

# KEY SERVICE INSIGHTS



ACCOUNTING AND BOOKKEEPING NEWSLETTER

## TYPICAL TYPES OF ACCRUALS ON THE BALANCE SHEET

The revenues that a company has not yet received payment for and expenses that companies have not yet paid are called accruals. There are four types of accruals that are typically recorded on the balance when the company follows the accrual method of accounting.

### Deferred Revenue

When a company receives cash before a good has been delivered or the service has been provided, it creates an account called deferred revenues, also referred to as unearned revenue. This account is a liability because the company has an obligation to deliver the good or provide the service in the future.

#### Example:

To shop at a grocery store there is an annual membership fee of \$600 (\$50 per month) that is required to be paid in full at the beginning of the year. Using the accrual method of accounting, the grocery store would set up a deferred revenue account for the \$600 to show that the grocery store had received the cash but not yet provided the service.

As each month of the year passes, the grocery store can reduce the deferred revenue account by \$50 to show the grocery store provided one month of service. The grocery can then simultaneously record revenue of \$50 each month to show that the revenue has officially been earned through providing the service.

### Accrued Revenue

Accrued revenue occurs when a company has delivered a good or provided a service but has not received payment. These accounts are often seen with long-term contracts, milestones, and loans.

#### Example:

A landlord rents office space to a tenant at a cost of \$1,000 per month, where each month's rent is due

the first day of the following month. The landlord does not receive payment until the services or use of the premises for the month has been provided. Under the accrual method of accounting, the landlord would set up an accrued revenue receivable account (an asset) for the \$1,000 to show that they have provided the service but have not been paid.



### Prepaid Expenses

When a company pays cash for a good before it is received, or for a service before it has been provided, the company creates an account called prepaid expense. This account is an asset because it shows that the company is entitled to receive a good or service in the future.

#### Example:

A legal office buys a year-long magazine subscription for \$288 (\$24 per month) so clients can read the magazine while in the waiting room. At the time of the payment, the legal office sets up a prepaid expense account for \$288 to reflect it has paid for the subscription but has not received the magazines for the year.

As each month of the year passes, the legal office can reduce the prepaid expense account by \$24 to show it has received one month of its prepaid expense (asset). The legal office can simultaneously record an expense of \$24 each month to show that the expense has officially incurred through the magazine.

## TYPICAL TYPES OF ACCRUALS ON THE BALANCE SHEET

### Accrued Expenses

Accrued expenses, also known as accrued liabilities, occurs when a company incurs an expense for which the company has not been invoiced for. Essentially, the company received a good or service that it will pay for in the future. In the meantime, the expense is an accrued liability.

#### Example:

A company relies on a utility, like the internet connection, to conduct its business throughout the month of October. However, the company pays for the internet quarterly and will not receive its invoice until the end of December, the company is still incurring the expense for the entire month of October. The expected cost of the internet for the month of October will need to be recorded as an accrued expense at the end of October.

### Our Approach

As part of our services to our clients, we want to provide simplified information as to:

- Information on their company financial statements so they can better understand:

- Why transactions are being recorded as they are
- The implications of the various items on the financial statement
- The goal of empowering our clients to be more informed

We focus on representing small and mid-size businesses by:

- Advising on the appropriate accounting methods customized to the company's current position
- Reviewing factors such as the company's goals, operations, and needs to determine the appropriate accounting method
- Handling important accounting and bookkeeping functions while coordinating professional services customized to the client's needs

**At Praestans, we ensure that our clients receive tailored and professional accounting solutions suited to their business objectives.**

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### Praestans Global Advisors is neither a law firm nor a CPA firm.

[Praestans Global Advisors](#) provides collaborative, coordinated, integrated, strategic, and customized professional services customized to our clients' needs. Our services include accounting, bookkeeping, and financial services; tax services; crypto tax, accounting, and funds; fund administration; domestic and international business consulting; and mergers and acquisitions due diligence. Through our association with [Integra International](#), we can provide coordinated services to include business valuation and audit and other professional services worldwide.



Strategic Business Planning that is collaborative, integrated, and bespoke.

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