

## Article # 1328

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### Technical Note: Understanding the Revenue Amortization Feature

**Difficulty Level:** Beginner Level AccountMate User

**Version(s) Affected:** AccountMate 12 for SQL and Express  
AccountMate 11 for SQL and Express  
AccountMate 10 for SQL and Express  
AccountMate 9 for SQL and Express

**Module(s) Affected:** AR

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### DESCRIPTION

Service-oriented firms usually utilize the deferred revenue recognition. Typically, these companies received advance payments from its customers for services that are yet to be rendered. The service contract term may span within twelve months or beyond. This will mean that the revenue from this transaction must be recognized over the service contract term. The Revenue Amortization feature in AccountMate can specifically handle the revenue realization transactions.

This Technical Note discusses how to activate and set up the Revenue Amortization feature. This document also discusses how to use the feature and lists the reports that provide information about the revenue realization transactions.

### SOLUTION

#### Activation and setup

Perform the following procedures necessary for activating and setting up the feature:

1. Activate the feature in **AR Module Setup**.
  - a. Access the **AR Module Setup** function.
  - b. Go to the **General (2)** tab and mark the **Enable Revenue Amortization** checkbox.
  - c. Go to the **GL Accounts (1)** tab and enter the following default GL Account IDs to which the revenue amortization transactions will be posted:
    - **Contract Costs**
    - **Contract Obligations**
    - **Contract Discounts**
  - d. Click **OK**.

- e. In the dialog box click the **Yes** button if you want AccountMate to automatically assign the same Contract Costs, Contract Obligations, and Contract Discounts GL Account IDs to all the existing inventory type and inventory item records; otherwise, click **No**.

Please note that if you clicked **No**, you will need to manually assign the Contract Costs, Contract Obligations, and Contract Discounts GL Account IDs to the existing Inventory Type Maintenance and inventory item records after the feature is activated.

2. Set up the group access rights.
  - a. Launch the AccountMate Administrator program.
  - b. Go to the **Security** function; then, click the **Group/User Setup** function.
  - c. Highlight the group that you will grant access rights; then, click the **Edit** button.
  - d. Highlight the Company ID; then, mark the following checkboxes:
    - AR Schedule Revenue Realization
    - AR Realize Revenue
    - AR Revenue Realization Schedule Report
    - AR Realized Revenue Report
    - AR Revenue Realization Transaction Listing
    - AR Voided Realized Revenue Report
    - AR Void Realized Revenue
  - e. Click **OK**; then, click **Close**.
  - f. Exit the AccountMate Administrator program.
3. Re-launch the AccountMate main application and access the company again.

### **Getting started with the feature**

1. Access the Accounts Receivable module.
2. Create an inventory type record that is specific for revenue amortization. To do this, perform the following:
  - a. Access the **Inventory Type Maintenance** function.
  - b. Enter a value in the **Inventory Type** field; then, click the **Lookup** button beside the field or press **Enter** on your keyboard.
  - c. Click the **Add** button in the **Inventory Type Leading Search** window.
  - d. Enter values in the **Type Desc** and **Whse** fields.
  - e. Go to the **Information** tab; then, perform the following:
    - 1) Enter the **Default Item Desc** and other miscellaneous information (e.g. **Class, Product Line, U of M**).
    - 2) Mark the applicable checkboxes in the **Used In** area.
  - f. Go to the **Remarks** tab and perform these steps:
    - 1) Enter the pertinent remarks.
    - 2) Mark the applicable checkboxes in the **Overwrite Remark on** and **Print Remark on** areas.

g. Go to the **Settings (1)** tab; then, perform the following:

- 1) Review the information in all fields.
- 2) Be sure to unmark the **Update On-hand** checkbox.
- 3) Assign the **Average, FIFO, or LIFO** cost method.

h. Go to the **Settings (2)** tab and perform these steps:

- 1) Mark the **Amortize** checkbox.

**Note:** The **Amortize** checkbox is accessible only when the Revenue Amortization feature is activated in **AR Module Setup**, the **Update On-hand** checkbox is unmarked, and the chosen cost method is **Average, FIFO, or LIFO**. The **Update On-hand** checkbox and the **Cost Method** field are both found in the **Inventory Type Maintenance > Settings (1)** tab.

- 2) Choose the appropriate amortization method.
- 3) Choose the desired amortization frequency.
- 4) Enter the number of times you allow users to amortize.

i. Go to the **GL Accounts** tab and perform these steps:

- 1) Enter the revenue code.
- 2) Accept or amend the default GL Account ID in each field especially the default Contract Costs, Contract Obligations, and Contract Discounts GL Account IDs.

j. Click **Update** to save the record.

3. Create an inventory item record that is configured to allow revenue amortization. To do this, perform the following steps:

- a. Access the **Inventory Maintenance** function.
- b. Enter a value in the **Item #** field; then, click the **Lookup** button beside the field or press **Enter** on your keyboard.
- c. Click the **Add** button in the **Item # Leading Search** window.
- d. In the **Choose Inventory Type** window, enter the inventory type specifically configured for revenue amortization; then, click **OK**.
- e. Review the information in all tabs; amend if necessary. Be sure to choose the same settings discussed in Steps 2g through 2i in the *Getting started with the feature* section.
- f. Click **Update**.

4. Record an AR invoice for revenue amortization

- a. Access the **Create Invoice** function.
- b. Enter values in the required fields (e.g. **Customer #, Order Date, Invoice Date**, etc.) similar to recording a regular AR invoice.
- c. Click the **Line Items** tab; then, add an inventory line item which revenue is configured to be amortized.
- d. Amend the **Bin/Ship Qty** default values if necessary.
- e. Click the **Line Item Details** tab; then, review the information in the **Revenue Amortization** area.
- f. Click **Save**.

The journal entry that will be created is as follows:

DR: Accounts Receivable	XX	
DR: Contract Discounts	XX	
CR: Contract Obligations		XX
CR: Freight Revenue		XX
CR: Invoice Adjustments		XX
CR: Sales Tax Payable	XX	

When an AR invoice must be amended, you can access the same function (i.e., **Create Invoice**); and, select the **Amend Invoice** option. Enter the **Invoice #**; then, you can proceed to amend the AR Invoice details.

When at least one amortization transaction record is posted for the AR Invoice, note of the following:

- You can no longer edit some of the invoice details including the Ship Quantity, Unit Price, Discount, Revenue Code, amortization details, etc.
- You can no longer void the AR Invoice.
- The **Invoice Date** cannot be later than the first amortized record amortization date.

#### 5. Schedule revenue realization

Before a revenue amortization can be posted for an AR Invoice, you need to access the **Schedule Revenue Realization** function to specify the time frame and manner in which the deferred revenue will be amortized.

To schedule the revenue realization, perform the following:

- a. Access the **Schedule Revenue Realization** function from the Transactions menu in the Accounts Receivable module.
- b. Enter the criteria and the amortization method to filter the AR Invoices for which you will set up the amortization schedule.
- c. Mark the **Include Fully Amortized Invoices** checkbox if you want to display the AR Invoices which revenue has been fully realized.
- d. Click **OK**.
- e. Review each AR Invoice revenue realization details.
- f. Click **Save**.

#### 6. Realize revenue

After scheduling the revenue realization, you need to post the realized revenue for the period. To do this, perform the following steps:

- a. Access the **Realize Revenue** function from the **Transactions** menu.
- b. Enter the criteria and **Posting Date Cut-off** to filter the AR Invoices for which revenue realization will be posted.
- c. Click **OK**.
- d. When AccountMate displays a dialog box that contains information about the number of realized revenue records and the total realized revenue amount, click **OK** to close the message.

The journal entry that will be created is as follows:

DR: Contract Obligations		XX
DR: Sales Discounts	XX	
CR: Contract Discounts		XX
CR: Sales		XX

7. Create sales return without invoice #

In the event that a service contract is terminated and the remaining unamortized revenue is to be cancelled, you can post a negative revenue amortization using the **Create Sales Return without Invoice #** function. To do this, perform the following:

- Access the **Create Sales Return without Invoice #** function.
- Enter the values in the required fields (e.g. **Customer #, Order Date, Invoice Date**, etc.) similar to recording a regular AR Invoice.
- Click the **Line Items** tab; then, add the inventory line item which remaining unrealized revenue has been cancelled.
- Amend the **Bin, Ship Qty, or Unit Price** if necessary. Be sure that the total invoice amount is equal to the total remaining unrealized revenue amount.
- Click **Save**.

The journal entry that will be created is as follows:

DR: Contract Obligations		XX
DR: Sales Tax Payable		XX
CR: Accounts Receivable		
CR: Contract Discounts	XX	
CR: Freight Revenue		XX
CR: Invoice Adjustments		XX

8. Void realized revenue

Mistakes can happen. If you must void a realized revenue record, perform the following:

- Access the **Void Realized Revenue Maintenance** function.
- Enter the customer number.
- In the **Invoice # Full Search** or **Invoice # Leading Search** window, select the assigned invoice number for the realized revenue transaction that you need to void; then, click **OK**.
- Select in the grid the realized revenue record that you need to void.
- Mark the **Void** checkbox beside the amount field. You must mark the record with the most recent **Post Date** before you can mark the records with earlier post dates.
- Click the **Void** icon in the **Maintenance** toolbar; then, click the **Yes** button in the dialog box.
- Click **OK**.

The journal entry that will be created is as follows:

DR: Contract Discounts		XX
DR: Sales		XX
CR: Contract Obligations		XX
CR: Sales Discounts		XX

## Relevant Reports

The following reports may help you verify the revenue realization transactions:

- **Revenue Realization Schedule Report**  
This report shows the time frame and manner in which the revenue from invoice line items that are set for revenue amortization will be realized.
- **Realized Revenue Report**  
You can generate this report to view the realized revenue from invoice line items set for revenue amortization.
- **Revenue Realization Transaction Listing**  
This report can help you verify the revenue realized from invoice line items and voided realized revenue transactions.
- **Voided Realized Revenue Report**  
This report will display the voided realized revenue transactions.

Understanding how the Revenue Amortization feature works can greatly help you in properly handling the revenue realization transactions.

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