



Purpose

This document is intended to detail the steps required to create amortization postings that will incrementally create general ledger postings to relieve (debit) a deferred revenue account and increase (credit) the revenue account for maintenance contract sales.

Overview

Many companies that sell maintenance contracts will invoice the customer annually in advance before providing service. Because they do not want to claim all of the revenue at the time of the advance billing, they want to defer their revenue. What this means is that the revenue posting will credit an account other than a revenue account. A schedule will be created to incrementally transfer the dollars from the deferred revenue account to the actual revenue account. This process is referred to as amortization. The schedule for doing this will typically coincide with when the costs of providing the service occur. The goal is to have the sales and costs hit the books at roughly the same frequency.

Assumptions

- The Ascente Service Dispatch and Maintenance modules are installed.
- The Ascente / Service Dispatch / Maintenance / Options and Interfaces / [Service Options] tab
 - 'Amortize Contracts' box is checked
- Amortization is being done based on an annual schedule.
- The frequencies for amortization are either:
 - Monthly
 - Bi-monthly
 - Quarterly
 - Tri-annual
 - Semi-annual
 - One Week
 - Two Weeks
 - Three Weeks
 - Four Weeks

General Ledger Postings

- WO Description for WO: BS3 SO: AlyssaThe Create Amortization Postings program will use the billing type code in the 'Bill Type' field to determine the account that the deferred revenue will be relieved from (debit).
- Revenue Account
 - The Create Amortization Postings program will use the billing type code in the 'Revenue Bill Type' field to determine the account that the revenue will be relieved to (credit).
 -

	Accounts Receivable		Deferred Revenue		Maintenance Revenue	
	DB	CR	DB	CR	DB	CR
Billed	1500			1500		
Create Amortization Postings			125			125

Example

This document will assume the following:

- Maintenance contract is values at \$1,500 annually.
- This is amortized monthly for \$125.

	Revenue Deferred	Revenue Claimed	Deferred Balance
Jan	1,500.00	125.00	1,375.00
Feb		125.00	1,250.00
Mar		125.00	1,125.00
Apr		125.00	1,000.00
May		125.00	875.00
Jun		125.00	750.00
Jul		125.00	625.00
Aug		125.00	500.00
Sep		125.00	375.00
Oct		125.00	250.00
Nov		125.00	125.00
Dec		125.00	0.00

Table 1: This is the amortization schedule for this example. Note that the deferred balance is zero after December’s \$125 amortization posting.

Step #1 – Jobsite / Maintenance / [Billing] tab

- The Billing Frequency must be set to annual.

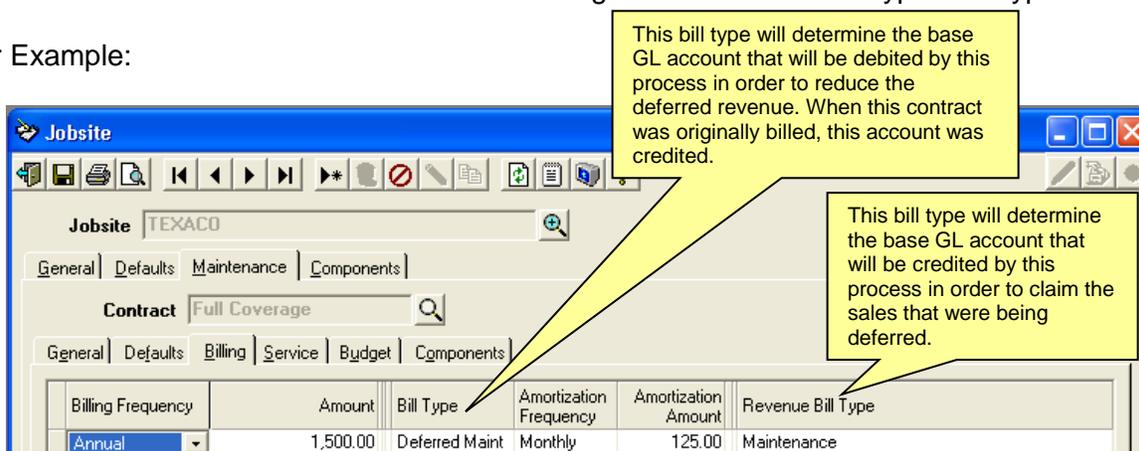
The Create Amortization Postings program creates a Traverse General Ledger Journal for maintenance agreements that have been set up to have the revenue amortized. If you amortize your contracts, you will typically want to run this program on a monthly basis. This will posted a debit to your Deferred Revenue account and a credit to your Actual Revenue account.

The GL accounts are determined as follows:

Debit: Jobsite:Maintenance Tab: Billing Tab:Bill Type Bill Type: Base Sales GL #

Credit: Jobsite:Maintenance Tab: Billing Tab: Revenue Bill Type Bill Type: Base Sales GL #

For Example:



The screenshot shows the 'Jobsite' window for 'TEXACO' with contract 'Full Coverage'. The 'Billing' tab is active, showing a table with the following data:

Billing Frequency	Amount	Bill Type	Amortization Frequency	Amortization Amount	Revenue Bill Type
Annual	1,500.00	Deferred Maint	Monthly	125.00	Maintenance

Callout 1 (pointing to 'Deferred Maint'): This bill type will determine the base GL account that will be debited by this process in order to reduce the deferred revenue. When this contract was originally billed, this account was credited.

Callout 2 (pointing to 'Maintenance'): This bill type will determine the base GL account that will be credited by this process in order to claim the sales that were being deferred.

The above sample contract will be billed annually at \$1,500 and will create the following G/L Posting:

<u>Credit Deferred Revenue</u>	<u>Debit Accounts Receivable</u>
\$1,500	\$1,500

Ascente – Service Dispatch Deferred Revenue Processing Guide



Since the contract is set to Amortize Monthly, each month the Create Amortization Postings program will create the following postings:

<u>Credit Actual Revenue</u>	<u>Debit Deferred Revenue</u>
\$125	\$125

	Revenue Deferred	Revenue Claimed	Deferred Balance
Jan	1,500.00	125.00	1,375.00
Feb		125.00	1,250.00
Mar		125.00	1,125.00
Apr		125.00	1,000.00
May		125.00	875.00
Jun		125.00	750.00
Jul		125.00	625.00
Aug		125.00	500.00
Sep		125.00	375.00
Oct		125.00	250.00
Nov		125.00	125.00
Dec		125.00	0.00

At the end of the year the balance in the Deferred Revenue account for this contract will be \$0

The Bill Type used for the initial billing should be set to have the Deferred Revenue account as the Base Sales account. The Revenue Bill Type assigned to the amortization should be the true Revenue account.



The most common operational issue seen is that the Create Amortization Postings process is not run monthly. The result is that the revenue does not get claimed and the Deferred Revenue account does not get reduced. If you are going to do amortization, you must run this process monthly for your maintenance contracts.