

## Revenue Recognition Policy

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<b>Version</b>	1	<b>Policy Section</b>	Governance
<b>Approved by</b>	NZIST Council	<b>Policy review frequency</b>	Annually
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### Management accounting policies for revenue earned by polytechnics and institutes of Technology

#### Context and assumptions on which the policies are based

These management accounting policies have been prepared to provide a consistent basis of accounting for revenue in the management reporting of the combined Industry Training Provider (ITP) organisation from 1 April 2020.

Individual ITPs are currently applying different approaches to reporting revenue in their management accounts. For management reporting for the combined ITP to be meaningful, however, it is essential that all ITPs adopt a consistent approach to management reporting. Changes to management reporting will therefore need to be made by some ITPs.

System changes required to implement the policies may take some time to implement and additional staff with the necessary depth of industry experience required may not be immediately available. Given the limited time and resources available, it is understandable that, in the short term, the policies may not be applied in their entirety. Reasonable application of the policies is likely to be acceptable in the circumstances until appropriate system changes can be made.

The policies are based on the following key assumptions:

- a. Public Benefit Entity (PBE) Accounting Standards as applied in the annual financial statements do not provide suitable monthly information for the management of the combined ITPs given that the PBE Standards require substantial amounts of revenue to be recognised in advance of the delivery of the programmes being funded and in advance of the recognition of the costs incurred in delivering those programmes. Rather, to effectively management the combined organisation, revenue should be reported as services are delivered and/or as revenue is consumed in providing services.
- b. Financial information in accordance with PBE Accounting Standards will still be required for year end financial statements and ITPs may choose to provide periodic reconciliations between the management reporting position and the PBE Accounting Standards position, however, it is not anticipated that this would be required on a frequent basis. For revenue streams related to course delivery within the financial year, it is anticipated that there would only be minimal differences in revenue recognised at the end of the financial year.
- c. As identified specifically below, the policies are intended to apply only to revenue that is considered material to an ITP. Therefore, ITPs may adopt simplified approaches to reporting revenue where the particular revenue in question is not material to the ITP.

- d. Where necessary to minimise the burden of accounting for revenue on a monthly basis, it should be assumed that revenue is accounted for monthly rather than daily. Consequently, where courses start part way through a month for example, revenue may be recognised for the entire month in which the course started rather than for only a portion of the month from the start date of the course to the end of that month.

### **Materiality**

The following policies should be applied to material transactions and balances. They need not be applied to transactions and balances that are not considered material to an ITP or when the effect of applying them is immaterial to the results of the ITP.

### **Scope**

These policies are not exhaustive but attempt to cover the main revenue streams received by the majority of institutions. The policies may not be and are not intended to be NZ GAAP compliant and adjustments may need to be made for financial reporting purposes.

## Management Accounting Policies for Revenue

CATEGORY OF REVENUE	DESCRIPTION	MANAGEMENT ACCOUNTING POLICY
<b>Government grants</b>		
<i>TEC funding (e.g. SAC)</i>	<p>Primary operational funding from the Tertiary Education Commission (TEC). The amount paid is a funding allocation, initially determined by reference to the estimated number of equivalent full-time students (EFTS) expected to be delivered over the year and it is paid in 12 monthly installments.</p> <p>If students withdraw from a course prior to the withdrawal date (the date up to which they are entitled to a refund) the TEC funding in respect of the withdrawn students paid to date will be reversed.</p> <p>TEC funding is revised as actual EFTS delivered are determined once the course withdrawal date has passed and subsequent installments are adjusted accordingly. This wash-up may happen during the year or may be post year end.</p> <p>Additional TEC funding may be provided for EFTS delivered within a threshold in excess of the initial estimated number of EFTS delivered and additional TEC funding may be applied for EFTS delivered above the threshold in excess of the estimated EFTS delivered. Where a course runs for more than one financial year, the TEC funding provided each year is for the portion of the course completed in that year.</p>	<p>Recognise revenue over time as courses are delivered on a systematic basis that reflects the proportion of the course delivered. The amount recognised should be based on the actual number of EFTS delivered.</p> <p>If actual EFTS delivered is lower than the estimated EFTS delivered, the excess funding received should not be recognised as revenue but should be deferred as unearned revenue unless or until estimated EFTS delivered is achieved.</p> <p>If actual EFTS delivered exceeds estimated EFTS delivered, the funding for the additional students should be recognised as revenue (and a receivable) as courses are delivered provided it is highly probable that additional TEC funding will be received, for example, funding for EFTS delivered within an agreed threshold of estimated EFTS delivered.</p> <p>Additional TEC funding for EFTS delivered in excess of the threshold of the estimated EFTS delivered should not be recognised as revenue (or a receivable) until the application for additional funding is approved. When approved, it should be recognised on a systematic basis over the remaining life of the course.</p> <p>Once additional funding has been approved, additional funding related to EFTS delivered up to the date of approval should be recognised in the month that the additional funding is approved.</p>

CATEGORY OF REVENUE	DESCRIPTION	MANAGEMENT ACCOUNTING POLICY
<p><i>TEC Funding (e.g. SAC)</i> <i>(continued)</i></p>		<p>The remainder of the additional funding not related to delivery prior to approval should then be recognised as revenue over the remainder of the course or programme as the courses are delivered on a systematic basis that reflects the proportion of the course delivered.</p> <p>The amount recognised should reflect the estimated course withdrawals (if material) prior to withdrawal date where TEC funding is clawed back.</p> <p>This estimate should be based on past experience of course/programme withdrawal rates as well as tracking of actual student numbers. For example, if past history indicates a 10% withdrawal rate, only 90% of the TEC funding should be considered for recognition over time in the period prior to the withdrawal date.</p> <p>TEC funding that is expected to be refunded based on past withdrawal rates should be deferred as unearned revenue. Once actual withdrawals have been determined, the unearned revenue will either be refunded or recognised from that point in time over the remainder of the course in proportion to the course delivery.</p> <p>For courses that run for more than one financial year, the same principles of spreading revenue over time as the course is delivered, apply.</p>
<p><i>Performance based research funding</i></p>	<p>Funding provided to fund research portfolios for an agreed period.</p>	<p>Recognise as revenue on a straight-line basis over the period of the research grant award.</p>

CATEGORY OF REVENUE	DESCRIPTION	MANAGEMENT ACCOUNTING POLICY
<i>Performance based research funding (continued)</i>		Where funding is provided on condition that it is used to fund only certain eligible expenditure, recognise as revenue only to the extent of the eligible expenditure incurred. Funding received that has not yet been used for eligible expenditure should be deferred.
<i>Other grants - operating expenditure</i>	Additional grants provided to fund various initiatives that result in expenditure classified as operating expenses.	Recognise as revenue over the period(s) to which the grant relates.  Where funding is provided on condition that it is used to fund only certain eligible expenditure, recognise as revenue only to the extent of the eligible expenditure incurred. Funding received that has not yet been used for eligible expenditure should be deferred.
<i>Other grants - capital expenditure</i>	Additional grants provided to fund initiatives that result in expenditure classified as capital, for example, to fund changes to systems.	Recognise as revenue in the period(s) in which the expenditure is incurred.  Where funding is provided on condition that it is used to fund only certain eligible expenditure, recognise as revenue only to the extent of the eligible expenditure incurred. Funding received that has not yet been used for eligible expenditure should be deferred.
<b>Student tuition fees</b>		
<i>Domestic student tuition fees</i>	Fees charged to students for tuition for each course for which they enrol. Tuition fees are often paid in advance of course delivery.	Recognise revenue over time as courses are delivered on a systematic basis that reflects the proportion of the course delivered.

CATEGORY OF REVENUE	DESCRIPTION	MANAGEMENT ACCOUNTING POLICY
<i>Domestic student tuition fees (continued)</i>	<p>Students who withdraw from a course prior to the withdrawal date (the date up to which they are entitled to a refund) are entitled to a refund of their tuition fees. Students who withdraw after the withdrawal date are not entitled to a refund, however, in some instances a refund may be granted for compassionate reasons.</p>	<p>The amount recognised should reflect the estimated course withdrawals (if material) prior to withdrawal date where fees are refunded.</p> <p>This estimate should be based on past experience of course/programme withdrawal rates as well as tracking of actual student numbers. For example, if past history indicates a 10% withdrawal rate, only 90% of the tuition fees should be considered for recognition over time in the period prior to the withdrawal date.</p> <p>Tuition fees that are expected to be refunded based on past withdrawal rates should be deferred as unearned revenue. Once actual withdrawals have been determined, the unearned revenue will either be refunded or recognised from that point in time over the remainder of the course in proportion to the course delivery.</p>
<i>Fees-free student funding</i>	<p>Funding provided by the TEC for tuition for students that qualify for fees-free tuition.</p> <p>If students withdraw from a course prior to the withdrawal date (the date up to which they are entitled to a refund) the TEC funding in respect of the withdrawn students paid to date will be reversed.</p>	<p>Recognise revenue over time as courses are delivered on a systematic basis that reflects the proportion of the course delivered.</p> <p>The amount recognised should reflect the estimated course/programme withdrawals (if material) prior to withdrawal date where fees are refunded.</p> <p>This estimate should be based on past experience of course/programme withdrawal rates as well as tracking of actual student numbers. For example, if past history indicates a 10% withdrawal rate, only 90% of the funding should be considered for recognition over time in the period prior to the withdrawal date.</p>

CATEGORY OF REVENUE	DESCRIPTION	MANAGEMENT ACCOUNTING POLICY
<i>Fees-free student funding (continued)</i>		Funding that is not initially recognised because of expected withdrawals should be deferred as unearned revenue. Once actual withdrawals have been determined, the unearned revenue will either be refunded/set off against future payments or recognised from that point in time over the remainder of the course in proportion to the course delivery.
<i>Scholarships and discounts</i>	<p>Scholarships awarded by the education institution to certain students allowing them to complete a course for free or at a lower fee.</p> <p>Discounts on the usual tuition fees may be granted to certain students.</p>	In order to keep track of the cost of scholarships and discounts granted, recognise scholarships awarded and discounts on tuition fees as both fee revenue and a scholarship/discount expense over the period of the course delivery on a systematic basis that reflects the proportion of the course delivered.
<i>Student levies</i>	Levies charged to students for enrolment in a programme which are charged in addition to individual course tuition fees.	Recognise levies on a straight-line basis as revenue over the period to which the programme enrolment relates.
<i>International student tuition fees</i>	<p>Fees charged to international students for tuition in relation to each course for which they enrol. Tuition fees are often paid in advance of course delivery.</p> <p>Students who withdraw from a course prior to the withdrawal date are entitled to a refund of their tuition fees. Students who withdraw after the withdrawal date are not entitled to a refund however in some instances a refund may be granted for compassionate reasons.</p>	<p>Recognise revenue over time as courses are delivered on a systematic basis that reflects the proportion of the course delivered.</p> <p>The amount recognised should reflect the estimated course withdrawals (if material) prior to withdrawal date where fees are refunded.</p> <p>This estimate should be based on past experience of course withdrawal rates as well as tracking of actual student numbers.</p> <p>For example, if past history indicates a 10% withdrawal rate for a particular course, only 90% of the tuition fees should be considered for recognition over time in the period prior to the course withdrawal date.</p>

CATEGORY OF REVENUE	DESCRIPTION	MANAGEMENT ACCOUNTING POLICY
		Tuition fees that are expected to be refunded based on past withdrawal rates should be deferred as unearned revenue. Once actual withdrawals have been determined for each course, the unearned revenue will either be refunded or recognised from that point in time over the remainder of the course in proportion to the course delivery.
<b>Revenue from other services</b>		
<i>Research services - exchange revenue</i>	<p>External parties may engage polytechnics or institutes of technology to undertake research on their behalf.</p> <p>Fees for this research are usually charged and payable according to a pre agreed work and billing programme.</p>	<p>Recognise revenue as the research is undertaken by reference to the stage of completion of the research activity determined on the basis of the costs incurred relative to the total estimated costs of the research project.</p> <p>The difference between the revenue recognised in accordance with the above paragraph and the actual fees received or receivable under the terms of the research contract should be deferred as revenue received in advance (i.e. research funding received in advance of the research being undertaken) or work in progress (i.e. revenue receivable for research completed but not yet billable under the contract).</p>
<i>Research services - non-exchange revenue</i>	Funding to support ongoing research.	Recognise as revenue on a systematic basis in the period(s) in which the expenditure for which the funding is provided is incurred.
<i>Other services</i>	Fees for other services provided to students or others; such as student accommodation services, rental income, childcare services and educational services.	Recognise as revenue as the services are delivered.
<b>Other income</b>		
<i>Donations and bequests - general</i>	Donations and bequests received to fund general activities.	Recognise as revenue in the period in which the donation or bequest is received.

CATEGORY OF REVENUE	DESCRIPTION	MANAGEMENT ACCOUNTING POLICY
<i>Donations and bequests - specific</i>	<p>Donations and bequests to fund specific activities with the condition that these be refunded to the donor if not used as specified.</p> <p>Donations and bequests to fund particular types of activities but without the condition that these be refunded to the donor if not used as specified.</p>	<p>Recognise as revenue in the period in which the specific activities for which the grant or bequest was provided are undertaken.</p> <p>Until the donation or bequest is recognised as revenue, the amounts received should be recognised as revenue received in advance.</p>
<i>Interest income</i>	Interest earned on bank balances, term deposits and other interest-bearing investments.	Recognise as income on an accruals basis as interest is earned.
<i>Dividend income</i>	Dividends received from investments in shares.	Recognise as income when the dividend is declared.
<i>Gains on sale of property, plant and equipment /sale of investments</i>		Recognise as income when the property, plant and equipment or investment is sold.