A presentation by
Queen’s University
Financial Services
Alternative formats for this presentation can be found on the Financial Services website.

**Website:** Financial Services Training page

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Revenue & Cost Recoveries
Internal Vs. External Transactions

Internal

Queen’s University includes Admin Units, Departments, Faculties, Schools, etc.

External

Students

Queen’s University includes Admin Units, Departments, Faculties, Schools, etc.

Donors

Misc. Revenue

Sales of Goods or Services

Affiliates e.g. AMS

Granting Agencies
Internal Transactions

- **Internal Sales**: Queen’s Ancillary Unit sells goods/services to Department A within Queen’s.
- **Internal Cost Recoveries**: Department A within Queen’s recovers charges from Department B within Queen’s.
- **Internal Revenue Transfers**: Department A within Queen’s transfers internal revenue to Department B within Queen’s.
Internal Sales

- Ancillary unit sells goods/services to another department
- **No net financial impact to Queen’s**

**Ancillary Operations** include business units that provide goods and services to the university community; covering their full operating costs including indirect costs. They may also contribute to general operating expenditures. Ancillary units represent **Fund 20000**. Examples include **Creative Design Unit, Food Services, Donald Gordon Centre.**
Recording Internal Sales

Price includes ‘markup’ to recover indirect costs.

Example
Ancillary ‘A’ sells services to an internal department and charges $46/hr.

Direct cost of service = $45/hr.
Indirect cost = $01/hr.
Total = $46/hr.
Recording Internal Sales (Cont’d)

- Not subject to HST
- Recorded as a sale and cost at the same time
- Recorded via a journal entry (no entry to A/R or A/P)
- Records should include:
  - Customer order
  - Detailed record & delivery date
  - Description
  - Date good delivered/services rendered
Example

Creative Design unit creates custom signage inserts for Biology departmental office

Sample Journal Entry

<table>
<thead>
<tr>
<th>Fund</th>
<th>Department</th>
<th>Account</th>
<th>Line Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10000</td>
<td>11540</td>
<td>606007</td>
<td>Graphic Design Inv 123456</td>
<td>162.50</td>
</tr>
<tr>
<td>20000</td>
<td>56005</td>
<td>450101</td>
<td>Biology Inv 123456</td>
<td>(162.50)</td>
</tr>
</tbody>
</table>

Tip! Internal Sales only apply to Ancillary units (Fund 20000). The credit side of the entry will always be to Account 450101.
Internal Cost Recoveries

- One department recovers costs from another department
- **No net financial impact** to Queen’s
Prime financial objectives:

- Record transactions in correct fiscal year
- Billing department maintains financial records that support legitimacy and appropriateness of transaction, for example:
  - Salary & Benefit Charges – name & salary period
  - Long-Distance Phone Charges – monthly invoices paid
  - Photocopying Charges – unit cost, # of copies, period
Important notes when recording ICR journal entries:

- Credit ICR Account applicable to expense budget node
- Recovery transaction:
  - Must not be recorded in advance of source transaction
  - Must not be used to record a transfer of funding to another department unit or research project
Recording Internal Cost Recoveries

Example

**Biology** operating fund recovers photocopying costs from a **Research Project.**

**Journal Entry**

<table>
<thead>
<tr>
<th>Fund</th>
<th>Department</th>
<th>Account</th>
<th>Project</th>
<th>Line Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>31000</td>
<td>11540</td>
<td>606001</td>
<td>377999</td>
<td>P-Copy Recovery Bio Dept</td>
<td>23.50</td>
</tr>
<tr>
<td>10000</td>
<td>11540</td>
<td>606002</td>
<td></td>
<td>P-Copy Recovery Smith</td>
<td>(23.50)</td>
</tr>
</tbody>
</table>

**Tip!** When recovering all or any portion of the cost from another internal source, the ICR Account used to record the credit side of the entry is the one located under the Budget Expense Node containing the account that was originally expensed.
Internal Revenue Transfers

- Reallocating internal revenue funds from one unit within Queen’s to another unit within Queen’s. **Internal revenue funds** are funds that cannot be tied back to an external source.

- **No net financial impact** to Queen’s
**Recording Internal Revenue Transfer Example**

**Example**

**Faculty of Arts & Science** operating fund provides research start-up funds to a **Biology Research Principal Investigator’s** internal research project research fund.

**Journal Entry**

<table>
<thead>
<tr>
<th>Fund</th>
<th>Department</th>
<th>Account</th>
<th>Project</th>
<th>Line Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10000</td>
<td>11999</td>
<td>480001</td>
<td></td>
<td>Start Up Biology Smith</td>
<td>5,000.00</td>
</tr>
<tr>
<td>31000</td>
<td>11540</td>
<td>480001</td>
<td>377999</td>
<td>Start Up Biology ARS</td>
<td>(5,000.00)</td>
</tr>
</tbody>
</table>

**Tip!**

Account **480001 must be used** on both sides of the entry

Account **480001 should never be used** to transfer:

- Between Operating ‘10000’ & Trust & Endowment ‘5xxxx’ – ‘8xxxx’ Funds
- To/from Agency fund ‘9xxxx’ series
- To/from externally sponsored Research Projects
- In-Year revenue activity that can be tied to an external source
External Transactions

External Revenue

- Sells goods/services to
- Makes payments to

External Cost Recoveries

- 1. Purchases goods/services from
- 2. Recovers some or all costs from

Department A within Queen’s

XYZ Company

ABC Company
External Revenue

- Revenue received from an external source (a source outside of the university)
- **A net financial impact to Queen’s**

- Donations
- Government Operating Grants
- Research Awards
- Sales of Goods/Services
- Student Fees
- Other Miscellaneous Revenue
External Revenue – Financial Objectives

Providing goods /services to external customers on a sales or cost recovery basis:

1. **Limit** contractual liability
2. **Set** prices sufficient to cover all costs
3. **Calculate** the correct applicable sales tax
4. **Record** transactions in the correct fiscal year
5. **Collect** amounts due

**Tip!** Deposit (record) external sales or cost recovery to an account that begins with ‘45xxxx’ or ‘46xxxx’, (except when recovering from an external source using the cost sharing approach (discussed later). **Never** use Account ‘450101’ or ‘480001’.
External Cost Recoveries

- Initial expense is incurred by Queen’s, with the intent of recovering all or a portion of the costs from an external source/party.

- **A net financial impact to Queen’s**
Expense Recovery Approach

Use this approach when the university is responsible for incurring the initial cost but will recover **all or a portion** of the initial costs. The original expense remains recorded in the expense account (‘5xxxxx’ or ‘6xxxxx’) and the incoming external recovery reimbursement is deposited (recorded) in Account 490xxx.

**Example**

- Purchase equipment from Account **612004**
- Deposit (record) recovery reimbursement revenue to Account **490010**

**Tip!** Departments are responsible to charge and collect applicable taxes on the initial expense. To learn if taxes apply, visit the [Financial Services Procedures](#) page.
Cost Sharing **Approach**

Use this approach when the university is responsible for incurring the initial cost but will recover only a portion of the initial cost. The original expense remains recorded in the expense account (‘5xxxxx’ or ‘6xxxxx’) and the incoming external recovery reimbursement is deposited (recorded) in the same related expense account (‘5xxxxx’ or ‘6xxxxx’).

**Example**
- Purchase equipment from Account **612004**
- Deposit (record) recovery reimbursement revenue to Account **612004**

**Tip!** Departments are responsible to charge and collect applicable taxes on the initial expense. To learn if taxes apply, visit the [Financial Services Procedures](#) page.
Distinguishing between **Internal** vs. **External** transactions and accurately recording **Revenue & Cost Recoveries** within the GL, ensures data integrity for all financial reporting.
How may we help you today?

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