

Prepayments

A Prepayment (Prepay) is the sum paid for goods or services before they are received. This allows the University to pay in advance for future expenses such as subscriptions, memberships, equipment, computer services, software, consultant, or entertainment fees. Depending on the Prepay, it can be received within the current fiscal year, or span over multiple fiscal years.

It is important that the University's financial statements show goods or services expensed when they are actually received. Therefore, a Prepay is initially recorded as an asset, and then converted into an expense once the department receives the goods or services.

- We Prepay equipment in rare circumstances, regardless of which fiscal year it is eventually received. For equipment not yet received, a **Pre-Payment Authorization** form and an invoice from the vendor requesting a payment or deposit will need to be submitted to Accounts Payable for processing. For example, a reputable vendor will not deliver a critical piece of equipment until we pay for the full amount of \$10,000 so:
 - AP will write a check for the whole invoice amount of \$10,000 in August 2019.
 - This will be recorded in Banner as a Debit to the asset account of Prepaid Expenses 17100 under the **Index** and **Fund** listed on the Purchase Order (PO).
 - Debit shows in Vendor Detail History as the invoice number with a PP in front for \$10,000.
 - The Fund's **Claim on Cash** will be reduced at this time by the full \$10,000.
 - Department receives the equipment and submits a Receiving Report in October 2019.
 - All \$10,000 of the Prepay will be reversed and expensed. AP will do this by recording the \$10,000 in Banner as a Credit to the asset account of Prepaid Expenses 17100 and Debit the expense to the **PO**. In conclusion, the Prepaid Expenses will be brought to zero, the equipment will be fully expensed, and the PO will be closed.
 - Credit shows in Vendor Detail History as the invoice number with a RPP in front for -\$10,000.
 - Debit shows in Vendor Detail History as the original invoice number for \$10,000.
- The most common Prepay at ISU is services. For example, a vendor issues a \$24,000 software subscription for 2 years in March 2019:
 - AP will write a check for the whole invoice amount of \$24,000 in March 2019.
 - Service Period of March 2019 through June 2019: \$4,000 will be recorded in Banner by Debiting the expense to the PO.
 - Debit shows in Vendor Detail History as the original invoice number for \$4,000.
 - Service Period of July 2019 through February 2021: \$20,000 will be recorded in Banner as a Debit to the asset account of Prepaid Expenses 17100 under the **Index** and **Fund** listed on the PO.

- Debit shows in Vendor Detail History as the invoice number with a PP in front for \$20,000.
 - The Fund's **Claim on Cash** will be reduced at this time by the full \$24,000.
 - Time passes and July 2019 comes around.
 - Service Period of July 2019 through June 2020: \$12,000 of the Prepay will be reversed and expensed. AP will do this by recording the \$12,000 in Banner as a Credit to the asset account of Prepaid Expenses 17100 and Debit the expense to the **original PO** (after it is rolled to the new fiscal year), thus applying the expenses in the new fiscal year.
 - Credit shows in Vendor Detail History as the invoice number with a RPP in front for -\$12,000.
 - Debit shows in Vendor Detail History as the original invoice number with an A at the end for \$12,000.
 - Time passes and July 2020 comes around.
 - Service Period of July 2020 through February 2021: The remaining \$8,000 of the Prepay will be reversed and expensed. AP will do this by recording the \$8,000 in Banner as a Credit to the asset account of Prepaid Expenses 17100 and Debit the expense to the **original PO** (after it is rolled again to the new fiscal year), thus applying the expenses in the new fiscal year. In conclusion, the Prepaid Expenses will be brought to zero, the subscription will finally be fully expensed, and the PO will be closed.
 - Credit shows in Vendor Detail History as the invoice number with a RPP in front and an A at the end for -\$8,000.
 - Debit shows in Vendor Detail History as the original invoice number with a B at the end for \$8,000.
- Use the following Banner forms to see if an invoice has been Prepaid:
 - FAIVNDH- Vendor Detail History
 - This form will list all payments made under a vendor. Use the invoice coding mentioned above to find Prepays (PP) and eventual Prepay Reversals (RPP) with the corresponding expensing of the invoice.
 - FGITBAL- General Ledger Trial Balance
 - This form will show a Fund's current balance for Prepaid Expenses 17100. You can drill down in this row and see what invoices have hit this asset account code.
- If a PO has been Prepaid, please **do not close** these POs.
 - These POs are still used by the AP office to apply expenses once a Prepay is ready for reversal.
 - Since these POs will still encumber funds, this also serves as a reminder to departments that these expenses will need to be covered in future fiscal years.
 - If you wish to use a different Index and Fund for future Prepay reversals, please contact Purchasing to do a change order.