Business Requirements Document

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ADDENDUM TO BUSINESS REQUIREMENTS

4.3 SELECTION CODE FUNCTIONAL REQUIREMENTS – REVENUE RECOGNITION ASSESSMENT

BACKGROUND

Macquarie University has adopted the new revenue standard AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities on 1st January 2019. To ensure revenue recognition process is in line with the new standards, a new system solution ("the script") was developed by the IT team as defined in the business requirement document for Project "Revenue and Leases Project – Non Teaching Revenue Allocation Model". From 1st Jan 2019, the finance team runs the script created and posts the journals every month end. Currently the script does not cover all the revenue recognition scenarios which has resulted in manual intervention from finance team. To eliminate this manual intervention there are 2 new additional scripts requested by the finance team. The requirements are as follows

A- Reallocation of balances from natural account 1984 (Revenue control account) to the appropriate contra natural account for scenarios where funding was received prior to financial year 2019.
B- Release of balance from natural account 9530 (Unearned revenue account) to the appropriate contra natural account for scenarios where natural account 9901 (Accummulated Balance from Previous Year) has debit balance i.e. major account was in deficit in the prior period.

4.3.5 – REVENUE OVER TIME – REALLOCATION OF BALANCE FROM REVENUE CONTROL ACCOUNT

There are major accounts where the funding was received in the previous year i.e. pre 2019 and expenses were incurred in the current year i.e. in 2019. As there was no funding received in the current year to date, the script is not able to identify the appropriate contra natural account where the revenue should be recognized. Currently the script is posting the revenue journal i.e. release of unearned revenue to the revenue account in the natural account 1984 (REVOT Natural Control Account) which is categorized as a revenue control account. This impacts the revenue recognition analysis for the finance stakeholders. The purpose of this document is to define a process to move balances from the contra natural account 1984 to an appropriate contra natural account based on the funding received pre 2019. This would be done by developing an additional script in Finance One which will be scheduled post running the IT Script "REVOT".

Steps
- Creation of a table based on data in Finance One which will include details related to the major accounts, natural accounts and contra natural accounts.
  - The scope of the table would be limited to the income natural account codes with selection type "REVOT" between 1000-1999 from financial year 2012 to 2018.
  - This table needs to be refreshed at the beginning of each financial year. Example - On 1st Jan 2020, the table needs to be refreshed by adding the data for financial year 2019. An example of the table is as follows which is prepared based on income in certain major accounts in 2018. The table would collate the data for the financial year 2015-2018.

Project/Subgroup	Natural Account	Contra Accounts	Amount $
1000600	1360	1972	Xxxx
1000600	1362	1972	Xxxx

- Extract all the major accounts that have balances in the revenue control natural account 1984. All major accounts must be active in the project ledger.

- Locate the major accounts in the table and identify the appropriate contra natural account where the revenue should be recorded based on funding received pre 2019.

- Scenarios where there are multiple natural accounts and multiple contra accounts for a single major account, the script would pick the natural account with maximum (please consider absolute balance at major account level) 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

- The script will create the following journal to move balance from natural account 1984 to the appropriate natural account.:
  Revenue Control Account Dr xxxxx/xx/1984
  Revenue Contra Account Cr xxxxx/xx/19xx

- This journal should be a reversing journal posted every month from period 1 to period 11 and a permanent journal for period 12.

- See Annexure 1 for an example.

4.3.6 – REVENUE OVER TIME – RELEASING BALANCES FROM UNEANRED REVENUE TO REVENUE ACCOUNT

Currently the Revenue over time script calculates the revenue recognition by analysing balances at major account level for the following natural accounts:

- Natural accounts with selection code "REVOT"
- Natural accounts with selection code "Expenses"
- Natural account 9530 "Unearned Revenue"

This results in ignoring debit balances in natural account 9901 (Accummulated Balance from Previous Year) which reflect the overspent balances at a major account level in the prior years for major accounts within the scope of revenue over time. Currently, the finance team needs to manually identify major accounts which have debit balances in natural account 9901 and credit balances in

natural account 9530 and post the appropriate adjustment entry to ensure accurate revenue recognition.

The requirement is to create an additional script which automates the revenue recognition for major accounts where the natural account 9901 has a debit balance and natural account 9530 has a credit balance.

Steps:

- Extract list of major accounts where natural account 9901 + 9903 has debit balance.
- Extract list of major accounts where natural account 9530 has credit balance.
- List all the major accounts where natural account 9901+9903has a debit balance and natural account 9530 has a credit balance.
- Restrict the list to only major accounts that are active.
- Select appropriate revenue contra natural account based on income received during the year.
- Compare the balances in the natural account 9901 & 9530 to identify the balance to be recognized as revenue. Use the following principle to recognize revenue:
  - If the absolute balance in the natural account 9530 > 9901+9903, then balance on 9901 +9903 will be recognized as revenue.
  - For all other cases balances in 9530 will be recognized as revenue.

- The script would be a journal posted as follows:
  Unearned Revenue Dr xxxxx/xx/9530
  Revenue Contra Account Cr xxxxx/xx/19xx

- This journal should be a reversing journal posted every month from period 1 to period 11 and a permanent journal for period 12.

- See Annexure 2 for examples.

Annexure 1 – Example

Major account 1474200 has not received any income in 2019 YTD. However, there was an expenditure in 2019 under various natural accounts with selection code "Expenses" and Unearned revenue balances in natural account 9530.

General Ledger Balances

Ledger Name:* 19MQPJA 2019 Actual Proj Ldg   (i) Show foreign curren
Foreign currency balan
calculate for high volun

Enter search criteria and click retrieve

(≈) Search: [   ]   Retrieve   Saved Search   ☑ Only show accounts/

Project/Sub Group v   like   v   1474200   [🔍] ✕

Add Criteria   Clear Criteria   Clear Values   Save Search   Load Search   Apply to Grid

Drag a column header here to group by that column

Account Number	Description	Debit (AUD)	Credit (AUD)	Commitments (AUD)	
14742/00/4452	Laboratory cons	270.75	0.00	0.00	
14742/00/5171	Accom I Sta	505.75	0.00	0.00	
14742/00/5172	Meals I Sta	101.34	0.00	0.00	
14742/00/9530	UR-Contracts	0.00	879.24	0.00	

Current status: Currently under the system solution "REVOT" the script will post the revenue journal in natural account 1984.

Additional requirement:

- The script should identify the natural account between 1000-2000 where the funding was originally received prior to 2019.
- Major account 1474200 had received income under NAT 1367 in 2016. See below:

General Ledger Balances

Ledger Name:* 16MQPJA 2016 Actual Proj Ldg   (i) Show foreign currency balances
Foreign currency balances may take some time to
calculate for high volume accounts.

Enter search criteria and click retrieve

(≈) Search: [   ]   Retrieve   Saved Search   ☑ Only show accounts/commitments with a balance

Project/Sub Group v   like   v   1474200   [🔍] ✕

Add Criteria   Clear Criteria   Clear Values   Save Search   Load Search   Apply to Grid

Drag a column header here to group by that column

Account Number	Description	Debit (AUD)	Credit (AUD)	Commitments (AUD)	Total Balance (AUD)	
14742/00/1367	ARC Fut Fellow	0.00	28,616.73	0.00	-28,616.73	
14742/00/3003	Cons - Research	10,103.79	0.00	0.00	10,103.79	

The contra natural account for 1367 is natural account 1972.

Account Number:	1367
Account Description:*	ARC - Future Fellowships
Short Name:	ARC Fut Fellow
Data Entry Control:	Active
Managem't Rep Detail:*	15 Other Income
Infra Chg Natural:*	NO Infra No
BlacklineReconcile:*	Y NatAcctUsed
MR Level 6:*	61110303 6ARCDisFel
Rev Rec Assessment:*	REVOT REVOT
Revenue Rec Contra:*	1972 ARC Contra Revenue

The additional system solution will post the following journal to recognize revenue in the appropriate contra natural account:

Revenue Control Account Dr 14742/00/1984
Revenue Contra Account Cr   14742/00/1972

Annexure 2 – Example

The below table captures scenarios where at the major account level, retained earnings have debit balances (Overspent in prior years) and unearned revenue has credit balances (Surplus post running the REVOT Script). The additional script will ensure appropriate revenue recognition.

Major Account	Retained Earning Natural account 9901	Unearned Revenue Natural account 9530	Revenue to be recognized Contra natural account 19xx	Comments
1234500	100	-120	-100	When (-) Unearned revenue > Retained Earnings. Revenue to be recognized to be equal to balances in 9901
1234500	100	-100	-100	When (-) Unearned revenue = Retained Earnings Revenue to be recognized to be equal to balances in 9901
1234500	100	-80	-80	When (-) Unearned revenue < Retained Earnings Revenue to be recognized to be equal to balances in 9530

- The script would be a journal posted as follows:
  Unearned Revenue Dr 12345/00/9530
  Revenue Contra Account Cr 12345/00/19xx

Annexure 3

Scenario for Business Requirement Releasing balances from uneanred revenue to revenue account

BRD
Explanation.xlsx

| Major Account | | 1233000 | | |
| Period | | YTD June | | |

			NAT (9901 +9903)	NAT (9530)
Project	REVOT	EXPENSES	LIABILITY	Uneanred Revenue
1233000 -	384,598.38	320,447.83	214,293.53	

When the REVOT script is runed in the project ledger

12330/00/1982   64,150.55
12330/00/9530 -   64,150.55

Once this entry is posted the balances will be as follows

			NAT (9901 +9903)	NAT (9530)
Project	REVOT	EXPENSES	LIABILITY	Uneanred Revenue
1233000 -	320,447.83	320,447.83	214,293.53 -	64,150.55

The next step is the addition we are proposing in the script where we want to compare the LIABILITY & UNEARNED REVENUE

	NAT (9901 +9903)	NAT (9530)
Project	LIABILITY	Uneanred Revenue
1233000	214,293.53 -	64,150.55

In this case the revenue to be recognized will be -64,150.55

The contra account in which the entry needs to be posted should be based on the natural account in which revenue was initially recognized.

12330/00/1982 -   64,150.55
12330/00/9530   64,150.55

| Ledger Name:* | 19MQPJA | 2019 Actual Proj Ldg | (i) Show foreign currency balances |
| Enter search criteria and click retrieve | | | Foreign currency balances may take some time to calculate for high volume accounts. |

(⌄) Search: [   ] ⬇Retrieve M Saved Search   ☑ Only show accounts/commitments with a balance

| Project/Sub Group | ∨ | like | ∨ | 1233000 | 🔍 ✕ |

Add Criteria   Clear Criteria   Clear Values   Save Search   Load Search   Apply to Grid

Drag a column header here to group by that column

Account Number	Description	Debit (AUD)	Credit (AUD)	Commitments (AUD)	Total Balance (AUD)	Units1	Long Description	
12330/00/1302	Res - Aus	0.00	384,598.38	0.00	-384,598.38	0.000000	Hearing Crc Ext funding 1 Hearing CRC Income	R...

Contra Account for 1302 is 1982