

Chapter 4.07: Deferred Rents System

Introduction

Most companies prefer to bill rentals on an “up front” basis. This means they will charge the customer for 1, 3, 6 or 12 months in advance. While this is great for cash flow, it can have an uneven effect on revenue if the entire sale is recognized in the month it is billed. By using the deferred rents option, you can track how much revenue should be recognized in each period for the future. In addition, as you post your general ledger entries each period, the correct amount will be transferred based on new sales (accruals) and the revenue that is being recognized.

The *Deferred Rent* process works on all rent equipment billing codes up to a maximum of three (per equipment piece). If you bill for sanitation or some other item associated with the equipment, this function will apply to that charge as well.

Setup

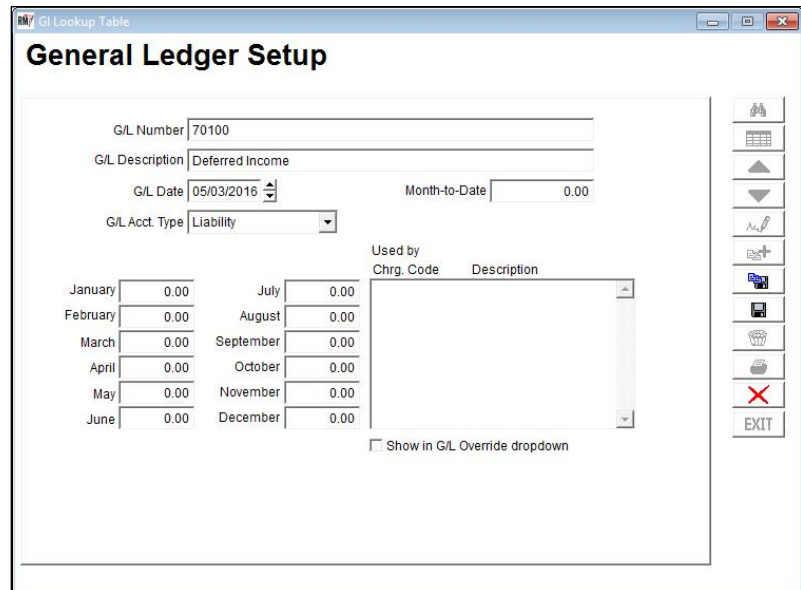
Billing equipment on a deferred basis is easy to setup in Route Manager. There are three necessary steps to be done:

1. Create a *General Ledger* number for 'Unearned Rental Income.'
2. Indicate in *Branch Setup* that rent will be deferred.
3. Setup the correct account on the *Accounting* tab of *Branch Setup* for the liability account to be used for deferrals.

All of these items are discussed in this section.

General Ledger Setup

To get started, you will need to go to *Lists > Accounting Setup > General Ledger Setup*. Here, you will need to create a new GL account for Deferred Income (liability).



General Ledger Setup

GL Number: 70100
 GL Description: Deferred Income
 GL Date: 05/03/2016
 Month-to-Date: 0.00
 GL Acct. Type: Liability

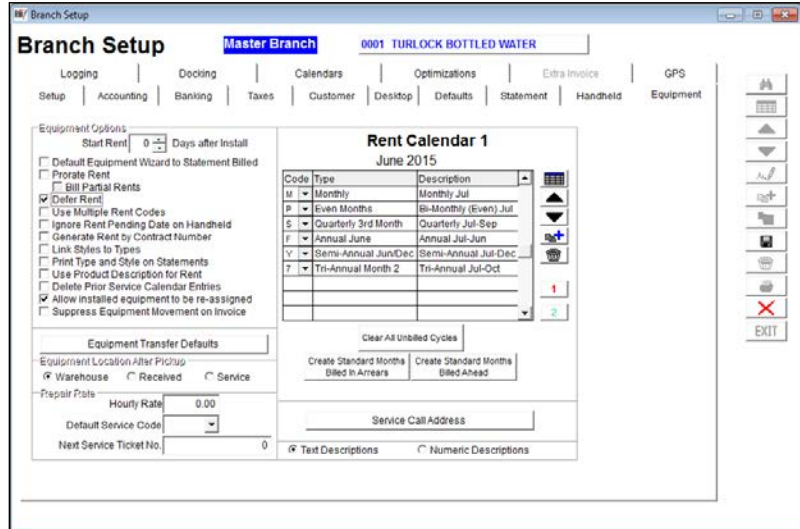
Month	Amount
January	0.00
February	0.00
March	0.00
April	0.00
May	0.00
June	0.00
July	0.00
August	0.00
September	0.00
October	0.00
November	0.00
December	0.00

Used by
 Chrg. Code Description

Show in GL Override dropdown

Equipment Tab Setup

Next, go to *File > Branch Setup > Equipment* tab. Here, you will need to check the 'Defer Rent' box to activate the rent deferral.



Branch Setup Master Branch 0001 TURLOCK BOTTLED WATER

Logging | Docking | Calendars | Optimizations | Extra Invoice | GPS
 Setup | Accounting | Banking | Taxes | Customer | Desktop | Defaults | Statement | Handheld | Equipment

Equipment Options
 Start Rent: 0 Days after Install
 Default Equipment Wizard to Statement Billed
 Prorate Rent
 Bill Partial Rents
 Defer Rent
 Use Multiple Rent Codes
 Ignore Rent Pending Date on Handheld
 Generate Rent by Contract Number
 Link Schedules to Types
 Print Type and Style on Statements
 Use Product Description for Rent
 Delete Prior Service Calendar Entries
 Allow installed equipment to be re-assigned
 Suppress Equipment Movement on Invoice

Equipment Transfer Defaults
 Equipment Location After Pickup
 Warehouse Received Service

Repair Rate
 Hourly Rate: 0.00
 Default Service Code: [Dropdown]
 Next Service Ticket No.: 0

Rent Calendar 1
 June 2015

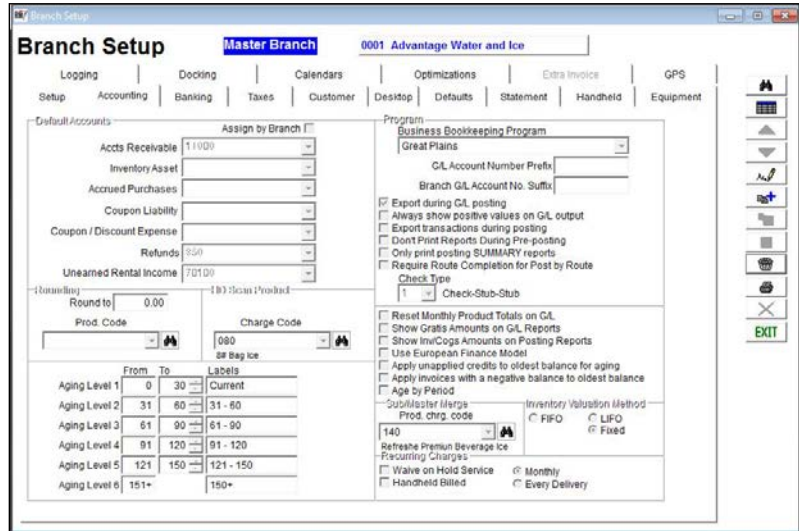
Code	Type	Description
M	Monthly	Monthly Jul
P	Even Months	Bi-Monthly (Even) Jul
S	Quarterly 3rd Month	Quarterly Jul-Sep
F	Annual June	Annual Jul-Jun
V	Semi-Annual Jun/Dec	Semi-Annual Jul-Dec
7	Tri-Annual Month 2	Tri-Annual Jul-Oct

Clear All Unbilled Cycles
 Create Standard Months Billed in Arrears | Create Standard Months Billed Ahead
 Service Call Address: [Text Field]
 Text Descriptions Numeric Descriptions

WARNING! Changing to deferred rents has serious accounting ramifications and is difficult to undo.

Accounting Tab Setup

Lastly, go to *Lists > Branch Setup > Accounting* tab. On this screen, you will need to enter the GL account number for the *Deferred Rentals*.



From	To	Labels
Aging Level 1	0 30	Current
Aging Level 2	31 60	31 - 60
Aging Level 3	61 90	61 - 90
Aging Level 4	91 120	91 - 120
Aging Level 5	121 150	121 - 150
Aging Level 6	151+	150+

Once you have setup the *Deferred Rental* option, it will take a little time for the system to become populated with data. Until then, your accruals will not be accurate — as there is no method to transfer existing accruals into the system.

It will take as long as your longest rent billing cycle for the system to be accurate. So, if the longest frequency is quarterly, then it will take three months for the data to be reliable. If you bill annually for some items, it will take a full year.

Monthly Process

The workflow for this feature is basically transparent to the users of the program. The user does need to be aware that once 'Deferred Rents' is chosen as an accounting practice, it cannot be changed for individual customers at any time. All accounts must be deferred and follow the same rules.

Any product code that is setup as product class '4' and is assigned in the rental section of the *Equipment Master List* will be recognized in Route Manager as a deferral when rents are generated; this is done automatically.

You will process rents the same way you do presently. During the posting process, the *Deferred Rent* account will be credited with the amount of the rent generated. After rent-posting is complete, you can generate the 'Deferred Rentals' report under *Accounting Reports*.

As you post the *General Ledger*, the amounts recognized for the current period will be displayed. If you do not process the GL Posting, then you can simply create a manual entry in your accounting system. This will display a debit on the *Deferred Rent* account and a credit to each of the revenue accounts associated with the products.

If you only have one or two accounts, it is quick and easy. If you have a couple of dozen, it will take a little longer.

How the accounting works

There are two key processes involved in the accounting:

1. Accruing a liability based on billed rents.
2. Recognizing revenue based on the deferred portion on the accruals.

Accruing a liability

As you bill rents, all *Product Class '4'* revenue items are redirected from the account number associated with the product code to the *Deferred Rental* GL account. This is for the credit portion of the transaction. The debit will remain *Accounts Receivable*.

Recognizing Revenue

As you post the GL, the following steps take place automatically:

DR – Unearned Rental Income Account

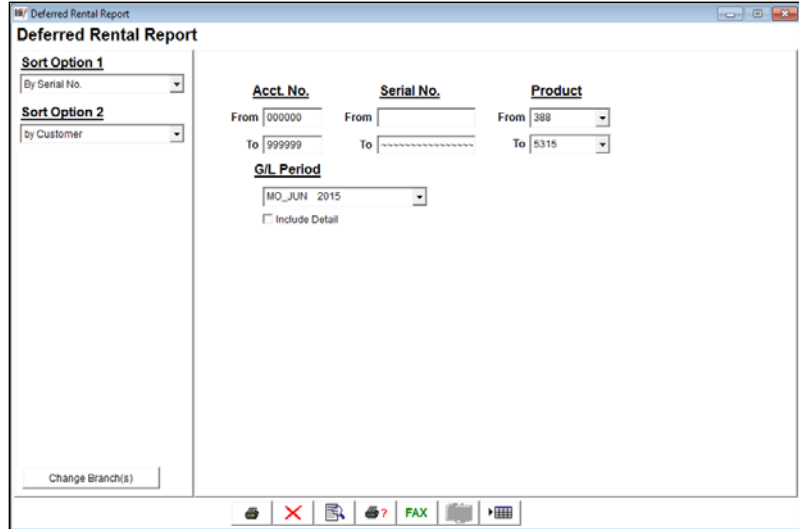
CR – Revenue account associated with each product code

The amount posted will be for the amount of accumulated funds shown in the *Deferred Rents* report (discussed in the next section).

This transfer process will only happen once a month. All income will be realized on the last day of the accounting period.

Reports

To see the expected rental income for a specified time period simply go to: *Reports > Accounting Reports > General Ledger > Deferred Rentals* report.



Example of the *Deferred Rental Report* (summary):

Deferred Rental Report											
Criteria: Account No.: All Serial No.: All											
Product ID	MO_DEC 2003	MO_OCT 2004	MO_NOV 2004	MO_DEC 2004	MO_JAN 2005	MO_FEB 2005	MO_MAR 2005	MO_APR 2005	MO_MAY 2005	MO_JUN 2005	MO_JUL 2005
40001		3951.00		4094.32	3744.17	3743.78	3406.03	2742.29	2098.22	1510.01	741.23
40002		797.96		907.83	687.93	689.11	539.58	445.17	419.92	388.11	154.71
40020		1341.10		1383.72	1098.81	1098.89	874.73	790.20	680.24		346.12
40021			237.84	237.84	237.84	237.78	167.71	145.23	119.21	91.97	23.97
40040		1.67		1.67	1.67	1.67	1.67	1.63			
40100		7689.17		7966.38	6822.20	6429.86	5678.85	4636.08	3556.36	2680.50	831.84
40101		1422.25		1889.22	925.38	912.55	837.63	650.81	573.73	495.95	113.77
40115		199.10		1408.47	29.10	11.20					
40116			25.00	62.70	29.07	11.20					
40120			38.92	38.92	38.92	38.92	38.92	38.92	38.92	38.92	7.38
40140		2622.38		2780.40	1705.78	1705.92	1486.09	1286.72	930.14	691.74	314.96
40141		193.77		219.11	155.56	155.54	117.77			6.32	
40142			854.00	854.00	854.00	854.00	854.00	854.00	854.00	854.00	854.00
40143		230.80		230.80	200.05	169.93	169.93	169.77	25.09		

Example of the Deferred Rental Report (detail) — the serial number, account number, and Product ID are shown for each piece of equipment:

Deferred Rental Report										
Criteria: Account No.: All Serial No.: All										
Account No.	Serial No.	Last Gen.	MO_OCT 2004	MO_DEC 2004	MO_FEB 2005	MO_APR 2005	MO_JUN 2005	MO_JUL 2005	MO_AUG 2005	MO_SEP 2005
ProductID	Date	MO_NOV 2004	MO_JAN 2005	MO_MAR 2005	MO_MAY 2005	MO_JUL 2005	MO_AUG 2005	MO_SEP 2005	MO_OCT 2005	MO_NOV 2005
000018	139022251	04/30/04	6.58	6.58	6.58	6.58	6.62			
40001										
000018	139022251	04/30/04	6.25	6.25	6.25	6.25	6.25			
44000										
000019	139022250	04/30/04	6.58	6.58	6.58	6.58	6.62			
40001										
000019	139022250	04/30/04	6.25	6.25	6.25	6.25	6.25			
44000										
000075	139022250	04/30/04	6.25	6.25	6.25	6.25	6.25			
44000										
000119	143001622	04/30/04	6.25	6.25	6.25	6.25	6.25			
44000										
100014	0018889058	06/30/04	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
80001										
100026	147004878	08/31/04	20.83	20.83	20.83	20.83	20.83	20.83	20.83	20.87
40001										
100026	147004878	08/31/04	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
44000										
100095	0019891493	02/29/04	12.78	12.78	25.59					
50142										
100177	114002388	07/31/04	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
80001										
100177	114002388	07/31/04	20.83	20.83	20.83	20.83	20.83	20.83	20.83	20.87
40000										
100196	964888701	07/31/04	6.53	6.53	6.53	6.53	6.53	6.53	6.53	6.56
40150										
100196	964888701	07/31/04	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
80001										
100205	101007980	01/31/04	7.92	7.92	7.88					
40100										

Data Elements and Storage

There are several files that are affected by the deferred rent process. Data is extracted from the following data files in the tables below to complete the calculations:

Table name (all.dbf)	Data Stored
RMRDGLSTBRANCH	Branch setup data
RMRDGLSTBRANCH2	Branch setup data (extended)
RMRDWLSTEQUIP	Equipment Master file
RMRDGLSTPROD	Product File
RMRDGDEFERREDTRANSPRM	Permanent Deferred Rents data file

Here is a field-by-field listing of the data elements from each table and for what each field is used.

RMRDGLSTBRANCH

Field Name	Data Relationship	Use / Function
DEFER	None	Flag to turn on the use of deferred rents
URIGL	GL_ID in RMRDGLSTGUNO	GL Number to which all unearned rental income will be posted

RMRDWLSTEQUIP

Field Name	Data Relationship	Use / Function
EQ_ID	Equipment serial number	
EQ_PERCODE, EQ_PERCOD2, EQ_PERCOD3	None	Period Codes for rents 1, 2 and 3. Used to determine over how many periods a rental charge will be deferred.
PROD_ID, PROD_ID2, PROD_ID3	PROD_ID in RMRDGLSTPROD	Product Charge Code for rents 1, 2 and 3.
PER_RATE, PER_RATE2, PER_RATE3	None	Rental rate for rents 1, 2 and 3. The rental rate divided by the number of periods will be the amount deferred for each period.

RMRDGLSTPROD

Field Name	Data Relationship	Use / Function
PROD_ID	None	Product Charge Code
PROD_GLNO	GL_ID in RMRDGLSTGLNO	Revenue GL account number

RMRDGDEFERREDTRANSPRM

Field Name	Data Relationship	Use / Function
INV_KEY	INV_KEY in RMRDGINVPRMH & D and transaction history header and detail tables	Invoice key of rental transaction
EQ_ID	EQ_ID in RMRDWLSTEQUIP	Equipment serial number that was charged rent.
CUST_ID	CUST_ID in transaction header and RMRDGLSTCUST tables	Account number to which above cooler was assigned
PROD_ID	PROD_ID in transaction detail and RMRDGLSTPROD tables	Product charge code to which rent was charged.
DEF_AMT	None	Deferred amount
CAL_EDATE	CAL_EDATE in RMRDGPERIODCAL for CAL_TYPE = 2 (GL PERIOD) records	Period end date of GL period for which it will be realized.
RENT_DATE	CAL_EDATE in RMRDGPERIODCAL for CAL_TYPE = 2 (GL PERIOD) records	Period end date of GL Period in which rent was generated.
PER_CODE	None	Period code used during generate rent / deferred transaction creation
BRANCH_ID	BRANCH_ID in RMRDGLSTBRANCH	Branch ID of associated rental transaction

Summary

This accounting method for rents allows a company to defer rental revenue over a period of time to keep a proportioned accrual of income throughout the year.

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