



## The American University of Kurdistan Revenue Recognition Policy and Procedures

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### I. INTRODUCTION

- a. **Authority:** The Board of Trustees (herein referred to as “Board”) at The American University of Kurdistan (herein referred to as “AUK” or “University”) is authorized to establish rules and regulations to govern and operate the University and its programs.
- b. **Purpose:** This policy exists to ensure adherence with US Generally Accepted Accounting Principles (GAAP) and other regulatory requirements, to promote consistent accounting treatment across the University, and to ensure the operating results of University units are not misstated as a result of revenues unrecorded or recorded improperly.
- c. **Scope:** This policy applies to all AUK employees and units.

### II. ROLES AND RESPONSIBILITIES

- a. **Responsible Executive:** VPAF
- b. **Responsible Administrator:** Director of Finance
- c. **Responsible Office:** Office of VPAF
- d. **Policy Contact:** Office of VPAF

### III. DEFINITION

**Accrual accounting:** an accounting method where revenue or expenses are recorded when a transaction occurs versus when payment is received or made.

**Deferred revenue:** generally, results when cash is received in advance of revenue being earned. Deferred revenue is a liability on the Statement of Position until it is earned. Once earned, the liability is reduced and revenue is recorded in the Statement of Activities.

**Revenue:** revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both), that are applicable to the current reporting period, from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

### IV. POLICY STATEMENT

The American University of Kurdistan recognizes revenue in accordance with US Generally Accepted Accounting Principles (GAAP). This policy establishes when revenue must be recorded at the University. The University requires that revenues be recognized on the accrual basis, meaning when they are earned, not necessarily when payment is received. Revenues are generally earned when goods are shipped or services are performed.

### V. POLICY PROCEDURES

#### 1. Understand accrual rules for revenue recognition.

- a. Accrual accounting rules require AUK to record revenue when it is earned, meaning when the goods are shipped or the services are provided, NOT necessarily when payment is received. Revenue is considered earned when four criteria are met:
  - Persuasive evidence of an arrangement (i.e., sufficient documentation) exists
  - Delivery has occurred or services have been rendered
  - The seller's price to the buyer is fixed or determinable (i.e., the price is not conditional upon a future event)
  - Collectability is reasonably assured (i.e., the customer is expected to pay for the goods or services).
- b. Balance sheet entries: if the customer doesn't pay for the goods/services in the same reporting period they are provided, different types of balance sheet entries are required depending on when the customer pays for the goods/services relative to when AUK ships the goods/performs the services: accounts/notes receivable asset, a deferred revenue liability, or a deposit paid liability (See Appendix A).
- c. Do not record income for internal transactions. Sales of goods or services to other University departments must not be recorded as income to the University, nor should they be recorded on the balance sheet (i.e., receivables and reserves, and deferred revenue).

#### 2. Apply special accounting rules for certain types of revenue

- a. Tuition and Fees: The University recognizes tuition and fee revenue when the educational instruction is performed. Tuition and fees received in advance

are deferred until the educational instruction is provided and related expenses incurred.

- b. Grants and Contracts: Grants and contracts are recognized as revenues when expenses are incurred in accordance with the terms of the agreements. Contract amounts received in advance are recorded as deferred revenues.
- c. Contributions: Contributions including unconditional promises to give are recognized as revenues in the fiscal year when they are received, at the estimated present value of future cash flows, net of allowance for estimated uncollectible contributions receivable. Conditional promises to give are not recognized until they become unconditional. Bequests are considered intentions to give and do not fall within the definition of an unconditional pledge, and hence are recognized once the condition has been met and the asset is reasonably estimated.
- d. Other income, includes revenue that is related incidentally to the conduct of instruction, research, and public service and revenues of activities that exist to provide instructional and laboratory experience for students and that incidentally create goods and services that may be sold to students, faculty, staff and the general public, including sales of scientific and literary publications and testing services. Other income revenue is recognized when earned, that is, at the time goods or services are provided.

### **3. Maintaining appropriate supporting documentation**

Supportive documentation has to be maintained to support revenue transactions. Supportive documentation will show the details of the nature of the goods or services provided (or to be provided), the date the goods or services were (or will be) provided and customer contact information.

### **4. Review and Reconcile balances**

The Finance Department must review accounts receivable for collectability and bad debt reserves.

- a. Periodically evaluate manually recorded receivables for collectability throughout the year. Pay particular attention to old outstanding balances; those older than 90 days are generally considered to be past due.
- b. Record allowances for doubtful accounts and write-offs. If the collectability of a receivable is deemed to be uncertain, then the finance department must establish a reserve for bad debt (allowance for doubtful accounts).

### **5. Reverse or reduce entries as needed**

Manually processed entries for accounts receivable, deferred revenue or deposit entry has to be reversed (or applying the payment directly to the receivable) when payment is received, goods/services provided or the agreement period ends.

## **VI. POLICY HISTORY**

- a. **Approved by:** Board of Trustees
- b. **Adopted:** May 28, 2023

**VII. APPENDICES; Revenue recognition Quick Reference Guide**

	<b>Accounts Receivable</b>	<b>Deferred Revenue</b>	<b>Nonrefundable Deposits</b>	<b>Refundable Deposit</b>
<b>When is it needed?</b>	When AUK ships goods or performs services BEFORE the customer pays for them, AUK recognizes the revenue and records an ACCOUNT RECEIVABLE	When the customer pays BEFORE AUK ships goods or performs services and AUK won't provide the goods/service in the same reporting period, AUK records a DEFERRED REVENUE/LIABILITY until it actually ships the goods or performs the services	When the customer pays a nonrefundable deposit on goods or services BEFORE AUK provides them, AUK records a DEFERRED REVENUE/LIABILITY until it actually ships the goods or performs the services.	When the customer pays a refundable deposit (like a security deposit on a lease) that will be returned to the customer at the end of the lease or other agreement, AUK records a DEPOSIT liability until the end of the related lease or other agreement.
<b>How do I record it?</b>	Process a journal entry: Dr. Accounts Receivable (AR) Cr. Revenue	Process a journal entry: Dr. Cash/AR Cr. Deferred Revenue/Liability	Process a journal entry: Dr. Cash/AR Cr. Deferred Revenue/Liability	Process a journal entry: Dr. Cash Cr. Deposit Liability
<b>When do I reverse the original entry?</b>	Reverse/reduce the account receivable when AUK receives the customer payment.	Reverse the deferred revenue/liability and recognize the revenue when AUK ships goods or performs services.	Reverse the deferred revenue liability and recognize the revenue when AUK ships the goods or performs the services	Reverse the deposit liability when the deposit is returned to the customer, generally at the end of the lease or other agreement.
<b>What is the reversal entry?</b>	Process a journal entry: Dr. cash Cr. Accounts Receivable	Process a journal entry: Dr. Deferred Revenue/Liability Cr. Revenue	Process a journal entry: Dr. Deferred Revenue/Liability Cr. Revenue	Process a journal entry: Dr. Deposit Liability Cr. Cash
<b>Examples</b>	Rent, trademark revenues: record as revenue when service performed, reduce receivable when customer payment is received	Advance ticket sales: defer until event takes place, then recognize the revenue	Admission deposits: defer until students begin classes, then recognize the revenue  Advance deposits for events/functions: defer until event/function takes place, then recognize the revenue	Security or other lease-related deposits: record as liability until lease term ends and amount is returned to customer