



SedonaOffice Users Conference
San Francisco, CA | January 21 – 24, 2018

Deferred Income

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PERENNIAL SOFTWARE

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What is Deferred Income

Deferred Income, simply stated, is amounts invoiced in advance of being earned. So, it represents a liability until the related service is provided. It is sometimes called unearned revenue or deferred revenue.

For example, if a Cycle Invoice for monitoring is created and posted for a quarterly amount of \$150.00 on 12/15/2017 it would be created for services that will be provided for 01/01 – 03/31/2018. No income is actually earned until those services are provided.

Generally speaking, expenses related to the monitoring service provided above, are used to offset that revenue and, depending on who does the monitoring it is either picked up through payroll or a vendor bill. This would include the communications and other related expenses. Most customers designate a category for monitoring revenue and expense to determine its profitability.

Monitoring/Remote Services Profit Center				
	Monitoring and Remote Services			
	Monitoring	Video	Managed Access	Total
Revenue	1,546,179	15,668	7,789	1,569,636
Costs	(311,672)	(11,003)	(6,548)	(329,223)
Gross Profit	1,234,507	4,665	1,241	1,240,413
Margin %	80%	30%	16%	79%

Monitoring includes automation services like Alarm.com and TotalConnect.

Notes

How does it get generated?

Deferred income is generated through the cycle invoicing process established by the recurring amounts identified within each system. Billing cycles are Monthly, Quarterly, Semi-Annual, and Annual.

Recurring Edit 47042

Site and System

Bob Esquerma
20 Churchill Dr
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System: T04-001
Intrusion

Panel Type: UNKNOWN

Recurring Setup | Royalties / Commissions | Escalations

Recurring Information

Recurring Item: Inspection-Smoke/CO2

Description: Inspection-Smoke / CO2 Detector

Sub Item Of:

Bill Cycle: Quarterly

Bill On Day: 15

RMR Amount: \$18.00

Cycle Amount: \$4.00

Next Cycle: July 2017

Recurring Start: 3/15/2017

Recurring End:

Invoice Group #: 0

Notes

Here are a couple of useful reports to help manage that number.

January 11, 2018		RMR Customer Detail						Page # 10
9:02 PM		As Of 1/11/2018 Branch: (All Branches)						
Customer #	Name	Item	System	Alarm	Next Cycle	Cycle Amt	Monthly	
306993	Customer Name 306993	MONCS	SS	0	7/1/2017	159.00	26.50	
307015	Customer Name 307015	MONCFA	FA	1	7/1/2017	147.00	24.50	
307035	Customer Name 307035	MONCFA	FA	0	7/1/2017	159.00	26.50	
307038	Customer Name 307038	MONCFA	FA	0	7/1/2017	159.00	26.50	
307897	Customer Name 307897	MONCFAC	FA	1	7/1/2017	300.00	50.00	
309345	Customer Name 309345	MONRS2C	SS	0	5/1/2017	168.00	28.00	
311225	Customer Name 311225	MONCFS	COMBO	0	7/1/2017	251.70	41.95	
320089	Customer Name 320089	MONCS	SS	0	7/1/2017	150.00	25.00	
320089	Customer Name 320089	MONCFA	FA	1	7/1/2017	150.00	25.00	
323086	Customer Name 323086	MONCS	SS	0	4/1/2017	159.00	26.50	
						4,868.70	811.45	
Summary								
Annual						249,807.12	20,817.26	
Semi-Annual						4,868.70	811.45	
Quarterly						208,150.11	69,383.37	
Monthly						9,606.59	9,606.59	
Grand Total							100,618.67	

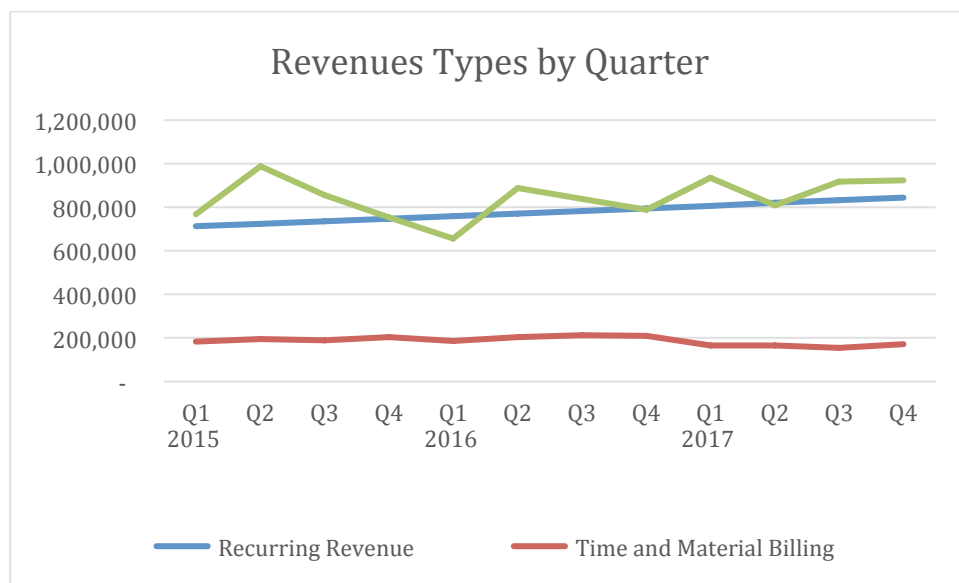
RMR 12 Month Roll-Forward Report														DemoData	
Invoice Item	1/1/2017	2/1/2017	3/1/2017	4/1/2017	5/1/2017	6/1/2017	7/1/2017	8/1/2017	9/1/2017	10/1/2017	11/1/2017	12/1/2017	1/1/2018	Annual Growth	
MONOA	16	16	16	26	26	26	26	26	26	26	26	26	26	62.50%	
		0.00%	0.00%	62.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
MONOC	253	352	352	346	350	350	350	350	365	365	365	365	365	44.27%	
		39.13%	0.00%	-1.70%	1.16%	0.00%	0.00%	0.00%	4.29%	0.00%	0.00%	0.00%	0.00%		
MONRS	2,643	709	627	435	340	306	239	150	116	37	0	0	0	-100.00%	
		-73.16%	-11.56%	-30.60%	-21.81%	-9.99%	-21.85%	-37.16%	-23.25%	-67.97%	-100.00%	0.00%	0.00%		
MONRS2	13,734	14,772	14,807	15,102	15,304	15,333	15,393	15,406	15,440	15,469	15,501	15,504	15,510	12.93%	
		7.56%	0.23%	1.99%	1.34%	0.19%	0.39%	0.08%	0.22%	0.19%	0.20%	0.02%	0.04%		
MONRS2C	1,449	1,580	1,580	1,614	1,619	1,621	1,621	1,621	1,623	1,557	1,557	1,557	1,557	7.46%	
		9.04%	0.00%	2.15%	0.31%	0.12%	0.00%	0.00%	0.12%	-4.07%	0.00%	0.00%	0.00%		
MSAH	5,680	6,597	6,541	6,851	6,893	6,893	6,893	6,893	6,893	6,893	6,893	6,893	5,779	1.74%	
		16.14%	-0.85%	1.67%	0.63%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-13.65%		
MSAT	492	492	492	432	432	432	432	432	432	432	432	232	232	-52.85%	
		0.00%	0.00%	-12.20%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-46.30%	0.00%		
Total Connect	417	445	467	453	453	457	457	457	457	457	457	457	517	24.01%	
		6.84%	4.83%	-3.00%	0.00%	0.88%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	13.14%		
Report Totals	108,864	109,835	107,608	106,586	104,981	103,890	103,487	103,307	103,442	103,369	103,157	102,800	100,619	-7.57%	
		0.89%	-2.03%	-0.95%	-1.51%	-1.04%	-0.39%	-0.17%	0.13%	-0.07%	-0.21%	-0.35%	-2.12%		

Notes

GAAP principles behind Deferred Income

Generally Accepted Account Principles (GAAP) are both broad and specific guidelines on Accounting concepts and principles that are designed to keep things standard across the board. Recognizing revenue in the period in which it is earned is a core tenet of those principles and is the essence of accrual accounting.

Recognizing revenue as it is earned allows for trends that are easy to identify and revenue that is smoothed or flattened out over time.

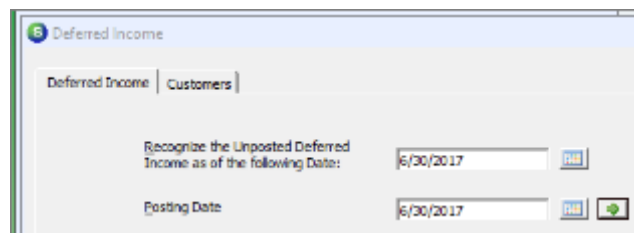


Notes

When to recognize Deferred Income

Deferred Revenue is recognized on a monthly basis and generally posted on that date as well. What we find, from time to time, is that customers are not recognizing all the recurring revenue, for the month, before preparing their financials. This simply means that recurring revenue that has been booked throughout the month, through new installations or service, has not yet been pulled into income.

When should you recognize Deferred Income? When should you post Deferred Income?



The question is, when in the month should these actions be performed?

1. The first day of the month
2. The last day of the month
3. Multiple times during month

All three are can be correct depending on when you want that income to appear on your financials. More on this later. First, let's talk about how Deferred Revenue gets booked.

Notes

Cycle Invoicing – How it is processed

Deferred Income is produced by running Cycle Invoicing. Cycle Invoicing is the process of creating invoices for your customers who have active and billable recurring lines set up on their Site or System records. This process is performed from the Accounts Receivable menu selecting the Cycle Invoicing option. The process is simple but does require a few steps. These steps include generating then creating the invoices, applying credits, and then the printing of those invoices.

The recognition of Deferred Income is done after your cycle invoicing is complete for the month including Master Accounts. Remember, Master Accounts are processed separate from regular customers. So, if you have Master Accounts you will be running the cycle process multiple times, not only for Master Accounts and regular customers, but also to pick up new customers added for that given month.

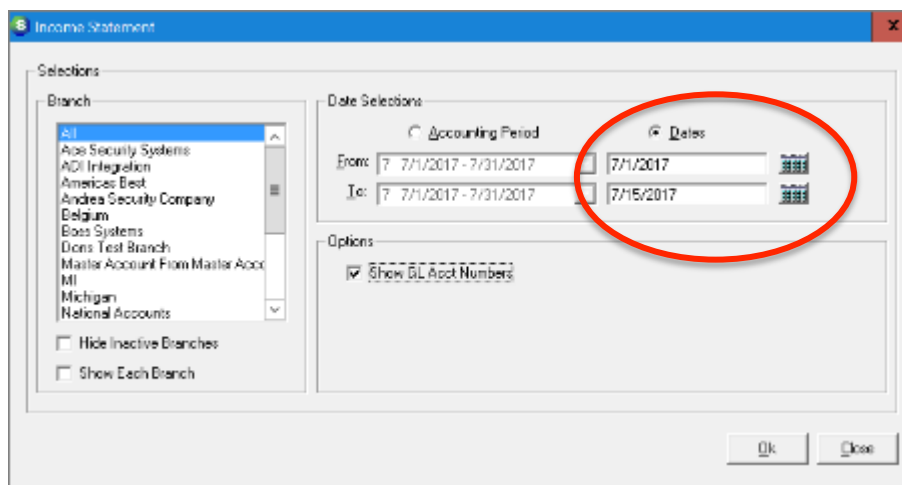
The accounting processes behind Deferred Income

When cycle invoices are created, as mentioned above, the Deferred Revenue account is increased with an offset to the Accounts Receivable account for the date of the invoice. When Deferred Revenue is recognized, Deferred income is debited and revenue is credited, reducing the liability for the Services rendered.

Notes

When should Deferred Income be recognized?

When deferred revenue is recognized and when it is posted can be two different dates. It depends on when you would like to see the recurring revenue hit your income statement. Let me explain; you have the ability to run your Income Statement as of a specific date.



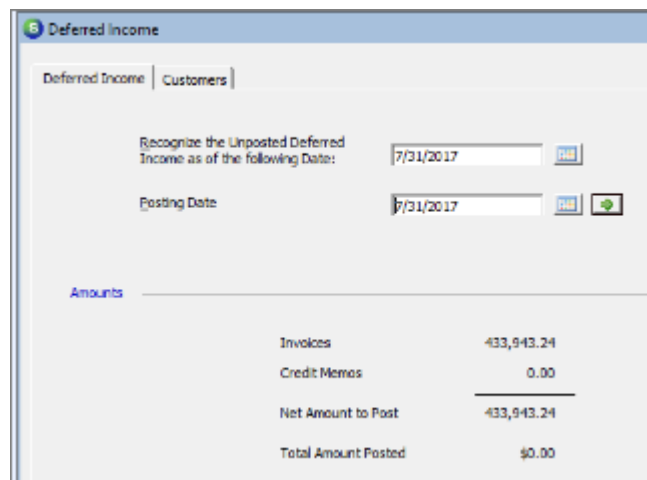
You also, and more typically, run your financials as of the last day of the month. So, if you recognized and POST your Deferred Income as of the last day of the month, then run an Income statement based on dates to track progress throughout the month. The deferred income you posted as of the last day of month would not appear.

Notes

Example:

Let's say you would like to track revenues as they post throughout the month in order to track revenue progress. Meaning, you would like to see what has been billed to date in Installation because you would like to tie it to your Closed Jobs report. At the same time, you would like to see your deferred income posted not as of the last day but as of the first day of the month of service. Again, if you posted to the last day it would not appear on your income statement until the last day.

Below is an example of recognizing revenue and posting revenue to the last day of the month.



Deferred Income	
Deferred Income Customers	
Recognize the Unposted Deferred Income as of the following Date:	7/31/2017
Posting Date	7/31/2017
Amounts	
Invoices	433,943.24
Credit Memos	0.00
Net Amount to Post	433,943.24
Total Amount Posted	\$0.00

Notice the dates, both reflected at month end. Also, note the dollar amount to be posted.

Notes

Here is what your income statement would look like if you ran your income statement as of a specific date. The below Income Statement was run through 7/15/2017.

January 9, 2018 11:35 PM	Income Statement For the Period 7/1/2017 to 7/15/2017	Page# 1
Ordinary Income/Expense		
Income		
420330	Revenue - Service Agreements	333.13
420340	Revenue - Inspection Contracts	161.60
430110	Revenue - Monitoring	3,830.20
480110	Revenue - Lease Recurring	103.13
490900	Revenue - Other	42.20
	Total Income	4,470.26

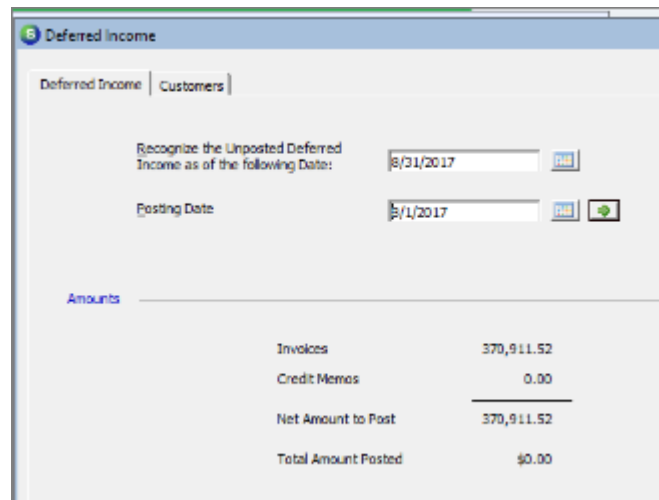
As you can see, your recurring revenue is not reflected on your income statement since it will not hit your GL until the July 31, 2017. Here's the Income Statement at 7/31/2017.

January 9, 2018 11:49 PM	Income Statement For the Period 7/1/2017 to 7/31/2017	Page# 1
Ordinary Income/Expense		
Income		
420330	Revenue - Service Agreements	71,228.34
420340	Revenue - Inspection Contracts	4,590.29
430110	Revenue - Monitoring	348,750.98
430130	Revenue - Managed Access Fees	66.25
480110	Revenue - Lease Recurring	13,730.44
490900	Revenue - Other	47.20
	Total Income	438,413.50

Note, the difference between the two statements is what was posted at 7/31/2017. (See previously posted amount from the other page) Had that amount been post at 7/1/2017, that total would have appeared on the Income Statement run at 7/15/2017.

Notes

Here is an example of recognizing revenue and posting revenue to the first day of the month.



Deferred Income	
Recognize the Unposted Deferred Income as of the following Date:	8/31/2017
Posting Date	8/1/2017
Amounts	
Invoices	370,911.52
Credit Memos	0.00
Net Amount to Post	370,911.52
Total Amount Posted	0.00

When recognized as the last day and posted to the first day, that recurring will appear on your GL, day one. Since we posted Deferred Income as of the first day, as reflected above, it appears throughout the month. Here is an Income Statement as of 8/15/2017 that already reflects the recurring for the month.

January 10, 2018	Income Statement	Page# 1
12:05 AM	For the Period 8/1/2017 to 8/15/2017	
 Ordinary Income/Expense		
Income		
420330	Revenue - Service Agreements	54,615.52
420340	Revenue - Inspection Contracts	3,713.10
430110	Revenue - Monitoring	299,767.00
430130	Revenue - Managed Access Fees	66.25
480110	Revenue - Lease Recurring	12,744.65
490900	Revenue - Other	5.00
Total Income		<u>370,911.52</u>

Notes

How to post Deferred Revenue

Here are the steps to be followed when recognizing and posting Deferred Revenue. Navigate to General Ledger from the Main Application Menu Tree. Click the General Ledger then click Deferred Income.

Deferred Income (Sedona Security)

Deferred Income | Customers |

Recognize the Unposted Deferred Income as of the following Date: 10/31/2017

Posting Date: 10/1/2017

Amounts

Invoices	221,598.13
Credit Memos	0.00
Net Amount to Post	221,598.13
Total Amount Posted	\$0.00

OK Cancel

Notes

From here, click on Customers. This will give you the customers that make up what you will be posting for that particular period.

Amounts	
Invoices	221,613.58
Credit Memos	0.00
Net Amount to Post	221,613.58
Total Amount Posted	\$0.00

At the bottom right are 'OK' and 'Cancel' buttons.

When you click the Customers tab, this is what will appear.

Branch	Customer No.	Customer Name	Date	Amount	Account	Description
OH	26910	Hardy, Bruno	10/1/2017	25.95	430110	Revenue - Mo...
OH	26917	Modure, Nathaniel	10/1/2017	25.95	430110	Revenue - Mo...
OH	26919	Monroe, Maribel	10/1/2017	25.95	430110	Revenue - Mo...
OH	13937	Bowers, Kristina	10/1/2017	34.33	430110	Revenue - Mo...
OH	14407	Tanner, Leo	10/1/2017	32.46	430110	Revenue - Mo...
OH	14507	Hansen, Gage	10/1/2017	38.89	430110	Revenue - Mo...
OH	14507	Hansen, Gage	10/1/2017	16.18	420330	Revenue - Ser...
OH	14573	Johnson, Clayton	10/1/2017	36.53	430110	Revenue - Mo...
OH	14582	Hudson, Aubrey	10/1/2017	71.44	430110	Revenue - Mo...
OH	14582	Hudson, Aubrey	10/1/2017	21.00	420330	Revenue - Ser...
OH	14950	Cleveland Town Hall	10/1/2017	26.12	430110	Revenue - Mo...
OH	15202	Hubbard, Holly	10/1/2017	27.00	430110	Revenue - Mo...
OH	15232	Oliver, Carter	10/1/2017	47.00	430110	Revenue - Mo...
OH	15232	Oliver, Carter	10/1/2017	11.00	420330	Revenue - Ser...
OH	15268	Bryan, Jameson	10/1/2017	27.00	430110	Revenue - Mo...
OH	15434	Hoffman, Crystal	10/1/2017	29.50	430110	Revenue - Mo...
OH	15569	Patrick, Karl	10/1/2017	16.00	430110	Revenue - Mo...
OH	15746	Reynolds, Chesity	10/1/2017	25.95	430110	Revenue - Mo...
OH	16066	The Canton Distributor	10/1/2017	35.06	430110	Revenue - Mo...
OH	16567	Bell, Carmen	10/1/2017	31.59	430110	Revenue - Mo...
OH	16710	Newton, Aurora	10/1/2017	33.11	430110	Revenue - Mo...
OH	17203	Wellace, David	10/1/2017	27.19	430110	Revenue - Mo...
OH	104	SpongeBob SquarePants	10/9/2017	15.45	430110	Revenue - Mo...

At the bottom right are 'OK' and 'Cancel' buttons.

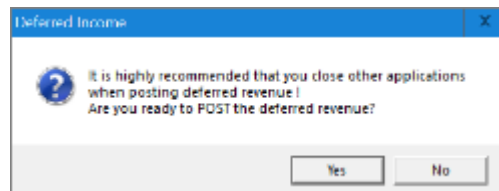
Click the Print preview button and this will allow you to export a report of the Deferred Revenue that will be posted for that period.

That report is shown below. The last page, as reflected below, will give you the total of what will be posted from Deferred Revenue.

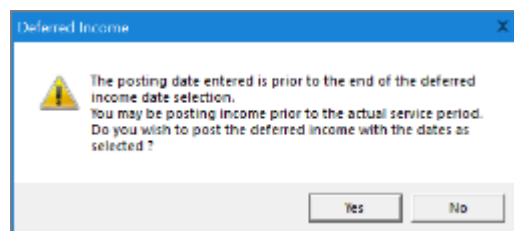
Deferred Income Recognition			Sedona Security		
All Branches October 2017 (non-posted)					
Date	Ref #	Customer	Description	Item	Amount
7/1/2017	414915	47050 - McDaniel, Helen	Contracted Services	MON-Taxable	25.95
7/1/2017	414951	4874 - Schroeder, Ella	Contracted Services	Service Agreem	19.98
7/1/2017	414987	5171 - Day, Felicia	Contracted Services	Service Agreem	25.54
7/1/2017	414988	5181 - Gregory, Lane	Contracted Services	MON-Taxable	36.89
7/1/2017	414999	5185 - Anthony, Bruce	Contracted Services	Service Agreem	25.54
7/1/2017	415001	5212 - Jensen, Mark	Contracted Services	MON-Taxable	61.24
7/1/2017	415061	7793 - Wellington Square Liquor	Contracted Services	MON-Taxable	28.28
7/1/2017	415152	8503 - Moore, Larry	Contracted Services	MON-Taxable	36.71
7/1/2017	415180	9988 - Little Tykes Day Care	Contracted Services	Service Agreem	11.42
7/1/2017	415187	9037 - Vaughn, Marina	Contracted Services	MON-Taxable	25.95
7/1/2017	415189	9050 - Whitaker, Caroline	Contracted Services	MON-Taxable	25.95
7/1/2017	415215	9664 - Turner, Lana	Contracted Services	MON-Taxable	33.73
7/1/2017	415215	9664 - Turner, Lana	Contracted Services	Service Agreem	22.84
7/1/2017	413322	104 - SpongeBob SquarePants	Contracted Services	Carbon Monoxid	15.45
					221,613.58

Always make it a habit, once you export the Deferred Revenue details, to go back to the posting screen to make sure the date, you are recognizing through, is still valid and is what you are expecting.

Click the OK button, and this warning will appear. Make sure you are out of all other applications and click YES.



If you are posting your Deferred Income before the date you are recognizing, as discussed above, you will get this message. Sounds rather ominous, (see warning below) but your answer is YES.

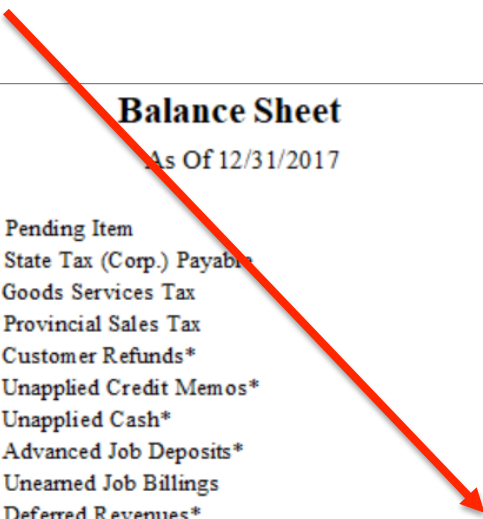


That will post your Deferred Revenue to date you decide. If you want to see what was posted after the fact, you can run a report titled *Deferred Income Recognition Report* within the General suite of reports. Simply identify the period you want to see and make sure that the box titled NON-Posted Entries is unselected.

Notes

Deferred Income reports

Deferred Revenue sits on the liability section of your Balance Sheet. As cycle billings are created, that Deferred revenue balance will increase and as you recognize Deferred Revenue, it will decrease. So what report do I run that will allow me to understand what makes that number up? Here is an example of the portion of the Balance Sheet that reflects Deferred Revenue.



January 15, 2018	Balance Sheet	Page# 3
5:52 PM	As Of 12/31/2017	
234105 - Pending Item	200.00	
234120 - State Tax (Corp.) Payable	48.58	
234130 - Goods Services Tax	(10,305.44)	
234131 - Provincial Sales Tax	49.15	
240120 - Customer Refunds*	2,833.88	
240210 - Unapplied Credit Memos*	766,796.70	
240220 - Unapplied Cash*	25,047,002.22	
244110 - Advanced Job Deposits*	17,202.28	
244120 - Unearned Job Billings	450.00	
244500 - Deferred Revenues*	1,324,056.14	
248100 - Deferred Commissions	42,055.29	

Remember, Deferred Revenue is an * account which means it is a control account driven only by transactions and that no General Journal Entries should ever be posted to an *'d account. By the way, you could remove the * if you would like. The account is required the * is not.

Notes

Here are the reports you run to tie out the Deferred Revenue balance.

Deferred Income Audit		Sedona Security
All Branches		
As of 12/31/2017		
Period	Amount	
October 2017	221,613.58	
November 2017	507,009.48	
December 2017	330,949.26	
January 2018	77,077.01	
February 2018	52,905.41	
March 2018	42,922.04	
April 2018	33,261.41	
May 2018	24,868.91	
June 2018	14,276.97	
July 2018	7,777.55	
August 2018	5,263.88	
September 2018	3,675.79	
October 2018	1,979.85	
November 2018	25.00	
December 2018	25.00	
January 2019	25.00	
February 2019	25.00	
March 2019	25.00	
April 2019	25.00	
May 2019	25.00	
June 2019	25.00	
July 2019	25.00	
August 2019	25.00	
September 2019	25.00	
October 2019	25.00	
November 2019	25.00	
December 2019	25.00	
January 2020	25.00	
February 2020	25.00	
March 2020	25.00	
April 2020	25.00	
May 2020	25.00	
	1,324,056.14	

Deferred Income Distribution												Page # 2
1/15/2018												
17:54												
January	February	March	April	May	June	July	August	September	October	November	December	Total
25.00	25.00	25.00	25.00	25.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	125.00
Total Deferred Income												
77,127.01	52,965.41	42,972.04	33,311.41	24,918.91	14,301.97	7,802.55	5,288.88	3,700.79	223,618.43	507,059.48	330,999.26	1,324,056.14

Notes