Procedure 63012: Revenue Recognition – Third Party Service Providers

A. Introduction

The revenue recognition principles outlined in Generally Accepted Accounting Principles (GAAP) provides guidance on the recognition and recording of revenues. Many university departments have contracted with third party service providers for the delivery of goods and services which also includes payment acceptance. Included in the terms and conditions of third party contracts for vendors collecting payment on the department's behalf includes the percentage charged for credit card interchange fees, payment gateway transaction fees, ACH fees for e-checks/auto-debits, and any other additional fees for payment acceptance. Many of the contracts include the remission of revenues back to the university net of fees withheld for payment services provided. To properly record and recognize revenues and expenses for these types of contracts, it is important that all revenues are recorded gross with offsetting expenses recorded to equal net revenues. This not only complies with GAAP guidelines, but also provides a way to document that the fees agreed to in the terms and conditions of the contract are correct and reviewed with due diligence.

B. Procedures

There are two methods for recording net revenues for remissions from third parties submitted via ACH or paper check by the vendor.

- **Option 1**: Complete a departmental Cashnet deposit entered into the university cashiering system that shows gross revenue and expenses. This Cashnet entry would credit the department's Banner Finance fund with gross revenues and debit each fee or related expense to the same fund using account 12420 for fiscal services. The total amount of the revenues and expenses would match the net revenue submission line item on the university bank statement. The department will continue to use the Item Code normally used to set up Cashnet deposits. An example of the entries into Cashnet is as follows:

- **Option 2:** Complete a Journal Voucher form and submit to the Controller's Office for processing. To properly record gross revenues and expenses for credit card sales using journal entries, non-cash revenue and expenses would need to be recorded to equal net revenues received. Net revenues would already be recorded in the department's Banner Finance fund through Cashnet when the net payment from the third party vendor was received either by ACH or by check. This journal entry example records the related expenses that were left off of the initial net deposit from the vendor, and also increases revenues accordingly to capture the total impact of the transaction:

Banner Finance Fund - Account	Notes	Debit	Credit
Dept Fund-0152	Gross Sales – 3rd Party Contract		$82.50
Dept Fund-12420	CC Processing Fee	$52.50	
Dept Fund-12420	CC Transaction Fee	$30.00	

As you can see, this entry has a net zero impact to cash, but accomplishes recording the total impact of the transaction to the University.

Any questions on this policy can be directed to Derek Scheidt in the Controller's Office, derek87@vt.edu, and/or Becky Ford in the Bursar's Office, huffmanb@vt.edu.