



WHITE PAPER

Recognise Revenue the Right Way: Deferred Revenue & AMC Accounting in ERPNext

Why booking a year's AMC or subscription in one month distorts your books — and how ERPNext spreads it across the service period automatically.

For CFOs & finance controllers · 8 min read

EXECUTIVE SUMMARY

You raise one invoice for a twelve-month AMC and collect the money upfront — but the revenue isn't earned yet. Booking all of it in the month you invoice inflates that month's profit, starves the next eleven, and quietly breaks the matching principle every auditor tests for. This paper explains deferred revenue in plain terms and shows how ERPNext handles it natively: you flag an invoice line as deferred, give it a service start and end date, point it at a deferred revenue (liability) account, and a scheduled month-end process moves an earned slice from that liability into income each month across the service period. It works the same way in reverse for deferred expense — prepaid insurance, annual software subscriptions, advance rent. The result is revenue that lands in the period it's earned, a clean audit trail, and month-end that reconciles instead of firefights. We ground every claim in ERPNext's actual fields and process, and mark where a partner's setup earns its keep.

Why booking AMC and subscription revenue upfront is wrong

Almost every ERPNext customer sells something that's paid for once but delivered over time. An annual maintenance contract (AMC) invoiced in April covers service through the following March. A twelve-month SaaS or support subscription is collected on day one but earned month by month. A retainer, a warranty, an annual licence, advance rent — same shape. The cash arrives upfront; the obligation stretches across a year.

The temptation is to book the whole invoice as income the day you raise it. It feels harmless — the money is in the bank. But it isn't income yet; it's a promise to deliver service you haven't delivered. Recognising it all at once overstates the profit of the invoicing month, understates every month after, and distorts every metric built on those numbers — margins, run-rate, MIS, the lot. For a business with a large AMC or subscription book, one big April invoice can make a quarter look strong that is actually average, and the correction shows up as a slump that has nothing to do with the business.

This is not a technicality. It's the accrual and matching principle, and it's exactly what a statutory auditor is trained to look for. Revenue belongs in the period it is earned, not the period it is billed.

- Annual maintenance contracts (AMC) — one invoice in April, service delivered through March.
- Subscriptions & support plans — twelve months collected upfront, earned month by month.
- Prepaid & advance items — annual licences, retainers, warranties, advance rent and insurance.
- Book it all upfront and you overstate this month's profit, understate the next eleven, and break matching.

What deferred revenue recognition actually is

Deferred revenue (also called unearned revenue) is money you've collected for goods or services you haven't yet delivered. Until you deliver, it isn't income — it's a liability, because you owe the customer the service. As you deliver, month by month, you convert a slice of that liability into earned income.

Mechanically it's two moves. When you invoice, instead of crediting an income account you credit a deferred revenue liability account — the cash or receivable is real, but the earnings are parked. Then,

across the service period, you periodically move an earned portion out of the liability and into income. By the end of the contract the liability has drained to zero and the whole amount has been recognised as revenue, spread across the months it was actually earned.

The same logic runs in reverse for costs you pay upfront — that's deferred expense, covered further down. In both cases the point is identical: line the accounting up with the period the value is delivered, not the period the money moved.

- Deferred (unearned) revenue = cash collected for service not yet delivered — a liability, not income.
- At invoice time the amount sits in a deferred revenue liability account, not the income account.
- Each period, an earned slice moves from the liability into income; by contract end the liability is zero.
- Matching in action: revenue is recognised in the period it's earned, across the service period.

How ERPNext does it: service dates and monthly recognition

ERPNext supports deferred revenue natively — you don't need a bolt-on. It lives on the invoice line. On a Sales Invoice item you tick Enable Deferred Revenue, choose a Deferred Revenue Account (the liability account the amount is parked in), and set a Service Start Date and Service End Date — the window over which the revenue is earned. You can pre-configure this on the Item master (enable the flag, set the deferred account and a default number of months) so every invoice for that AMC or subscription item inherits the treatment automatically. There's also a Service Stop Date for the case where a contract ends early and recognition needs to halt.

With that in place, when the invoice is submitted ERPNext credits the deferred revenue liability account rather than income. From then on it recognises the revenue across the service period. How it slices each period is a company-wide choice in Accounts Settings — Book Deferred Entries Based On is set to either Days or Months. On "Months", ERPNext books a fixed amount for each whole month regardless of how many days that month has, and prorates the part-months at the start and end of the contract. On "Days", it apportions strictly by day count. Either way, each period's entry debits the deferred revenue liability and credits the income account for the earned slice — so income appears month after month, in step with delivery.

- On the Sales Invoice line: Enable Deferred Revenue, a Deferred Revenue Account, and Service Start / End Dates.
- Set it once on the Item master (flag, deferred account, months) so every invoice inherits it automatically.
- Accounts Settings "Book Deferred Entries Based On" — Months (fixed per month, prorated ends) or Days (strict daily).
- Service Stop Date halts recognition when a contract ends early.
- Each period: debit the deferred liability, credit income for the earned slice — revenue lands as it's delivered.

Deferred revenue in ERPNext, end to end

1

Configure the item

on the Item master, enable Deferred Revenue, set the Deferred Revenue (liability) account and default months, so every AMC/subscription invoice inherits it.

2

Raise the invoice

on the Sales Invoice line, the deferred flag, deferred account and Service Start / End Dates carry over; on submit ERPNext credits the deferred liability, not income.

3

Set the basis once

in Accounts Settings, choose Days or Months, and direct GL entries or reviewable Journal Entries.

4

Recognise monthly

the month-end Process Deferred Accounting job posts each period's earned slice: debit the deferred liability, credit income.

5

Reconcile

by contract end the deferred liability drains to zero; the Deferred Revenue and Expense report shows the movement for audit.

The screenshot shows the ERPNext interface for configuring an item. The breadcrumb trail is 'Stock > Item > Consulting Services'. The search bar contains 'Search or type a command (Ctrl + G)'. The 'Consulting Services' item is shown as 'Enabled'. In the 'Deferred Revenue' section, the 'Deferred Revenue Account' is set to 'Deferred Revenue - UP' and 'No of Months' is set to '0'. The 'Enable Deferred Revenue' checkbox is checked and highlighted with a red box.

Enabling deferred revenue on an item — tick *Enable Deferred Revenue*, set the deferred revenue account, and every invoice for this AMC or subscription item inherits the treatment.

The month-end process that books the revenue

The recognition isn't manual. ERPNext runs a scheduled job at each month-end — Process Deferred Accounting — that sweeps every submitted invoice with deferred revenue enabled, works out which service period falls due, and posts the earned slice for that month. It's driven by a company-level switch, Automatically Process Deferred Accounting Entry, which is on by default; you can also run a Process Deferred Accounting document manually for a specific company, period and type (Income or Expense) if you need to.

How the entries are written is configurable. By default ERPNext posts direct ledger entries; alternatively you can have it Book Deferred Entries Via Journal Entry, which creates a Journal Entry for each recognition (and can either post it automatically or leave it in Draft for a controller to review and submit). ERPNext also tracks what it has already recognised for each invoice line, so re-running the process doesn't double-book — it only posts what's still owed. It even handles a frozen-books situation

gracefully, deferring an entry's posting date past the freeze rather than failing. The practical effect: revenue recognition becomes a reliable monthly rhythm the system runs for you, not a spreadsheet someone has to remember to update.

- Process Deferred Accounting runs at month-end and posts each invoice's earned slice for the period.
- "Automatically Process Deferred Accounting Entry" is on by default; you can also run it manually per company / period / type.
- Choose direct GL entries or "Book Deferred Entries Via Journal Entry" (auto-submit or leave as Draft for review).
- ERPNext tracks amounts already booked per line — re-running never double-counts.

Posting D...	Account	Debit (INR)	Credit (INR)	Balance (INR)	Voucher Type	Voucher No	A...	Party Type	Part
1	Opening	0.00	0.00	0.00					
2				0.00					
3	Opening	0.00	0.00	0.00					
4	31/01/2021	Deferred Revenue A/C Domestic - FT	2,847.83	0.00	2,847.83	Sales Invoice	B2B-20-21-00093	Bull...	
5	31/01/2021	Sales - SAAS - India - FT	0.00	2,847.83	0.00	Sales Invoice	B2B-20-21-00093	Bull...	
6	28/02/2021	Deferred Revenue A/C Domestic - FT	2,572.23	0.00	2,572.23	Sales Invoice	B2B-20-21-00093	Bull...	
7	28/02/2021	Sales - SAAS - India - FT	0.00	2,572.23	0.00	Sales Invoice	B2B-20-21-00093	Bull...	
8	31/03/2021	Deferred Revenue A/C Domestic - FT	2,847.83	0.00	2,847.83	Sales Invoice	B2B-20-21-00093	Bull...	
9	31/03/2021	Sales - SAAS - India - FT	0.00	2,847.83	0.00	Sales Invoice	B2B-20-21-00093	Bull...	
10	Total	8,267.89	8,267.89	0.00					

The result in the General Ledger — the deferred revenue account is debited and income credited at each month-end, spreading one invoice across the service period.

Deferred expense works the same way in reverse

The mirror image of deferred revenue is deferred expense — costs you pay upfront but consume over time. You prepay a year of insurance, buy an annual software subscription, pay rent quarterly in advance, or settle a maintenance contract for a whole year. The cash goes out now, but the benefit is used up month by month, so booking the whole cost immediately understates this period's profit and overstates the rest — the same distortion, pointing the other way.

ERPNext handles it with a parallel set of fields on the Purchase Invoice line: Enable Deferred Expense, a Deferred Expense Account (an asset/prepaid account where the cost is parked), and the same Service Start Date and Service End Date. The very same month-end Process Deferred Accounting job — run for type "Expense" — moves an earned slice out of the prepaid asset and into the expense account each period, using the same Days-or-Months basis. So your prepaid insurance hits the P&L evenly across the year it covers, not in a lump the month you paid it. One mechanism, two directions: revenue earned over time, and cost consumed over time.

- Deferred expense = cost paid upfront but consumed over time — prepaid insurance, annual subscriptions, advance rent.
- On the Purchase Invoice line: Enable Deferred Expense, a Deferred Expense (prepaid asset) Account, Service Start / End Dates.
- The same month-end process, run for "Expense", moves each period's slice from the prepaid asset into expense.
- Prepaid costs hit the P&L evenly across the period they cover, not in a lump when paid.

Audit, compliance and why this matters at year-end

Getting revenue recognition right isn't housekeeping — it's what makes your financials defensible. Indian accounting standards (Ind AS 115 / AS 9 for revenue) are built on recognising revenue as performance obligations are satisfied, which for an AMC or subscription means over the service period, not at billing. A deferred revenue balance on the balance sheet is precisely what an auditor expects to see for a company carrying forward unearned service income, and it's one of the first things tested at year-end.

Because ERPNext posts recognition through dated ledger entries (or Journal Entries) tied back to the originating invoice line, you get a complete, self-documenting trail: this invoice, this service period, this much recognised each month, this much still deferred. The Deferred Revenue and Expense report lets you see and reconcile the movement over any period. That turns a fraught year-end conversation into a simple one — the numbers explain themselves. It also protects the integrity of everything downstream: monthly MIS that doesn't lurch, margins that reflect delivery, and GST treatment applied at the point of supply on the invoice rather than being tangled up with how income is spread. Get the recognition mechanism right and the whole reporting stack sits on honest foundations.

- Ind AS 115 / AS 9 recognise revenue as obligations are met — for AMC and subscriptions, over the service period.
- A deferred revenue liability on the balance sheet is exactly what auditors expect — and test — at year-end.
- Every recognition ties back to its invoice line and service period — a self-documenting audit trail.
- The Deferred Revenue and Expense report reconciles the movement over any period.
- Clean recognition protects MIS, margins and period-accurate reporting downstream.

Getting it set up right — and where a partner helps

The capability is built in, but a clean deferred-revenue setup rests on a few decisions being made deliberately rather than discovered later. Your chart of accounts needs the right deferred revenue (liability) and deferred expense (prepaid asset) accounts in place, and your AMC, subscription and prepaid items configured on the Item master so the treatment flows automatically instead of being remembered line by line. The company-wide choices — Days versus Months, direct GL entries versus reviewable Journal Entries, auto-submit versus draft — should be set to match how your controllers actually want to work and close the month. And service start and end dates have to be entered honestly on every deferred line, because that window is what the whole calculation runs on.

As an official ERPNext partner working with Indian businesses, we set this up end to end — the accounts, the item defaults, the Accounts Settings, and a month-end recognition rhythm your finance

team can trust — and we map it to your AMC, subscription or prepaid model and to Ind AS / AS 9 expectations. If deferred revenue is a real part of your P&L, getting the mechanism configured correctly once is far cheaper than restating a year of misrecognised income. Talk to a real ERPNext expert — call, WhatsApp or email — for a no-obligation look at your setup.

KEY TAKEAWAYS

- 1 Booking a year's AMC or subscription as income upfront overstates one month and understates the next eleven — it breaks the matching principle auditors test for.
- 2 Deferred (unearned) revenue is a liability: cash collected for service not yet delivered, recognised as income across the period it's actually earned.
- 3 ERPNext does this natively — enable deferred revenue on the invoice line, set service start/end dates and a deferred revenue account; configure it once on the Item master to make it automatic.
- 4 A scheduled month-end Process Deferred Accounting job posts each period's earned slice (Days or Months basis) and tracks what's already booked, so it never double-counts — and the same mechanism handles deferred expense for prepaid costs.
- 5 The payoff is period-accurate revenue, a self-documenting audit trail aligned to Ind AS 115 / AS 9, and a month-end that reconciles instead of firefights.

FAQ

Does ERPNext support deferred revenue for AMC and subscriptions out of the box?

Yes. It's a core feature, not an add-on. On a Sales Invoice line you enable deferred revenue, choose a deferred revenue (liability) account, and set a service start and end date. You can pre-configure this on the Item master so every invoice for that AMC or subscription item inherits it. A scheduled month-end process then recognises the revenue across the service period automatically.

How does ERPNext decide how much revenue to recognise each month?

It's a company-wide setting in Accounts Settings — 'Book Deferred Entries Based On' — set to either Months or Days. On 'Months', ERPNext books a fixed amount for each whole month regardless of the number of days, and prorates the part-months at the start and end of the contract. On 'Days', it apportions strictly by day count over the service period. Each period's entry moves the earned slice from the deferred liability into income.

Is deferred revenue recognition aligned with Indian accounting standards?

The principle behind it — recognising revenue as performance obligations are satisfied, i.e. over the service period rather than at billing — is exactly what Ind AS 115 (and AS 9) require for AMC, subscription and similar contracts. ERPNext posts each recognition as a dated ledger or journal entry tied to the originating invoice line, so the deferred revenue balance and its movement are fully auditable at year-end. We configure the setup to match your standard and how your auditors expect it presented.

What about costs we pay for upfront, like annual insurance or software subscriptions?

That's deferred expense, and ERPNext handles it the same way in reverse. On the Purchase Invoice line you enable deferred expense, set a deferred expense (prepaid asset) account and the service start and end dates. The same month-end process, run for expenses, moves each period's slice from the

prepaid asset into the expense account — so prepaid insurance, annual subscriptions or advance rent hit your P&L evenly across the period they cover instead of in a lump when paid.

Talk to a real ERPNext expert.

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