



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.

Transaction Report								
DXXXXX G1006			FY 2013/2014					
616S02 Software Maintenance Agrmts								
Month	Date	Source	Doc_Num	Vendor Name	Line Descr	Amount Encumbrance	Budget Amount	Actual Amount
4-Oct	10/4/2013	POS	61379	ACADEMICWORKS INC	AcademicWorks, Inc. Online Sch	14,000.00	0.00	0.00
4-Oct	10/4/2013	POS	61379	ACADEMICWORKS INC	AcademicWorks, Inc. Online Sch	6,000.00	0.00	0.00

**Encumbrance:  
Full amount of  
the renewal**

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

Transaction Report								
DXXXXX G1006			FY 2013/2014					
616S02 Software Maintenance Agrmts								
Month	Date	Source	Doc_Num	Vendor Name	Line Descr	Amount Encumbrance	Budget Amount	Actual Amount
4-Oct	10/7/2013	APS	61379	ACADEMICWORKS INC	AcademicWorks, Inc. Online Sch	0.00	0.00	20,000.00
4-Oct	10/7/2013	APS	61379	ACADEMICWORKS INC	AcademicWorks, Inc. Online Sch	-14,000.00	0.00	0.00
4-Oct	10/7/2013	APS	61379	ACADEMICWORKS INC	AcademicWorks, Inc. Online Sch	-6,000.00	0.00	0.00
							0.00	20,000.00

**Reversing Encumbrance**

**Actual Expense**

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.

Transaction Report								
DXXXXX G1006				FY 2013/2014				
616S02 Software Maintenance Agrmts								
Month	Date	Source	Doc_Num	Vendor Name	Line Descr	Amount Encumbrance	Budget Amount	Actual Amount
12-Jun		MJE	541911	N/A	14/15 Enc V187925 ACADEMICW	2,378.08	0.00	0.00
12-Jun	6/30/2014	MV1	541872	N/A	14/15 Prepd V187925 ACADEMICW	0.00	0.00	-2,378.08
							0.00	-2,378.08

a. Encumbrance created to allow prepaid amount to rollover to the next year.

b. Credit to the current year Actuals

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.

Transaction Report								
DXXXXX G1006				FY 2013/2014				
616S02 Software Maintenance Agrmts								
Month	Date	Source	Doc_Num	Vendor Name	Line Descr	Amount Encumbrance	Budget Amount	Actual Amount
1-Jul		MJE	541929	N/A	14/15 Enc V187925 ACADEMICW	-2,378.08	0.00	0.00
1-Jul	7/1/2014	MV1	541872	N/A	14/15 Prepd V187925 ACADEMICW	0.00	0.00	2,378.08
1-Jul	7/30/2014	MJE	ROLLOVER12		14/15 Prepd ACADEMICW	0.00	2,378.08	0.00
							2,378.08	2,378.08

Encumbrance reversal

Budget Rollover

Actual Expense