

**CHAPTER 6 REVENUES**

**6.1 REVENUE RECOGNITION/DEFERRED REVENUE ..... 2**

## 6.1 REVENUE RECOGNITION/DEFERRED REVENUE

### 1. *Effective Date*

This Policy is effective as of April 1, 2001.

### 2. *Policy Objective*

The objective of this policy is to outline the accounting treatment and financial statement presentation of revenue and deferred revenue. This policy provides direction to CSC staff on the recognition of revenue.

### 3. *Definitions*

**Completed contract method** is a method of accounting for contracts whereby revenues, expenses, and gross revenue are recognized only in the accounting period when the contract is completed and the goods/services are delivered to the buyer.

**Deferred revenues (or unearned revenues)** are monies received in advance from parties external to government for which a government entity will provide specified goods or services in the future.

**Exchange of Service Agreements** are arrangements between CSC and provincial/territorial governments that specify the terms of an understanding for the cost recovery of several elements related to the maintenance of inmates by CSC on behalf of the province/territory and vice versa. These are negotiated arrangements that are supported by TB submissions and/or Grants in Council.

**Percentage of completion method** is a method of accounting for contracts whereby revenues and the related expenses, or the resulting gross revenues, are recognized during each accounting period that work is accomplished on a long-term contract.

**Refund of expenditures** refers to the reimbursement to CSC for goods/services previously expensed.

**Revenue** is the inflow of cash, receivables or other consideration arising in the course of ordinary activities of an enterprise, normally from the sale of goods, the rendering of services, and the use by others of enterprise resources yielding interest, royalties and dividends.

### 4. *Scope*

This policy applies to all revenues earned and/or deferred by CSC, including those related to exchange of service agreements.

This policy does not address revenue recognition as it applies to the CORCAN operations.

**5. Policy Statement and Requirements**

It is CSC policy to account for revenue in accordance with the accrual basis of accounting.

The revenue recognition principle requires that revenue should be recognized only when each of the following criteria has been met:

- requirements as to performance are satisfied;
- the amount of revenue is reasonably measurable;
- collectability is reasonably assured; and
- expenses can be matched against the revenues.

Revenues earned will be accounted for in the period in which the transactions or economic events that gave rise to the revenues took place.

Revenue is net of items such as trade or volume discounts, returns and allowances, claims for damaged goods, and certain excise and sales taxes included in the purchase of the goods for resale.

In a transaction involving the sale of goods, performance should be regarded as having been achieved when the following conditions have been fulfilled:

- CSC has transferred to the buyer the significant risks and rewards of ownership, in that all significant acts have been completed and the seller retains no continuing managerial involvement in, or effective control of, the goods transferred to a degree usually associated with ownership; and
- Reasonable assurance exists regarding the measurement of the consideration that will be derived from the sale of the goods, and the extent to which goods may be returned.

In the case of rendering services or long-term contracts, performance should be determined using either the percentage of completion method or the completed contract method, whichever relates the revenue to the work accomplished. Such performance should be regarded as having been achieved when reasonable assurance exists regarding the measurement of the consideration that will be derived from rendering the service or performing the long-term contract.

At the time of sale, if there is uncertainty as to ultimate collection, it may be appropriate to recognize revenue on a cash basis. However for tracking purposes all amounts owed to CSC are to be recorded. If management deems

the revenue uncollectible at the time of recording, he/she may immediately write-off the amount in question. This allows tracking of all amounts that have been owing to CSC yet does not allow amounts that are deemed uncollectible from origin to be removed from revenue.

When the uncertainty relates to collectability and arises subsequent to the time revenue was recognized, separate provisions to reflect the uncertainty are made. The amount of revenue originally recorded would not be adjusted. Rather, the amount would be applied to the Allowance for Doubtful Accounts.

Deferred revenues or unearned revenues are monies received in advance from parties external to CSC for which CSC will provide specified goods or services in the future. When revenues are received prior to being realized, the amount applicable to future periods is deferred to those future periods. The amounts deferred will not be included in revenue, but are considered to be a liability until CSC discharges the obligations that led to the collection of the funds. As the goods are provided or the services are rendered, the department will realize and recognize its revenue in the appropriate accounting period. Advanced payments from outside parties should be presented on the Statement of Financial Position as a deferred revenue liability.

Net voting is an alternative means of funding selected programs or activities wherein Parliament authorizes a department to apply revenues towards costs incurred and votes the net financial requirements (estimated total expenditures minus estimated revenues). Although Parliament votes only net cash requirements in a net-voting situation, total expenditures and estimated revenues are still disclosed to Parliament. Treasury Board approval is required for specific items of expenditures for which net voting will apply and limits on revenue respending. It should be noted that CSC **does not** have any net voting approval from Treasury Board. This does not apply to CORCAN.

### **6. Procedural Requirements**

CSC has four main business lines. Each revenue transaction must include a valid cost centre, excluding 000, to indicate to which of the following business lines generated the transaction.

- a) care;
- b) custody;
- c) reintegration; and
- d) corporate services.

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CSC has the following categories of revenues:

- Proceeds from sales - general and canteen;
- Revenue from rentals;
- Sale of surplus material;
- Revenue from services;
- Miscellaneous revenues; and
- Food services - meal sales.
- Refund of expenditures
- PAYE adjustments

The following coding will be used record and report all revenues earned:

CSC Coding				Government-Wide Coding			
Allotment		Line Object		FRA	AUTH	OBJ	I E
#	Description	#	Description				
120	Proceeds from sales - general	14100	Sales - officer custom and vocational products	42315	E500	4549	E
120	Proceeds from sales - general	14101	Sales - other	42315	E500	4549	E
125	Proceeds from sales - canteen	14200	Inmate canteen - sales	42315	E500	4549	E
125	Proceeds from sales - canteen	14201	Canteen profit transferred to Inmate Welfare Fund	42315	E500	4549	E
130	Revenue from rentals	14300	Staff College rentals	42312	E500	4531	E
130	Revenue from rentals	14301	Staff College rentals	42322	E500	4531	I
130	Revenue from rentals	14302	Other rentals	42312	E500	4539	E
130	Revenue from rentals	14303	Other rentals	42322	E500	4539	I
130	Revenue from rentals	14304	Board and lodging - inmates	42312	E500	4531	E
130	Revenue from rentals	14305	Board and lodging - community	42312	E500	4531	E

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CSC Coding				Government-Wide Coding			
Allotment		Line Object		FRA	AUTH	OBJ	I E
#	Description	#	Description				
140	Sale of surplus material	14500	Sale of surplus material	42411	D321	4549	E
140	Sale surplus material	14501	Sale of surplus material	42414	D321	4549	I
150	Services revenue	14400	Inmate maintenance - provinces	42314	E500	4565	E
150	Services revenue	14401	Psychiatric services - provinces	42314	E500	4565	E
150	Services revenue	14402	Inmate work projects	42314	E500	4569	E
150	Services revenue	14403	Inmate work projects	42324	E500	4569	I
150	Services revenue	14404	Laundry service	42314	E500	4569	E
150	Services revenue	14405	Laundry service	42324	E500	4569	I
150	Services revenue	14406	Shipping by CSC vehicle	42314	E500	4569	E
150	Services revenue	14407	Shipping by CSC vehicle	42324	E500	4569	I
150	Services revenue	14408	Access to information fees	42314	E500	4581	E
160	Miscellaneous revenue	14600	Claims for the Crown	42319	E500	4585	E
160	Miscellaneous revenue	14601	Fines and forfeitures	42319	E500	4581	E
160	Miscellaneous revenue	14602	Premiums, discounts and exchange	42319	E500	4593	E
160	Miscellaneous revenue	14603	PST commissions	42319	E500	4593	E
160	Miscellaneous revenue	14604	Telephone commissions	42319	E500	4593	E
160	Miscellaneous revenue	14605	Inmate clothing loans	42319	E500	4593	E
160	Miscellaneous revenue	14606	Miscellaneous revenue	42319	E500	4593	E
160	Miscellaneous revenue	14607	Miscellaneous revenue	42329	E500	4593	I
160	Miscellaneous revenue	14608	NSF administration charges	42319	E500	4586	E
160	Miscellaneous revenue	14609	Interest on overdue accounts receivable	42541	E500	4832	E
160	Miscellaneous revenue	14610	FOOD Services - meal sales	42314	E500	4593	E

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CSC Coding				Government-Wide Coding			
Allotment		Line Object		FRA	AUTH	OBJ	I E
#	Description	#	Description				
165	Refunds prior year expenditures- O&M	14700	Salaries and operating	51321	D311	4593	E
165	Refunds prior year expenditures - O&M	14701	Salaries and operating	51321	D311	4593	I
165	Refunds prior year expenditures - O&M	14702	Amounts written off or forgiven	51321	D311	4593	E
165	Refunds prior year expenditures - O&M	14703	Recovery of losses of money	51321	D311	4593	E
170	PAYE - adjustments	15820	PAYE - adjustments - O&M	51321	D312	4594	E
170	PAYE - adjustments	15821	PAYE - adjustments - O&M	51321	D312	4594	I
170	PAYE - adjustments	15850	PAYE - adjustments - Capital	51321	D312	4594	E
170	PAYE - adjustments	15851	PAYE - adjustments - Capital	51321	D312	4594	I
185	Refund of previous years' expenditures - capital	14750	Refund of previous years' expenditures - capital	51321	D311	4593	E
185	Refund of previous years' expenditures - capital	14751	Refund of previous years' expenditures - capital	51321	D311	4593	I
190	GST receipts This account is now a liability account	14650	GST Receipts	21134	R300	6299	E

### 6.1 *Proceeds from sales – general*

This category includes items such as sales for officer custom orders and other vocational products produced by offenders. When deposits are received in advance of the work being performed, they would constitute deferred revenue and would be recorded to allotment 640 using line object 42101. When the work has been completed, the revenue would be recognized and the deferred charge cleared.

The line object “Sales –other” should be used to record sales when they include an element of goods and services being provided and there is no other appropriate coding.

**6.2 Proceeds from sales - canteen**

In the annual estimates CSC receives Parliamentary approval for:

- a) authority to pay into the Inmate welfare Fund revenue derived during the year from projects operated by inmates and financed by said Fund; and
- b) authority to operate canteens in federal institutions and to deposit revenue from the sale into the Inmate Welfare Fund.

CD 80 - Inmate's Canteen is the governing authority for the operation of the canteen operations in CSC. The following procedures describe the accounting treatment required to record the transactions of the canteen operations.

Where canteen operations are inmate owned and operated, primarily in Ontario, canteen stock is purchased on behalf of the IWC. In these instances, purchase of the canteen stock is charged against the IWF account. CSC simply facilitates the stock purchase for these canteen purchases; it does not earn any revenue.

In the majority of institutions, public funds will be used to purchase canteen stock, charging the purchase to the appropriations.

As required, the canteen stock will be transferred under the control of the IWF, for subsequent sale to inmates. Once the stock has been transferred, any losses are the responsibility of the IWF.

The canteen stock will be priced for sale at a price that includes the cost of the item, applicable PST/GST/HST taxes and a profit margin.

Prior to inmates making any purchases, the funds must have been put on hold from their accounts within the Inmate Accounting System. This process usually occurs once every two weeks. At that time, no accounting entries are required in CSC's books.

Inmates make purchases throughout a specified period (e.g., two weeks) at the end of which a list of sales is generated and forwarded to site finance staff for recording in IFMMS. The individual ITFs are charged (debited) with the amounts stated on the list of sales and the corresponding revenue is recorded. Note, at this time the Sales amount includes applicable taxes to be remitted to the appropriate governments. Finance staff will record the revenue in IFMMS in the following manner:

	CSC Coding		Government Wide Coding
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Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR. Inmate Trust Fund	XXXXX	XXX	XXXXX	820	44001	1	1		22323	P532	6083	E
CR. Inmate Canteen Sales	XXXXX	XXX	XXXXX	125	14200	1	1		42315	E500	4549	E

At month end, finance staff at each site will prepare a profit and loss statement on the canteen operations. At this time, Finance staff will record the appropriate amount to taxes and transfer the profit to the IWC.

CSC Coding								Government Wide Coding				
Entry	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept	Amount	FRA	Auth.	Object	Internal/ External
DR. Canteen profit transferred to IWC	XXXXX	XXX	XXXXX	125	14201	1	1		42315	E500	4549	E
DR Inmate canteen sales	XXXXX	XXX	XXXXX	125	14200	1	1		42315	E500	4549	E
CR. Taxes Payable	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXXX	XXXX	XXXX	E
CR. Inmate Welfare Committee	XXXXX	XXX	XXXXX	820	44002	1	1		23223	P532	6086	E

### 6.3 Revenue from rentals

#### 6.3.1 Rental Revenue

The accounting treatment of rental of CSC facilities will depend on when payment for the rental occurs. In the event that rental fees are received in advance of the provision of the services, the amount received will be recorded as deferred revenue (a liability account). Recognition of the revenue will occur according to the timing of the performance of the rental agreement (i.e., in conjunction with provision of the facilities to the customer).

#### 6.3.2 Room and Board

CSC earns room and board revenue from both inmates in institutions and parolees living in Community Correctional Centres. Commissioner's Directive 860 governs the amount of revenue collected from each inmate or parolee.

At institutions, accounting for inmate room and board revenue is handled automatically through the IAS and IFMMS. The IAS is set up to create an automatic room and board calculation and deduction. The amount of room and board is deducted from the each inmate's ITF each time income is entered under an Inmate Pay batch, which usually occurs on a bi-weekly basis. At the end of each pay period, IAS generates a journal entry that is auto created in IFMMS, crediting the appropriate revenue code and debiting the ITF.

At Community Correctional Centres (CCCs), either the office administrator or the parole officer will collect room and board from parolees at the end of each two-week period. The person collecting the room and board from the parolees will complete a cash receipt register and forward the deposit along with the deposit information to the finance department. The cashier will complete a journal voucher and prepare the deposit. The journal voucher will indicate the revenue coding for the room and board, as well as the deposit to a departmental bank account.

Following is an example of an entry to record the revenue:

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR. DCA	XXXXX	XXX	XXXXX	610	BCMO1	1	1		11112	R300	0	E
CR. Board and Lodging inmates	XXXXX	XXX	XXXXX	130	14304	1	1		42312	E500	4539	E

Due to the low dollar value of such revenue, room and board revenue will be recorded as it is received during the year. However, at year-end any unrecorded revenue will be accrued. If the room and board collection schedule does not coincide with year-end then the office administrator or parole officer should initiate an accrual of revenue with an associated receivable at year-end.

The accrual at year-end will include the amount of revenue that was earned in the period since the last entry regarding room and board revenue was made. The receivable will then be reversed when the deposit related to that period is recorded in IFMMS.

**6.4 Revenue from services**

This category is used to record revenues from services rendered by CSC employees.

***Exchange of Service Agreements***

CSC often houses inmates in federal institutions or CSC-operated psychiatric hospitals while the inmate is still the responsibility of a province/territory. The province/territory pay fees to CSC for the provision of these housing and psychiatric services according to Exchange of Service Agreements (ESA) set out prior to provision of the services.

The responsible Manager / Regional Sentence Administrator should initiate the invoicing to the province in accordance with the terms set out in the ESA agreement. All such invoices should be forwarded to the finance office for review, approval and forwarding to the provincial / territory. The following information should be included with each invoice:

- name and FPS number of offender;
- admittance and release dates;
- number of billable days; and

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- name of serving institution.

Copies of the remand warrants issued by the court must be attached to invoices being sent from the Regional Psychiatric Centre to the provinces.

Finance staff will record the receivable and credit the revenue to the appropriate financial coding as provided by the manager.

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR. Accounts Receivable	XXXXX	XXX	XXXXX	700	53101	1	1		11221	R300	5399	E
CR. Revenue	XXXXX	XXX	XXXXX	160	1440X	1	1		42329	E500	45XX	E

Note subsequent receipts from the province /territory will be credited to accounts receivable.

Where ESAs allow for netting of charges, CSC staff may offset amounts owed by CSC with amounts that CSC owes the province / territory.

When the province/territory's invoice is greater than CSC's invoice for the same billing period, CSC's revenue is recorded at the same time that CSC issues payment of the province/territory's invoice. Finance staff will record the both the expense amount (debit) and the revenue amount (credit) with the net amount being issued to the province/territory.

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR. Expense	XXXXX	XXX	XXXXX	240	0480X	1	1		51321	B120	0891	E
CR. Revenue	XXXXX	XXX	XXXXX	160	1440X	1	1		42329	E500	45XX	E
CR. Accounts Payable	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXXX	XXXX	XXXX	E

Revenue from ESAs with provinces/territories not yet invoiced will be accrued on a monthly basis, resulting in the creation of an accrued receivable at the same time as the recognition of revenue. For appropriate allotment and line object

combinations to use for the Accrued Accounts receivable refer to Chapter 4.1, section 6.5.

### **6.5            *Sale of surplus materials***

All proceeds from the sale of surplus materials must be coded to revenue line objects, either 14500 for NON-Govt or 14501 for sales by OGD, eg CADC. The amounts recorded to the proceeds from sales line objects will be net of any cost of selling.

On a quarterly basis, Corporate Accounting at NHQ will review the amounts in these two line objects and advise NHQ Financial Management to increase the regional budgets for allotments 290 / 570 (Spending of Crown Assets Proceeds) by a corresponding amount.

### **6.6            *Miscellaneous***

This category is used to record other miscellaneous revenue items not elsewhere classified.

#### ***Interest Revenue on Overdue Receivables***

It is CSC policy to charge interest on overdue accounts receivable from external customers. Interest revenue arising from overdue receivables should be recognized when reasonable assurance exists regarding measurement and collectability. The interest revenue should be recognized on a time proportion basis.

The senior finance staff at each site, in conjunction with the budget managers, will review the overdue accounts receivable on a monthly basis. In accordance with CSC's policy on accounts receivable, site finance staff will initiate the invoice for the amount of the interest due based on information provided by managers. On each invoice the following information will be recorded:

- the interest rate charged and the outstanding principal on which it was charged;
- the invoice number of the original purchase and brief description of the originating entry/purchase; and
- the financial coding to which the manager wants the interest revenue to be credited.

Finance will retain one copy of the invoice, forward one copy to the debtor and record the entry in the General Ledger module of the IFMMS. Following is an example of the entry that should be made.

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Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR. Accounts Receivable	XXXXX	XXX	XXXXX	700	53101	1	1		11221	E500	5399	E
CR. Interest Revenue	XXXXX	XXX	XXXXX	160	14609	1	1		42541	E500	4832	E

### 6.7 *Food Services*

When Food Services provides prepared meals to persons or entities outside CSC, then the value received for these meals will be credited to revenue. CSC does not have net voting authority to reuse these revenues.

When prepared meals or individual food items are provided by Food Services and consumed in the course of CSC business, the cost will be transferred from the food services budget to the appropriate activity centre manager's budget or inmate's account by way of a journal voucher.

In the event that an inmate wants to acquire foods to bring into a private family visit (PFV) so his/her family can make meals, the inmate will acquire the food items from Food Services. The cost of these items will either be debited to the ITF or cash (if family pays for items in question). There is no element of revenue in this situation; payment through the ITF or family is simply a cost recovery.

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR. DCA	XXXXX	XXX	XXXXX	610	BCMO1	1	1		11112	R300	0	E
CR. Revenue	XXXXX	XXX	XXXXX	130	14610	1	1		42314	E500	4549	E

### 6.8 *Refund of expenditures*

If the refund is related to a transaction that was recorded as an expense in the current year, then the expense account is credited (thereby reversing the expense).

In the event that the refund relates to a transaction from prior years, the refund must be credited to revenue line object - Refund of Previous Year's Expenditures.

### **6.9 PAYE Adjustments**

At the end of each fiscal year, amounts incurred and not paid are set up as PAYE i.e. Payables at year-end. When the payable is subsequently discharged in the new-year, the payment will be charged to the PAYE account. Any amounts set-up in prior year's and not required to be paid out must be credited to revenue - PAYE Adjustments.

In the new year, amounts owing that pertain to the previous fiscal year that were not set-up in PAYE are generally charged to the new year expenses. One exception exists in that any PAYE amounts of previous year's not required (i.e. surplus PAYE) to discharge the debt for which they were established may be used to settle old year expenses not set-up as PAYE. However, we can only use surplus OGD PAYE to settle OGD old year expenses, and Supplier surplus PAYE to settle Supplier old year expenses.

## **7. Financial Statement Presentation and Disclosure**

### **7.1 Statement of Financial Position**

Any deferred (unearned) revenue will be presented in the Liabilities section of the Statement of Financial Position.

### **7.2 Statement of Operations**

The amount of revenue actually recognized during the period should be presented on the Statement of Operations, in addition to the planned revenue for the fiscal period. Revenues will be shown by CSC business line:

- a) care;
- b) custody;
- c) reintegration; and
- d) corporate services.

### **7.3 Notes**

Note 2(e) Summary of Significant Accounting Policies - Revenue states that revenue is accounted for on the accrual basis of accounting. The note should include a statement to the following effect:

*Revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.*

**7.4 Schedules**

**7.4.1 Schedule 6**

Further disclosure regarding deferred revenues will be provided in Schedule 6 - Deferred Revenue. This note should disclose:

- a) a general description of the nature and source of any external restrictions;
- b) the amounts externally restricted inflows by major source; and
- c) the amount of any changes in the deferred revenue balance attributable to each major category of external restrictions.

**7.4.2 Schedule 9**

Schedule 9 of the financial statements separates revenue by type as follows:

- a) Sales of goods and services
- b) Gains on disposal of assets
- c) Interest on non-tax revenue
- d) Other non-tax revenue earned
- e) Total

**8. References**

TBAS 1.2 - Departmental and Agency Financial Statements  
CICA Handbook Section 3400 - Revenues  
TBS FIS Accounting Manual Section 4.2 - Deferred Revenues  
TBS FIS Accounting Manual Section 6.0 – Revenues  
CD 880 Food Services