- **Unearned revenue / financial liability opening balance:** The closing balance of the major account unearned revenue / financial liability from the previous year.
- **Project Ledger:** Component of Finance One, within which accounts are located
- **Operations Ledger:** component of Finance One. Funds that reside within Major Accounts of the Operating Ledger do not carry forward from one financial year to the next

3 CURRENT AND DESIRED STATE

The following table outlines the business current state and desired state at a high level, which drives the requirements:

Current State	Desired State	Accountabilities
Revenue recognition computations		
<ul style="list-style-type: none"> • Finance One does not have system capabilities to automatically calculate transactions and balances required by the new revenue accounting standards for Non-Teaching Revenue. • Non-Teaching Revenue related balances (such as accrued revenue and unearned revenue) are currently calculated manually outside Finance One in Excel. 	<ul style="list-style-type: none"> • Development of a Non-Teaching Revenue Allocation Model in Finance One that can be run on the Project and Operations Ledger. • Systematic solution designed for the following Revenue recognition methods <ul style="list-style-type: none"> • Revenue over time (Refer section 4.3.1) • Capital grants (Refer section 4.3.2) • Scholarships (Refer section 4.3.3) • Payment to Non-leads (Refer section 4.3.4) • Revenue recognition computations to be performed at a major account level using year to date balances) based on the set of rules defined in this document • The Non-Teaching Revenue Allocation Model to calculate and recognize the following transactions and balances within Finance One through EOM journals <ul style="list-style-type: none"> • Recognition of revenue as it is earned over time • Calculate the amount to be offset for income and expenses relating to financial liabilities • Calculate the amount of revenue to be deferred to the Balance sheet (Surplus) or amount which needs to be transferred from Unearned Revenue to Revenue Account. • The business logic for developing the Non-Teaching revenue allocation model to be consistent for both Project and Operations Ledger.(Refer 4.2) <p>Out of Scope</p> <ul style="list-style-type: none"> • This process will not capture the scenarios where the project was fully funded in the previous year and 	<p><u>System solution development</u></p> <ul style="list-style-type: none"> • Model developed in Finance One by Systems Team. <p><u>BAU</u></p> <ul style="list-style-type: none"> • Model employed by Financial Control as part of EOM process.

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	<p>expenses were incurred in the previous year and current years as the model would not be able to post the EOM journals in the correct natural accounts. This is due to the restriction that the solution can only be run in the current processing group in Finance One (i.e. the current financial year). For such scenarios calculation to be performed manually to arrive at the correct revenue recognition and deferral amount.</p>	
<p>• Natural account use</p>		
<ul style="list-style-type: none"> • The current chart of accounts does not have adequate number of Natural Accounts to segregate the deferral and other adjustment entries which would enable the correct recognition of revenue as required by the new revenue standard. 	<ul style="list-style-type: none"> • Creating Natural Accounts to cover expected scenarios for the revenue recognition model • Ability of Finance Control team to assign different revenue recognition approaches for each natural account as part of account creation. • The Non-Teaching Revenue Allocation Model to only run on natural accounts which are active. • Ability to process EOM journal posting using the nominated natural account (business logic determined by use of selection codes attributed to the natural account chart) and thus impacting the Income Statement and Balance Sheet. 	<p><u>System solution development</u></p> <ul style="list-style-type: none"> • Establish new selection codes in Finance One natural account chart to assign the appropriate revenue recognition to this natural account and hence all revenue coded to this natural account. • Natural accounts set-up in Finance One by Systems Team. • Financial Control team to own the process of running the model. <p><u>BAU</u></p> <ul style="list-style-type: none"> • Faculties and Offices will assess the revenue recognition for the contract/revenue stream and subsequent coding to the appropriate natural account.
<p>EOM revenue allocation model journal and reconciliation</p>		
<ul style="list-style-type: none"> • Except for Teaching Revenue, Finance One does not have an established automatic revenue allocation journal or reconciliation processes (as there has been no business requirement for such processes in past accounting periods). 	<ul style="list-style-type: none"> • Ability to calculate the revenue to be recognized as per the new standard and post system generated EOM journals using the correct natural account • EOM journals to be reversing for period 1 to 11 (January to November) and permanent for period 12 (December). 	<p><u>System solution development</u></p> <ul style="list-style-type: none"> • EOM journal developed in Finance One by Systems Team. • Natural accounts established in Finance One by Systems Team.

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	<ul style="list-style-type: none"> • The EOM journals to be posted in both Project Ledger and Operations Ledger • Establishment of new contra revenue / expense natural accounts to record income statement revenue allocation adjustments and to isolate these adjustments from other underlying income statement transactions. 	<p><u>BAU</u></p> <ul style="list-style-type: none"> • EOM revenue allocation model journal process and reconciliation performed by Financial Control. • A process to be created in Finance One that will calculate the amount to be earned or released each month based on the rules defined in this document, refer to section 4.3. • The output of this process will create a journal automatically as a suspended batch within the Transaction Entry screen (users workflow) in Finance One. • The journal will be reviewed by a preparer and sent to an approver for accepting and posting via workflow in Finance One. • A separate process will need to be created for year end (permanent) journal to ensure the correct period (processing group) is selected. •
User access		
<ul style="list-style-type: none"> • Finance One users currently have access to post transactions to natural accounts throughout the accounting period. 	<ul style="list-style-type: none"> • EOM revenue allocation model journals to be processed by Financial Control. • The natural accounts will not be restricted to Financial Control team to allow other finance staff to make correction adjustments as part of the month end process. This is to avoid any back log of corrections by the Financial Control which would be immaterial at a University level but may be required for faculty/office level. 	<p><u>BAU</u></p> <ul style="list-style-type: none"> • Ability to run the EOM model journal by Financial Control. • Other finance staff to have access to natural accounts to make correction adjustments as required.

4 BUSINESS REQUIREMENTS

4.1 Global functional requirements

The priority for each requirement is outlined below:

Mandatory (M)	An absolute requirement without which the solution cannot go live.
Highly Desirable (HD)	Requirements which have significant impact on the functionality of a system and by which the system will be greatly improved.
Desirable (D)	Requirements which are nice to have.

Req ID	Description	Priority
Global functional requirements		
GR 1	Natural Account selection types	
GR1.1	Ability to select required revenue recognition approach for each natural account. Requirement achieved through creation of a new selection code named (for the purposes of this document) 'revenue recognition approach'.	Mandatory
GR1.2	Each selection type from the selection code 'revenue recognition approach' must equate to a different revenue allocation approach (e.g. Revenue Over time). Proposed selection code descriptions are detailed in section 4.2 of this document.	Mandatory
GR1.3	The 'revenue recognition approach' selection code must be a mandatory option when establishing new natural accounts in the natural chart in Finance One.	Mandatory
GR2	Revenue natural accounts	
GR2.1	New contra-revenue natural accounts required for EOM revenue allocation journal postings. The new contra-revenue natural accounts are detailed in section 4.3 of this document.	Mandatory
GR2.2	Business Logic is created which determines the accurate revenue recognition amount and the major account/natural account combination in which the EOM revenue allocation journal will be posted to in the Finance One general ledger.	Mandatory
GR3	Expense natural accounts	
GR3.1	New contra-expense natural accounts required for EOM revenue allocation journal postings. The new contra-expense natural accounts are detailed in section 4.2 of this document.	Mandatory
GR3.2	All expenses posted to major accounts are to be included in EOM revenue allocation model revenue journal calculations, except for those accounts assessed for the financial liability logic.	Mandatory
GR4	Balance sheet natural accounts	
GR4.1	New balance sheet natural accounts required for EOM revenue allocation journal postings.	Mandatory
GR5	EOM revenue allocation model journal	
GR5.1	The EOM revenue allocation model journal will only be processed for accounts (natural, operations and project ledger account numbers) that are Active accounts	Mandatory

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GR5.2	The balance sheet deferral journal to be posted at Major Account and Natural combination (eg 12345/01/9530). Currently, all balance sheet accounts are defaulted to 01/9051/XXXX. By posting to the project/operations major we will increase visibility for reporting purposes on a project level.	Mandatory
GR5.3	EOM revenue allocation journal posting to be performed by Financial Control team.	Highly Desirable (HD)
GR5.4	The ability for the EOM revenue allocation journal to be both a reversing journal and a permanent journal. Auto reversal journal to be posted for the period between 1 to 11 and permanent journal to be for period 12.	Mandatory

4.2 Overview of the Business Logic for developing “Non-Teaching Revenue Allocation Model”

- The “Non-Teaching Revenue Allocation Model” is created for the following revenue recognition methods
 - Revenue over time (Refer section 4.3.1)
 - Capital grants (Refer section 4.3.2)
 - Scholarship revenue and expenses (Refer section 4.3.3)
 - Payment to Non-leads revenue and expenses (Refer section 4.3.4)
- For each of the above revenue recognition method there is a different script created as the revenue recognition criteria is different for each method.
- Each natural account in Finance One has a single revenue recognition method assigned to it (1:1 match). This is to ensure that there is no overlap of revenue recognition method on natural accounts.
- As there is a one to one match on the revenue recognition attributed to the natural accounts the order of running the script will not have an impact on the end result of the calculations.
- When “Non-Teaching Revenue Allocation Model” is run for a revenue recognition method, it would calculate the revenue amount at a major account level based on the natural accounts assigned with the revenue recognition method.
- Based on the set of rules (refer to section 4.3) the EOM journal is created by the model with the appropriate major account and natural account combination.
- The calculation performed by the model will be on year to date balances in the major accounts.
- The frequency of running the model will be monthly.
- The EOM journals will be auto reversal for period 1 to 11 and permanent for period 12.
- The business logic explained for Non-Teaching Revenue Allocation Model will be the same for Project and Operations ledger
- The next section details the business logic to generate EOM journals for each revenue recognition method.

4.3 Selection code functional requirements – Revenue recognition assessment

The purpose of this selection code is to provide Finance One users the ability to select the appropriate revenue recognition approach that will be applied for the funding agreement/revenue contract. Selection type functional requirements for selection code 'Revenue recognition assessment are detailed below. Current state is that Financial Control own the process of creating natural accounts in Finance One. This will continue, and this team will maintain oversight that the correct selection types are applied in the natural account chart.

4.3.1 Revenue – Over time

Revenue recognition selection code in Finance One – REVOT

Description

- Selection code for when revenue is to be recognized over time and costs incurred is the appropriate method of measuring progress towards satisfaction of performance obligation.

EOM Revenue calculation methodology (Step 1- Major Account with Revenue with credit balances)

- Extraction of Major Accounts and Natural Accounts combination from Finance One where natural accounts are assigned with selection code as REVOT
 - The accounts which are active
 - Excluding sub group between 20-29 as these are internal funding groups
- Extraction of Major Accounts and Natural Accounts combination from Finance One where Natural Accounts are assigned with natural account 9530.
 - Natural Account to be selected (9530 is a new account created to record Unearned Revenue balances)
 - The account should be active
 - Excluding sub group between 20-29 (For Major Accounts) as these are internal funding groups
- All accounts where the balances are less than or equal to 0. Rationale is that no major account to be selected with debit balances as it would reflect incorrect revenue recognition.
- Extraction of Major Accounts and Natural Account combinations from Finance One where natural accounts are assigned with selection code expenses
 - The accounts which are active
 - Excluding sub group between 20-29 (For Major Accounts) as these are internal funding groups
- The system joins all the major accounts extracted with corresponding revenue, unearned revenue and expenses balances and compares these balances to calculate the revenue and contra revenue (deferral) amount.
- Exclude the major account when the sum of revenue at a major account has zero balances. All project with Zero balances will be captured in Step 2 of the process.
- Exclude the major account when the **sum of expenses** at a major account level has credit balances. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major account. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.
- Exclude the major account when the **sum of revenues** at a major account level has debit balances. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.

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- Exclude the major account when the **total unearned revenue balance** (natural account 9530) at a major account level has debit balances. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major account. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.
- Exclude the major accounts where the **sum of unearned revenue and revenue = 0** (There were multiple scenarios where revenue and unearned revenue were having same balance with opposite sign. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major account. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.
- Calculate the major account surplus or deficit
- In the case of major account surplus, **revenue to be equal to expenses**. The surplus amount will be the Unearned Revenue account.
- In case of major account deficit, revenue to be equal to **minimum of revenue + unearned revenue and expenses**. Balances to be transferred from unearned revenue to revenue account.
- As the revenue recognition is linked to the cost incurred on the project there will not be a scenario where revenue is accrued.
- Usage of Natural Accounts while posting journals
 - For posting the journal for deferral/release of revenue logic is determined to identify the appropriate natural account
 - For each Major account, the script would look at the Natural account and pick up the corresponding contra account assigned to it (refer to listing of natural accounts refer section 4.4)
 - Scenarios where there are multiple natural account and multiple contra account for a single major account, the script would pick the natural account with maximum income balances and use the corresponding contra account assigned to that natural account.

Major Account	Natural Account	Contra Account	Amount	Contra Account to be used
1594500	1309	1983	-10,091	1972
1594500	1367	1972	-29,664	1972

- For Unearned Revenue, the system would use Natural Account 9530 to post the journals
- Scenarios when in a major account there is
 - No Revenue in the current year
 - Expenses incurred in the current year
 - Unearned revenue balances in the balance sheet
- The script to post the journal in natural account - xxxx

EOM revenue allocation journal

- When major account is in surplus the unearned revenue will increase
 Dr Contra Revenue Contracts (Refer section 4.4)
 Cr Unearned Revenue Contracts (GL 9530)
- When major account is in deficit the unearned revenue will decrease
 Dr Unearned Revenue Contracts (GL 9530)
 Cr Contra Revenue Contracts (Refer section 4.4)

- The posting would happen at a major account and natural account combination i.e. xxxxx/xx/9530)
- The journal to be auto reversal for period 1 to 11 and permanent journal for period 12

EOM Revenue calculation methodology (Step 2- Major Account with Revenue balances = 0)

- Extraction of Major Accounts and Natural Accounts combination from Finance One where natural accounts are assigned with selection code as REVOT
 - The accounts which are active
 - Excluding sub group between 20-29 as these are internal funding groups
 - Extract the major accounts if the revenue balances is equal to 0
- Rest of the process is the same as highlighted in Step 1. The only other change is that at the time of posting the end of the month journal the script will pick account no. 19xx to post the journals.

Revenue – Capital grant (AASB 1058)

Revenue recognition selection code in Finance one – REVCAPGT

Description

- Selection code for when revenue is used for natural accounts that are used for recording capital grant income and cost incurred is the appropriate method of measuring progress towards satisfaction of performance obligation.

EOM Revenue calculation methodology (Step 1 – Capital Grant with credit balances)

- Extraction of Major Accounts and Natural Accounts combination from Finance One where natural accounts are assigned with selection code as REVCAPGT
 - The accounts which are active
 - Excluding sub group between 20-29 (For Major Accounts) as these are internal funding groups
- Extraction of Major Accounts and Natural Accounts combination from Finance One where Natural Accounts are assigned with natural account 9531.
 - Natural Account to be selected (9531 is a new account created to record Unearned Revenue for capital grants balances)
 - The account should be active
 - Excluding sub group between 20-29 (For Major Accounts) as these are internal funding groups
All accounts where the balances are less than or equal to 0. Rationale is that no major account to be selected with debit balances as it would reflect incorrect revenue recognition
- Extraction of Major Accounts and Natural Account combinations from Finance One where natural accounts are assigned with selection code expenses
 - The accounts which are active
 - Excluding sub group between 20-29 (For Major Accounts) as these are internal funding groups
- The system joins all the major accounts extracted with corresponding revenue, unearned revenue and expenses balances and compares these balances to calculate the revenue and contra revenue (deferral) amount.
- Exclude the major account when the sum of revenue at a major account has zero balances. All project with Zero balances will be captured in Step 2 of the process.

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- Exclude the major account when the **sum of expenses** at a major account level has credit balances. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major account. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.
- Exclude the major account when the **sum of revenues** at a major account level has debit balances. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.
- Exclude the major account when the **total unearned revenue balance** (natural account 9530) at a major account level has debit balances. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major account. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.
- Exclude the major accounts where the **sum of unearned revenue and revenue = 0** (There were multiple scenarios where revenue and unearned revenue were having same balance with opposite sign. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major account. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.
- Calculate the major account surplus or deficit
- In the case of major account surplus, **revenue to be equal to expenses**. The surplus amount will be the Unearned Revenue account.
- In case of major account deficit, revenue to be equal to **minimum of revenue + unearned revenue and expenses**. Balances to be transferred from unearned revenue to revenue account.
- As the revenue recognition is linked to the cost incurred on the project there will not be a scenario where revenue is accrued.

Usage of Natural Accounts while posting journals

- The process is the same as Revenue Over time to identify the income statement accounts as in previous section.
- For Unearned revenue, the system would use Natural Account 9531 to post the journals

EOM revenue allocation journal

- When major account is in surplus the unearned revenue will increase
Dr Contra Revenue Capital grants (Refer section 4.4)
Cr Unearned Revenue Capital grants (GL 9531)
- When major account is in deficit the unearned revenue will decrease
Dr Unearned Revenue Capital grants (GL 9531)
Cr Contra Revenue Capital grants (Refer section 4.4)
- The posting would happen at a major account and natural account combination i.e. xxxxx/xx/9531)
- The journal to be auto reversal for period 1 to 11 and permanent journal for period 12

EOM Revenue calculation methodology (Step 1 – Capital Grant = 0)

- Extraction of Major Accounts and Natural Accounts combination from Finance One where natural accounts are assigned with selection code as REVCAPGT
 - The accounts which are active
 - Excluding sub group between 20-29 (For Major Accounts) as these are internal funding groups
 - Extract the major accounts if the revenue balances is equal to 0

- Rest of the process is the same as highlighted in Step 1. The only other change is that at the time of posting the end of the month journal the script will pick account no. 19xx to post the journals

4.3.2 Financial liability – Scholarship / Stipends

Revenue Recognition Assessment Selection Code in Finance One –

- Revenue Natural Account – FLSCHSTR
- Expenses Natural Account – FLSCHSTP

Description

- Scholarship code for when a contractual obligation is identified to make scholarship/ stipend payments to a third party (usually a student)

EOM revenue calculation methodology

- Extraction of Major Accounts and Natural accounts combination from Finance One where natural account is assigned as Scholarship revenue
 - All Natural Account assigned as FLSCHSTR (Scholarship and Stipend revenue)
 - The accounts which are active
 - Excluding sub group between 20-29 (For Major Accounts) as these are internal funding groups

- Extraction of Major Accounts & Natural accounts combination from Finance One where natural account is assigned as Scholarship expenses from Finance one
 - Natural Accounts 2014 and 5019 (Expenses related to Scholarship and Stipend expenses)
 - The accounts which are active
 - Excluding sub group between 20-29 (For Major Accounts) as these are internal funding group
 - List down all the major accounts as highlighted from the above steps (Natural Accounts 2014 and 5019)
 - List down all the major accounts for Natural Account assigned as Financial Liability
 - Combine the major accounts extracted for natural account assigned as FLSCHSTR (Scholarship and Stipend Revenue) and Financial Liability
 - Compare the major accounts between FLSCHSTP (Scholarship and Stipend expenses) and FLSCHSTR + Financial Liability (Scholarship and Stipend revenue & Financial Liability) and select the common major accounts
 - The major accounts which are common to be selected to post the adjustment against Scholarship and Stipend Expenses

- Exclude the major account when the **sum of scholarship/stipend expenses** at a major account level has credit balances. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major account. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.

- Exclude the major account when the **sum of scholarship/stipend revenues** at a major account level has debit balances. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.

- Offset Revenue
 - The script will post the journal for contra revenue at the end of the month
 - Similar to earlier sections, the business logic will assess which natural account to post the contra based on the natural account where the revenue is recognised.
 - The balance for the contra revenue will be an equal offset of the revenue amount.
 - The other entry of the journal is to **credit the financial liability account** (natural account 9525). The balance for the financial liability to be equal to the revenue amount

- Offset Expenses
 - The script will post the journal for contra expenses at the end of the month
 - Natural account for the contra revenue journal to be natural account 4920 for all the scenarios. As this is expense account is mapped to same hierarchy codes as the scholarship/stipend expenses.
 - The balance for the contra revenue will be an equal offset of the revenue amount.
 - The other entry of the journal is to **debit the financial liability account** (natural account 9525). The balance for the financial liability to be equal to the expenses amount

EOM Revenue allocation journal

- Reallocation of revenue to financial liabilities which result in increase of financial liability
Dr Contra Revenue – Scholarship (Refer section 4.4)
Cr Financial Liabilities – Scholarship (GL 9525)

- Reallocation of expenses as financial liability disbursements
Dr Financial Liabilities – Scholarship (GL 9525)
Cr Contra Expenses – Scholarship (Refer section 4.4)

4.3.3 Financial liability – Payment to non-lead partners

Revenue Recognition Assessment Selection Code in Finance One

- Revenue Natural Account – FLPTNLPR
- Expenses Natural Account – FLPTNLPE

Description

- Scholarship code for when a financial liability obligation to make transfer payments to non-lead research partners is evident

EOM revenue calculation methodology

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- Extraction of Major Accounts and Natural accounts combination from Finance One where natural account is assigned as Payment to Non-Lead revenue
 - All Natural Account assigned as FLPTNLPR (Payment to Non-Lead Revenue)
 - The accounts which are active
 - Excluding sub group between 20-29 (For Major Accounts) as these are internal funding groups
- Extraction of Major Accounts & Natural accounts combination from Finance One where natural account is assigned as Payment to Non-Lead expenses from Finance One
 - All Natural Account assigned as FLPTNLPE (Payment to Non-Lead expenses)
 - The accounts which are active
 - Excluding sub group between 20-29 (For Major Accounts) as these are internal funding groups
- Exclude the major account when the **sum of payments to non-lead expenses** at a major account level has credit balances. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major account. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.
- Exclude the major account when the **sum of income from non-lead revenues** at a major account level has debit balances. No journal will be created for this major account, this is to avoid incorrect revenue recognition on this major. Separate controls/reviews will be performed to reduce the number of accounts that could fall into this exclusion criteria.
- Offset Revenue
 - The script will post the journal for contra revenue at the end of the month
 - Similar to earlier sections, the business logic will assess which natural account to post the contra based on the natural account where the revenue is recognised.
 - The balance for the contra revenue will be an equal offset of the revenue amount.
 - The other entry of the journal is to **credit the financial liability account** (natural account 9525). The balance for the financial liability to be equal to the revenue amount
- Offset Expenses
 - The script will post the journal for contra expenses at the end of the month
 - Natural account for the contra revenue journal to be natural account 4921 for all the scenarios. As this is expense account is mapped to same hierarchy codes as the scholarship/stipend expenses.
 - The balance for the contra revenue will be an equal offset of the revenue amount.
 - The other entry of the journal is to **debit the financial liability account** (natural account 9525). The balance for the financial liability to be equal to the expenses amount

EOM Revenue allocation journal

- Reallocation of revenue to financial liabilities which result in increase of financial liability
 - Dr Contra Revenue – Payment to Non-Lead (Refer section 4.4)
 - Cr Financial Liabilities – Payment to Non-Lead (GL 9525)
- Reallocation of expenses as financial liability disbursements
 - Dr Financial Liabilities – Payment to Non-Lead (GL 9525)

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Cr Contra Revenue – Payment to Non-Lead (Refer Section 4.4)

- The EOM journal to be auto reversal for period 1 to 11 and permanent journal for period 12.

4.4 Selection code functional requirements – Revenue recognition

The purpose of this selection code is to detail the logic to identify the appropriate deferral or contra natural account the revenue allocation model will post the end of month journal.

A selection code will be created in the Natural Account ledger chart to identify the deferral or contra account to be assigned on a natural account by natural account basis (i.e. a one to one match). This is based on the nature of the revenue in this account and the mapping of the account for internal and external reporting (MR and FA hierarchies respectively in Calumo).

Where a natural account is not to be included in the revenue model, NA is the nominated field in the selection code.

The maintenance of the natural accounts' ledger is the responsibility of the Financial Control Team.

Refer below to an example of how this would look in the GL Chart Account Enquiry function in Finance One.

In this example, all revenue recorded in natural account 1390 is deemed to have a revenue recognition assessment of revenue over time, and the model will post the deferral/release of this revenue in natural account 1974.

Account Number

Chart Name: Natural Account

General

Account Number:	<input type="text" value="1390"/>	
Account Description:*	<input type="text" value="NHMRC Projects"/>	
Short Name:	<input type="text" value="NHMRC Projects"/>	
Data Entry Control:	<input type="text" value="Active"/>	
Managem't Rep Detail:*	<input type="text" value="15"/>	Other Income
Infra Chg Natural:*	<input type="text" value="NO"/>	Infra No
BlacklineReconcile:*	<input type="text" value="Y"/>	NatAcctUsed
MR Level 6:*	<input type="text" value="61110401"/>	6NHMRCPro
Rev Rec Assessment:*	<input type="text" value="REVOT"/>	REVOT
Revenue Recognition:*	<input type="text" value="1974"/>	NHMRC CRev

4.4.1 Preliminary assignment of selection codes to the Natural Account Chart



Selection Code.xlsx

It should be noted that this is not a final version of the assignment as this will be refined over the life of the project

5 MODEL RISK

Model weaknesses have been identified and included in the below table. Risk mitigation strategies and control activities that should be implemented to mitigate these risks have also been documented below for consideration.

Number	Risk factor	Risk mitigation strategies	Teams Involved
1.	Front end users assess incorrect revenue recognition assessment for a revenue stream.	<ul style="list-style-type: none"> 1- Development of revenue assessment checklists to assist the users to assess the revenue recognition approach. 2- Provision of training for finance and other staff on revenue recognition assessment and coding. 3- EOM and EOY sampling of underlying contracts to ensure appropriate revenue recognition selection. 	Finance One users
2.	Revenue model rules employed to determine where EOM revenue allocation journals are posted to in the Finance One general ledger do not contain all relevant revenue natural accounts.	<ul style="list-style-type: none"> 4- Development of EOM and / EOY review processes to ensure that all relevant natural accounts are updated and included Finance One model rules. 	Finance Control
3.	Contract terms vary after major account establishment and revenue recognition selection.	<ul style="list-style-type: none"> 5- Awareness and knowledge training to ensure finance staff are aware to reclass revenue to the appropriate natural account for changes in contract performance obligation requirements. 	Finance Managers
4.	The revenue allocation model is not applied to all relevant revenues of the University.	<ul style="list-style-type: none"> 6- EOM reviews of FA / MR hierarchy mapping to identify new revenue natural accounts that require inclusion into the EOM revenue allocation model journal process. 	Finance Control
6.	Project ledger attributes that are parameters/inputs in the script are not applied accurately on existing accounts (e.g. subgroup range 20-29 is intended for internally funded accounts but there may be legacy accounts with external funds in the account)	<ul style="list-style-type: none"> 7- The Project Ledger policy is being updated by Finance which will reiterate the use of the project ledger and structure of accounts. 8- Preventive controls will be developed to assess those major accounts that are not included in the script to rationalise the exclusion. 	Financial Reporting Manager / Finance Managers Financial Control
5.	Incorrect selection codes applied to the natural account charts for the deferral account.	<ul style="list-style-type: none"> 9- Development of procedural guidance on NAT account establishment. 10- Provision of training for staff on NAT account establishment. 11- EOM / EOY reviews and sampling of accounts to ensure appropriate deferral account. 	Finance Control
6.	Incorrect calculation of revenue recognition and unearned revenue balances for projects with revenue and debit balances, expenses and credit balances and unearned revenue with debit balances	<ul style="list-style-type: none"> 12- Document within the business requirements the filters and exclusions applied to avoid an incorrect deferral or release of revenue. 13- Further the script will not accrue revenue as revenue recognized will never exceed the sum of revenue received and opening unearned balance. 	Finance Control
7.	Knowledge of the configuration of the model is lost due to changes in staff of the project team	<ul style="list-style-type: none"> 14- Appropriate documentation will be maintained regarding this model, including the business requirements document and system configuration document of the solution. This will also ensure that the script is available for audit by internal or external auditors in the future. 	Project Team / ITS

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Number	Risk factor	Risk mitigation strategies	Teams Involved
8.	One major account having multiple revenue stream resulting in an incorrect calculation of revenue and deferral of revenue balances	15- Educating the stakeholders in the updated Operations and Project ledger policy to create a separate major account for each revenue stream.	Finance Control
9.	For major account with revenue balances equal to zero, balances to be posted in temporary control account.	16- Monthly desktop analysis to allocated balances from the control account to the right natural account.	Finance Control

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7 ILLUSTRATIVE EXAMPLES

Refer to Appendix A to this document for three illustrative examples that walk through the financial transactions of major accounts over the life of a project/account

Facts

Research grant from the ARC. Project has carryforward balance of \$29,750.
 Further revenue received in Feb 19 of \$35k, bringing total revenue to be recognised of \$64,750 in FY19

Journal Purpose		Surplus Check				Surplus Check				Surplus Check				Surplus Check		
		Transitional Adjustment to reclass from opening retained earnings to unearned revenue	BAU journal for expenses incurred on project	EOM Revenue Recognition Journal performed by script	EOM Revenue Recognition Journal reversed from prior period	BAU journal for additional funding received	EOM Revenue Recognition Journal performed by script	EOM Revenue Recognition Journal reversed from prior period	BAU journal for expenses incurred on project	EOM Revenue Recognition Journal performed by script	EOM Revenue Recognition Journal reversed from prior period	Journal required to release any remaining unearned revenue before project deactivated in F1	Closing Position	Closing Position		
		Journal 1 Permanent (1 Jan 19)	Journal 2 Permanent	Journal 3 Reversing (31 Jan 19)	Closing Position 31 Jan 19	Journal 4 (01 Feb 19)	Journal 5 Permanent	Journal 6 Reversing (28 Feb 19)	Closing Position 28 Feb 19	Journal 7 (01 Mar 19)	Journal 8 Permanent	Journal 9 Reversing (31 Mar 19)	Closing Position 31 Mar 19	Journal 10 (01 April 19)	Journal 11 Permanent (15 April 19)	Closing Position (30 April 19)
Balance Sheet	Bank		(25,000)		(25,000)		35,000		10,000		(39,750)		(29,750)			(29,750)
	Unearned Revenue / Financial Liability	(29,750)		25,000	(4,750)	(25,000)		(10,000)	(39,750)	10,000		29,750	0	(29,750)	29,750	0
	(9901) Accumulated Balance from Previous Year	29,750			29,750				29,750				29,750			29,750
	Net Impact to the Balance Sheet	0	(25,000)	25,000	0	(25,000)	35,000	(10,000)	0	10,000	(39,750)	29,750	0	(29,750)	29,750	0
Income Statement	(1372) ARC Indigenous Discovery						(35,000)		(35,000)				(35,000)			(35,000)
	MR_1.01.01.03.07 – ARC Deferral															
	(1972) Australian Research Council contra revenue – Contracts			(25,000)	(25,000)	25,000		10,000	10,000	(10,000)		(29,750)	(29,750)	29,750	(29,750)	(29,750)
	MR_4_Total Expense		25,000		25,000				25,000		39,750		64,750			64,750

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Facts		Scholarship funding agreement has carryforward balance of \$30,000 with additional funding of \$10k received. Student is paid via stipend every fortnight															
		Surplus Check				Surplus Check				Surplus Check				Surplus Check			
Journal Purpose		transitional Adjustment to reclass from opening retained earnings to unearned revenue	BAU journal for stipends due to student	EOM Revenue Recognition Journal performed by script	-	EOM Revenue Recognition Journal reversed from prior period	BAU journal for stipends due to student	EOM Revenue Recognition Journal performed by script	-	EOM Revenue Recognition Journal reversed from prior period	BAU journal for additional funding received	BAU journal for stipends due to student	EOM Revenue Recognition Journal performed by script	-	EOM Revenue Recognition Journal reversed from prior period	Journal required to release any remaining unearned revenue before project deactivated in F1	
		Journal 1 Permanent (1 Jan 19)	Journal 2 Permanent	Journal 3 Reversing (31 Jan 19)	Closing Position 31 Jan 19	Journal 4 (01 Feb 19)	Journal 5 Permanent	Journal 6 Reversing (28 Feb 19)	Closing Position 28 Feb 19	Journal 7 (01 Mar 19)	Journal 8 Permanent	Journal 9 Permanent	Journal 10 Reversing (31 Mar 19)	Closing Position 31 Mar 19	Journal 11 (01 April 19)	Journal 12 Permanent (15 April 19)	Closing Position (30 April 19)
Balance Sheet	Bank		(10,000)		(10,000)		(10,000)		(20,000)		10,000	(20,000)		(30,000)		(30,000)	
	Unearned Revenue / Financial Liability (9901) Accumulated Balance from Previous Year	(30,000)		10,000	(20,000)	(10,000)		20,000	(10,000)	(20,000)		30,000		30,000	0	(30,000)	30,000
Net Impact to the Balance Sheet		0	(10,000)	10,000	0	(10,000)	(10,000)	20,000	0	(20,000)	10,000	(20,000)	30,000	0	(30,000)	30,000	0
Income Statement	1302a Scholarship and Stipends Income				0					(10,000)			(10,000)			(10,000)	
	1302b Scholarship and Stipends Income Contra			0	0							10,000	10,000	(10,000)	10,000	10,000	
	2014a Stipends Financial Liability		10,000		10,000		10,000		20,000		20,000		40,000	40,000		40,000	
	4920 Scholarships & Stipends Contra Expense			(10,000)	(10,000)	10,000		(20,000)	(20,000)	20,000			(40,000)	(40,000)	40,000	(40,000)	(40,000)

Facts		Carryforward balance of \$10k owing to research partner from funding body Further funds received in 2019 under MIA that is due to research partner															
		Surplus Check				Surplus Check				Surplus Check				Surplus Check			
Journal Purpose		transitional Adjustment to reclass from opening retained earnings to unearned revenue	BAU journal for additional funding received	EOM Revenue Recognition Journal performed by script	-	EOM Revenue Recognition Journal reversed from prior period	BAU journal for payments made to research partner	EOM Revenue Recognition Journal performed by script	-	EOM Revenue Recognition Journal reversed from prior period	BAU journal for payments made to research partner	EOM Revenue Recognition Journal performed by script	-	EOM Revenue Recognition Journal reversed from prior period	Journal required to release any remaining unearned revenue before project deactivated in F1		
		Journal 1 Permanent (1 Jan 19)	Journal 2 Permanent	Journal 3 Reversing (31 Jan 19)	Closing Position 31 Jan 19	Journal 4 (01 Feb 19)	Journal 5 Permanent	Journal 6 Reversing (28 Feb 19)	Closing Position 28 Feb 19	Journal 7 (01 Mar 19)	Journal 8 Permanent	Journal 9 (31 Mar 19)	Closing Position 31 Mar 19	Journal 10 (01 April 19)	Journal 11 Permanent (15 April 19)	Closing Position (30 April 19)	
Balance Sheet	Bank		10,000		10,000		(2,000)		8,000		(18,000)		(10,000)		(10,000)		
	Unearned Revenue / Financial Liability (9901) Accumulated Balance from Previous Year	(10,000)		(10,000)	(20,000)	10,000		(8,000)	(18,000)	8,000		10,000	0	(10,000)	10,000	0	
Net Impact to the Balance Sheet		0	10,000	(10,000)	0	10,000	(2,000)	(8,000)	0	8,000	(18,000)	10,000	0	(10,000)	10,000	0	
Income Statement	1360a ARC - Discovery Projects - Income for RP		(10,000)		(10,000)				(10,000)			(10,000)			(10,000)		
	1360b ARC Discovery Contra MIA income			10,000	10,000	(10,000)		10,000	10,000	(10,000)		10,000	10,000	(10,000)	10,000	10,000	
	(4752) ARC Discovery Projects - Payments to non-leads (ARC Funds)				0		2,000		2,000		18,000		20,000		20,000		
	4921 Non-lead Partners Payment Contra Expense				0		(2,000)	(2,000)	2,000			(20,000)	(20,000)	20,000	(20,000)	(20,000)	