

From: Martin A. Sumpter [mailto:Martin.Sumpter@moore.edu.au]
Sent: 15 September 2010 07:40
To: Commentletters
Subject: RE: ED 198 Revenue from Contracts with Customers - Submission re Higher Education

Thank you for the opportunity to comment on this Exposure Draft. I have been encouraged by the Institute of Chartered Accountants in Australia to make this submission directly to you having initially sent it to them.

1. The concept of control by the customer, as the point at which the supplier of the goods and services recognises revenue, creates an interesting point in the higher education sector, in which I work. What is that point when the higher education provider, an entity, is offering a number of units of study to be passed in order that say an undergraduate degree of three or four years duration can be conferred?
2. From some of the sector's underlying legislation that point of control by the student (the customer) is the awarding of marks for the particular unit. This is especially so for international students, who in fact pay their tuition fees to us in arrears – ie once their unit has been completed and marks awarded. The vast majority of our students though pay their fees to us via the Federal Government's FEE-HELP loan scheme. This is the equivalent of the public university sector's HECS loan scheme for the private education providers.
3. The higher education sector takes up revenue typically as the unit of study is taught or delivered on a month by month pro-rata basis. However, FFE-HELP payments from the Federal Government are received by the education provider on a set pattern monthly. In each month 8% of the total FEE-HELP expected for the year is paid to the entity with a couple of catch up months. Hence the entity receives monies before the academic year starts in late February / early March.
4. If the awarding of marks is taken as the 'point of control' then the education provider would not take up any revenue until either:
 1. The end of the academic year for a year-long unit of study; or
 2. The end of a semester for a semester long unit of study, being typically six months.
5. This raises a set of interesting consequences:
 - a. An entity offering the year-long subjects would take up revenue from them at the end of its academic year. This is of little consequence if the academic year mirrors the entity's financial year. However, if the two years do not coincide then at any one financial year end the entity will be taking up six months revenue from two adjoining academic years.
 - b. The same entity offering year-long units of study will technically not take up revenue in its internal management accounts for eleven months of the year. That could cause much confusion for the governing body, let alone the preparer of the internal management accounts.

- c. If, as is common, a student receives a marginal failure, the student can elect for a re-mark to take place. This re-marking, which can lead to a pass being eventually awarded for the unit, often is not completed until after the financial year end. Has control then been obtained by the student post year end?
 - d. Perhaps drawing a very long bow, does control pass only when the actual degree is completed successfully? Completion of just a number of degree subjects gives the student nothing particularly if all the degree subjects have to be completed in a limited time frame.
6. Alternatively does the pattern of cash received from the Federal Government have any bearing on the point of control passing? In my opinion these cash receipts by the entity are a set of transactions separate from the derivation of revenue.

In concluding I stress that the observations and questions above are mine alone; they do not necessarily constitute those of my employer, Moore Theological College Council.

Martin Sumpter FCA
Chief Financial Officer
Moore College
1 King Street
Newtown NSW 2042
Australia