Trade Credit:

For many businesses, trade credit is an essential tool for financing growth. Trade credit is the credit extended to you by suppliers who let you buy now and pay later. Any time you take delivery of materials, equipment or other valuables without paying cash on the spot, you're using trade credit.

When you're first starting your business, however, suppliers most likely aren't going to offer you trade credit. They're going to want to make every order c.o.d. (cash or check on delivery) or paid by credit card in advance until you've established that you can pay your bills on time. While this is a fairly normal practice, you can still try and negotiate trade credit with suppliers. One of the things that will help you in these negotiations is a properly prepared financial plan.

When you visit your supplier to set up your order during your startup period, ask to speak directly to the owner of the business if it's a small company. If it's a larger business, ask to speak to the CFO or any other person who approves credit. Introduce yourself. Show the officer the financial plan you've prepared. Tell the owner or financial officer about your business, and explain that you need to get your first orders on credit in order to launch your venture.

Accrued Expense Definition:

An accrued expense is an accounting term that refers to an expense that is recognized on the books before it has been paid; the expense is recorded in the accounting period in which it is incurred.. Because accrued expenses represent a company's obligation to make future cash payments, they are shown on a company's balance sheet as current liabilities; accrued expenses are also known as accrued liabilities. An accrued expense is only an estimate, and will likely differ from the supplier's invoice that will arrive at a later date.

Following the accrual method of accounting, expenses are recognized when they are incurred, not necessarily when they are paid. Unless an expense is substantial, it is generally not accrued because accrual accounting requires the work of multiple journal entries.

KEY TAKEAWAYS:

- Accrued expenses are recognized on the books when they are incurred, not when they are paid.
- Accrual accounting requires more journal entries that simple cash balance accounting.
- Accrual accounting provides a more accurate financial picture than cash basis accounting.

Deferred income:

Deferred income (also known as **deferred revenue**, **unearned revenue**, or **unearned income**) is, in accrual accounting, money earned for goods or services which have not yet been delivered. According to the revenue recognition principle, it is recorded as a liability until delivery is made, at which time it is converted into revenue.[1]

For example, a company receives an annual software license fee paid out by a customer upfront on January 1. However, the company's fiscal year ends on May 31. So, the company using accrual accounting adds only five months' worth (5/12) of the fee to its revenues in profit and loss for

the fiscal year the fee was received. The rest is added to *deferred income* (liability) on the balance sheet for that year.

A typical example is an annual maintenance contract where the entire contract is invoiced up front. “I received $12,000 for an annual maintenance contract, but need to recognize it as deferred income, and then recognize $1,000 each month as the service is rendered.”

Deferred income shares characteristics with accrued expense, with the difference that a liability to be covered later are goods or services received from a counterpart, while cash is to be paid out in a latter period, when such expense is incurred, the related expense item is recognized, and the same amount is deducted from *accrued expenses*. To put this more clearly, deferred income – the money that a company receives in advance – indicates the goods and services the company owes to its customers, while accrued expense indicates the money a company owes to others
When a company uses the accrual accounting method, revenue is only recognized as earned when money is received from a buyer, and the goods or services are delivered to the buyer. When a company accrues deferred revenue, it is because a buyer or customer paid in advance for a good or service that is to be delivered at some future date.