Prepays are expenditures for goods and services, such as subscriptions, licenses, memberships, etc., determined to have a portion prepaid for a future fiscal year. When it is determined an expenditure has been paid and recorded in advance of its use or consumption it represents expenses of a future period and classified as a Prepaid.

Below is step by step detail of the process for recording the transaction and the related prepaid expense. In the example below, fiscal year 2013/2014 is the current year.

1. First, the full amount of the renewal is encumbered through the Requisition/PO process.

   ![](image1)

2. The invoice for the renewal is received and paid, reversing the encumbrance, and posting the actual expense.

   ![](image2)

3. The transaction is analyzed by Financial Accounting & Reporting to identify the prepaid portion. In the example provided the renewal term was 9/1/13 – 8/31/14. The one year contract was paid in full in the current fiscal year. The portion from 7/1/14 – 8/31/14 is part of the next fiscal year so it is considered prepaid.
4. To separate the prepaid portion, two journal entries are recorded in the current fiscal year.

   a. The first creates an encumbrance for the prepaid amount allowing it to be included in the department’s budget rollover for the next year.
   b. The second posts a credit reducing the current year actuals by the prepaid amount. This creates a net zero adjustment to the department’s balance available.

5. In the next fiscal year, 2013-2014, the Budget ROLLOVER is posted to move the prepaid amount forward. The encumbrance is reversed and the actual expense is posted. The two months portion of the software from 7/1/14 – 8/31/14 is now expensed in the same year as the service was provided. These three transactions result in a net zero adjustment to the department’s budget balance available in the new fiscal year.