

## Appendix B: Unearned (Deferred) Revenue

Income should be “deferred” where it has been received by the Department in advance of the goods or services being supplied (e.g. in the case of trading, course fees).

Course fees invoiced on 1 July of £11,000 for a course starting on 5 August.

### How to adjust for it

1. Raise a new journal batch and create a journal choosing the category **Auto Reversal**<sup>1</sup>. Choose the period **JUL-15**. Enter a suitable description e.g. "Defer AR Invoice 123456 for course fees starting on 5-Aug-15"

2. Code as follows:

	<b>Debit</b>	<b>Credit</b>
Department code	As normal	As per debit line
Cost Centre	As normal	As per debit line
Source of Funds	As normal	0000
Transaction code	As normal (e.g. LAAD)	<b>VZAA (unearned revenue)</b>

3. Save your journal.

### Posting the journal.

From the Navigator screen choose **Journals > Post**. Enter the batch name to recall the journal and tick the box to select it for posting. Behind the scenes, a second (reversing) journal will be created in the next period and will be automatically posted by the Finance Division.

If the journal category ‘Adjustment’ is used then you must remember to manually reverse it in the AUG-15 period using the ‘More Actions’ button and to post both journals.

### In your accounts...

The deferred income journal will debit (i.e. reduce) income in July. The credit entry will go to the VZAA balance sheet code, creating a liability for the income received for which no goods/services have yet been provided.

#### Example:

##### Current financial year:

01-Jul-2015	Sales Invoice raised	£11,000
29-Jul-2015	Create journal to reduce income	<u>(£11,000)</u>
	Effect on income in current year	£ 0

(Proceeds of Sales Invoice are deferred and a liability created on Balance Sheet)

##### New Financial Year:

01-Aug-2015	Journal reverses automatically	<b>£11,000</b>
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(Liability is cancelled out and income is credited to trading account. Any expenditure incurred will then be appropriately matched to income.)

<sup>1</sup>The auto-reverse function should only be used when it is appropriate for the journal to be reversed in the next period, as in the case of this example where the course begins in August. When it is not appropriate to reverse the journal in the next period, for instance if the course was not starting until November, the journal should be entered in the normal way and manually reversed in the appropriate period.