**Unearned Revenues**

Many times companies receive money in advance of earning the revenue associated with the money. If the performance obligation has not yet been met by the company, it cannot recognize the revenue. Consider the New Orleans Saints. They are paid in March for games that will not be played until August.

Let’s use an example of a company that is paid in advance for a 60-day contract in the amount of $3,000. The journal entry would be either:

Cash 3,000 Accounts Receivable 3,000

Unearned Revenue 3,000 Unearned Revenue 3,000

Cash 3,000

Accounts Receivable 3,000

Unearned revenue is credited because the company has received either the cash or a promise to pay. They are in possession of the money but have not performed the obligation required to recognize the money as revenue. Instead, they have a liability they must pay back if they do not earn the money. Once a portion of the contract has been fulfilled (or in the case of the Saints, have played a game), the company can recognize the portion it has earned.

In our example, the company has worked on the contacted job for five days when the financial stmts are to be prepared. Thus, the company has earned a portion of the money and can recognize it as revenue and no longer has to show this portion as an obligation.

To calculate:



The AJE would be:

Unearned Revenue 250

Revenue 250



Now, the company will show an obligation of $2,750 related to the contract since it has earned $250.