

DEFERRED REVENUE AND ACCRUAL ACCOUNTING

When an association uses the accrual accounting method, revenue may be recognized as earned in a variety of ways.

For example, you can recognize membership dues over the term of the membership, rather than in one lump sum when paid. The payment is considered a liability since there is a chance that the member may cancel their membership, and you may repay them. Over time, when the membership is used, the deferred revenue account is debited, and the money credited to revenue. In other words, the revenue is finally recognized and, therefore, the money earned is no longer a liability.

GROWTHZONE REVENUE RECOGNITION OPTIONS

When setting up your goods/services you can elect to use accrual accounting. If you are not certain which accounting methodology you are using, discuss with your accountant.

Using Accrual Basis, at the goods/service level, you will define, the various accounts to be used:

- **Income (Revenue) Account:** This is the revenue account that will be credited based on your revenue recognition settings.
- **A/R Account:** This is the asset account that represents money due to your organization and will be credited when an invoice is created. When payment is received, this account is debited. The timing of this debit is depended on the Recognition Option set for the goods/service.
- **Deferred Revenue Account:** This is a liability account to “hold” the revenue until it is to be recognized. Based on the recognition option configured for the goods/service, the account will be credited when the invoice is created and debited on the appropriate recognition day.
- **Deposit Account:** This current asset account is debited when payment is received for invoices.

These accounts will be debited and credited based on the revenue recognition type you choose. A debit is an accounting entry that either increases an asset or expense account or decreases a liability or equity account. ... A credit is an accounting entry that either

increases a liability or equity account or decreases an asset or expense account. It is positioned to the right in an accounting entry.

Following are the recognition types that may be configured for your goods/services

FULLY ON INVOICE DATE

If this option is selected, when invoiced your revenue account is credited the sale immediately and the A/R account is debited. When the invoice is paid, the A/R account is credited, and your deposit account is debited

Example:

\$1200.00 Membership Dues invoice created on 8/3

- Revenue account is credited \$1200.00
- A/R account is debited \$1200.00

Results: 2

TxDate	Recognition Date	Create Date	Account Name	COA Account Number	TxnType	Ref Number	Contact	Saleable Item	Membership Type	Product Category	Invoice Date	Debit	Credit
8/3/2020	8/3/2020	8/3/2020	Accounts Receivable Account	ACCT-RECV	Invoice	21	The Wood Shop	Mem Dues - Fully on Invoice Date		General	8/3/2020 12:00:00 AM	\$1,200.00	\$0.00
8/3/2020	8/3/2020	8/3/2020	Revenue Account	MEM-REV	Invoice	21	The Wood Shop	Mem Dues - Fully on Invoice Date		General	8/3/2020 12:00:00 AM	\$0.00	\$1,200.00
Count 2												\$1,200.00	\$1,200.00

FULLY ON PAID DATE

If Fully on Paid Date is selected, revenue will be credited to your income account when the invoice is paid. The Deferred A/R account will be credited to “hold” the funds until the paid date and the A/R account will be debited. On the day the invoice is paid, the Deferred A/R account will be debited, and the income account will be credited.

Example:

An invoice, for \$600.00, was created on 7/7. The invoice is paid on 8/3.

- On 7/7:
 - ✓ Deferred Revenue account is credited \$600.00
 - ✓ A/R account is debited \$600.00
- On Paid Date 8/3:
 - ✓ Deferred Revenue account is debited \$600.00
 - ✓ A/R account is credited \$600.00.
 - ✓ Revenue account is credited \$600.00

- ✓ Deposit account is debited \$600.00

Results: 6

TxDate	Recognition Date	Create Date	Account Name	COA Account Number	TxnType	Ref Number	Contact	Saleable Item	Debit	Credit
7/7/2020	7/7/2020	8/3/2020	Accounts Receivable Account	ACCT-RECV	Invoice	22	MV HBA	Mem Dues - Fully on Paid Date	\$600.00	\$0.00
7/7/2020	7/7/2020	8/3/2020	Deferred Revenue Account	DEF-MEM-REV	Invoice	22	MV HBA	Mem Dues - Fully on Paid Date	\$0.00	\$600.00
8/3/2020	8/3/2020	8/3/2020	Deposit Account	DEP-CASH	Payment	23214	MV HBA	Mem Dues - Fully on Paid Date	\$600.00	\$0.00
8/3/2020	8/3/2020	8/3/2020	Deferred Revenue Account	DEF-MEM-REV	Payment	23214	MV HBA	Mem Dues - Fully on Paid Date	\$600.00	\$0.00
8/3/2020	8/3/2020	8/3/2020	Accounts Receivable Account	ACCT-RECV	Payment	23214	MV HBA	Mem Dues - Fully on Paid Date	\$0.00	\$600.00
8/3/2020	8/3/2020	8/3/2020	Revenue Account	MEM-REV	Payment	23214	MV HBA	Mem Dues - Fully on Paid Date	\$0.00	\$600.00
									\$1,800.00	\$1,800.00

Count 6

FULLY ON INVOICE DUE DATE

If Fully on Invoice Due Date is selected, revenue will not be credited to the assigned revenue account until the due date. The Deferred A/R account will be credited to “hold” the funds until the due date and the A/R account will be debited. On the day the invoice is paid, the Deferred A/R account will be debited, and the income account will be credited to the revenue account.

Example:

Invoice for \$400.00 is dated 7/27. The due date is 8/1.

- On 7/27:
 - ✓ Accounts Receivable debited \$400.00
 - ✓ Deferred Revenue credited \$400.00
- On Due Date (8/1)
 - ✓ Accounts Receivable is credited \$400.00
 - ✓ Deferred Revenue is debited \$400.00
- A payment at any time will debit Accounts Receivable and credit the Deposit account

Recognition Date	Account Name	TxnType	Ref Number	Contact	Saleable Item	Debit	Credit
7/27/2020	Accounts Receivable Account	Invoice	34	Larson Improvements	Mem Dues - Full on Invoice Due Date	\$400.00	\$0.00
7/27/2020	Deferred Revenue Account	Invoice	34	Larson Improvements	Mem Dues - Full on Invoice Due Date	\$0.00	\$400.00
8/1/2020	Deferred Revenue Account	Invoice	34	Larson Improvements	Mem Dues - Full on Invoice Due Date	\$400.00	\$0.00
8/1/2020	Revenue Account	Invoice	34	Larson Improvements	Mem Dues - Full on Invoice Due Date	\$0.00	\$400.00
						\$800.00	\$800.00

Count 4

FULLY ON EVENT START DATE

If **Fully on Event Start Date** is selected, revenue will not be credited to the assigned revenue account until the day of the event. The Deferred Revenue account will be credited to “hold” the funds until the event start date and the A/R account will be debited. On the day the event

starts, the Deferred A/R account will be debited, and the income will be credited to the event revenue account.

Example:

Event registration invoice for \$25.00 is created on 8/3. Event begins on 8/4

- On 8/3
 - ✓ Deferred Revenue Account is credited \$25.00
 - ✓ Accounts Receivable is debited \$25.00
- On 8/4 (event start date)
 - ✓ Deferred Revenue account is debited \$25.00
 - ✓ Revenue account is credited \$25.00
- A payment at any time will debit Accounts Receivable and credit the Deposit account

Recognition Date	Account Name	TxnType	Ref Number	Contact	Saleable Item	Debit	Credit
8/3/2020	Accounts Receivable Account	Invoice	29	Todd Maurin	Event Reg - On Event Start	\$25.00	\$0.00
8/3/2020	Deferred Revenue Account	Invoice	29	Todd Maurin	Event Reg - On Event Start	\$0.00	\$25.00
8/4/2020	Deferred Revenue Account	Invoice	29	Todd Maurin	Event Reg - On Event Start	\$25.00	\$0.00
8/4/2020	Event Revenue	Invoice	29	Todd Maurin	Event Reg - On Event Start	\$0.00	\$25.00
Count 4						\$50.00	\$50.00

SPREAD OVER A SELECTED NUMBER OF MONTHS

For membership dues, even though a payment may be received, up front for the entire year, you may wish to recognize revenue equally across a specific period (generally 12 months). Three options are available for spreading over a selected number of months.

SPREAD MONTHLY ON INVOICE DATE

Spread Monthly on Invoice Date allows you to spread equal portions of a payment, across a selected time frame, starting with the invoice date.

Example:

\$600 Membership purchased on May 1st. Spread is set to 12 months.

- On May 1st
 - ✓ A/R account is debited \$600.00
 - ✓ Deferred Revenue account is credited \$600.00
 - ✓ Revenue Account is credited \$50 (1/12 of \$600.00)
 - ✓ Deferred revenue is debited \$50.00 (1/12 of \$600.00)
- Each month there after (for a total of 12 months)

- ✓ Revenue account is credited \$50.00 (1/12 of the \$600.00)
- ✓ Deferred Revenue account is debited \$50.00 (1/12 of the \$600.00)
- A payment at any time will debit Accounts Receivable and credit the Deposit account

Results: 26

TxDate ↕	Recognition Date	Account Name ↕	TxnType ↕	Ref Number ↕	Contact ↕	Saleable Item ↕	Debit ↕	Credit ↕
5/1/2020	5/1/2020	Accounts Receivable Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$600.00	\$0.00
5/1/2020	5/1/2020	Deferred Revenue Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$50.00	\$0.00
5/1/2020	5/1/2020	Deferred Revenue Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$0.00	\$600.00
5/1/2020	5/1/2020	Revenue Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$0.00	\$50.00
5/1/2020	6/1/2020	Deferred Revenue Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$50.00	\$0.00
5/1/2020	6/1/2020	Revenue Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$0.00	\$50.00
5/1/2020	7/1/2020	Deferred Revenue Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$50.00	\$0.00
5/1/2020	7/1/2020	Revenue Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$0.00	\$50.00
5/1/2020	8/1/2020	Deferred Revenue Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$50.00	\$0.00
5/1/2020	8/1/2020	Revenue Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$0.00	\$50.00
5/1/2020	9/1/2020	Deferred Revenue Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$50.00	\$0.00
5/1/2020	9/1/2020	Revenue Account	Invoice	30	Grand Denmark	Member Dues - Spread on invoice date	\$0.00	\$50.00

SPREAD ON PAYMENT DATE

Spread Monthly on Invoice Payment Date allows you to spread equal portions of a payment across a selected time frame beginning from the date the invoice was paid.

Example

Invoice dated 6/1 for \$600.00 Goods/Services set for a 12-month spread

- On 6/1
 - ✓ Deferred Revenue account is credited \$600.00
 - ✓ Accounts Receivable account is debited \$600.00
- Invoice paid on 8/4.
 - ✓ Deferred revenue is debited 1/12 of \$600.00 = \$50
 - ✓ Revenue is credited 1/12 of \$600.00 = \$50.00
 - ✓ A/R is credited \$600.00
 - ✓ Deposit Account is debited \$600.00
- Each month, on the day of the month the payment was initially received:
 - ✓ Revenue is credited \$50.00
 - ✓ Deferred Revenue is debited \$50.00
- A payment at any time will debit Accounts Receivable and credit the Deposit account

NOTE!! This option does NOT “catch up”. It will spread forward from the payment date.

Recognition Date	Account Name	TxnType	Ref Number	Contact	Saleable Item	Debit	Credit
6/1/2020	Accounts Receivable Account	Invoice	33	Fritters	Dues - Spread on Payment Date	\$600.00	\$0.00
6/1/2020	Deferred Revenue Account	Invoice	33	Fritters	Dues - Spread on Payment Date	\$0.00	\$600.00
8/4/2020	Deposit Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$600.00	\$0.00
8/4/2020	Deferred Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$50.00	\$0.00
8/4/2020	Accounts Receivable Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$0.00	\$600.00
8/4/2020	Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$0.00	\$50.00
9/4/2020	Deferred Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$50.00	\$0.00
9/4/2020	Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$0.00	\$50.00
10/4/2020	Deferred Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$50.00	\$0.00
10/4/2020	Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$0.00	\$50.00
11/4/2020	Deferred Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$50.00	\$0.00
11/4/2020	Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$0.00	\$50.00
12/4/2020	Deferred Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$50.00	\$0.00
12/4/2020	Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$0.00	\$50.00
1/4/2021	Deferred Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$50.00	\$0.00
1/4/2021	Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$0.00	\$50.00
2/4/2021	Deferred Revenue Account	Payment	462462	Fritters	Dues - Spread on Payment Date	\$50.00	\$0.00

SPREAD MONTHLY ON INVOICE DUE DATE

Spread Monthly on Invoice Due Date allows you to spread equal portions of the revenue from the invoice due date forward.

Example:

\$300.00 invoice dated 8/4, with a due date of 9/3. The goods/service is set for a 12-month spread

- On 8/4
 - ✓ Deferred Revenue account is credited \$300.00
 - ✓ Accounts Receivable account is debited \$300.00
- On the invoice due date (9/3), each month \$25.00 will be recognized:
 - ✓ Deferred Revenue account is debited \$25.00
 - ✓ Revenue Account is credited \$25.00
- A payment at any time will debit Accounts Receivable and credit the Deposit account

NOTE!! This option does NOT “catch up”. It will spread forward from the invoice due date

Recognition Date	Account Name	COA Account Number	TxnType	Ref Number	Contact	Saleable Item	Debit	Credit
8/4/2020	Accounts Receivable Account	ACCT-REC	Invoice	32	Terry Semple	Mem Dues - Spread on Due Date	\$300.00	\$0.00
8/4/2020	Deferred Revenue Account	DEF-MEM-REV	Invoice	32	Terry Semple	Mem Dues - Spread on Due Date	\$0.00	\$300.00
9/3/2020	Deferred Revenue Account	DEF-MEM-REV	Invoice	32	Terry Semple	Mem Dues - Spread on Due Date	\$25.00	\$0.00
9/3/2020	Revenue Account	MEM-REV	Invoice	32	Terry Semple	Mem Dues - Spread on Due Date	\$0.00	\$25.00
10/3/2020	Deferred Revenue Account	DEF-MEM-REV	Invoice	32	Terry Semple	Mem Dues - Spread on Due Date	\$25.00	\$0.00
10/3/2020	Revenue Account	MEM-REV	Invoice	32	Terry Semple	Mem Dues - Spread on Due Date	\$0.00	\$25.00
11/3/2020	Deferred Revenue Account	DEF-MEM-REV	Invoice	32	Terry Semple	Mem Dues - Spread on Due Date	\$25.00	\$0.00
11/3/2020	Revenue Account	MEM-REV	Invoice	32	Terry Semple	Mem Dues - Spread on Due Date	\$0.00	\$25.00
12/3/2020	Deferred Revenue Account	DEF-MEM-REV	Invoice	32	Terry Semple	Mem Dues - Spread on Due Date	\$25.00	\$0.00
12/3/2020	Revenue Account	MEM-REV	Invoice	32	Terry Semple	Mem Dues - Spread on Due Date	\$0.00	\$25.00