

Prepaid Expenditure - 2016

Background

Following budget centre manager approval to process an invoice for payment against a Purchase Order, the invoice is processed in Banner as a debit to the budget centre, and the supplier is paid. A "prepayment" is an expense that is paid for in the current month, where the goods or services paid for are not being fully received until a future month.

Historically, an adjustment has occurred at the end of the year to account for prepaid expenditure of a significant value.

Process

In 2014, the Division of Finance introduced a process to change the adjustment for prepaid expenditure from an annual basis to a monthly basis. By smoothing the expense out over multiple months, year-to-date costs are more accurate and comparable to year-to-date budgets. This assists in improving decision making, accuracy of internal reporting, and streamlining end of year Finance processes.

In order to ensure budget centre managers are still able to track their consumption of current year budget, this process also creates a commitment in Banner (similar to a purchase order). The commitment is the value that relates to future periods within the current year and reduces to zero by the end of the current year.

1	Invoice to Banner <i>(debit, current month)</i>
2	Journal prepayment value <i>(full or partial credit, same month as invoice)</i>
3	Journal monthly portion of expense <i>(debit, each month after invoice until original invoice value is reached)</i>
4	Commitment in Banner for remainder of current year <i>(commitment, each month after invoice, reduced to zero by end of year)</i>

The amount debited to the budget centre each month will vary depending on the number of days in that month.

Example

An invoice for \$100,000 (ex-GST) is entered as an expense in Banner in June. The invoice is for a maintenance contract from 1 June 2015 to 31 May 2016.

2015 portion = \$ 58,470 (June to December = 214 days)
 2016 portion = \$ 41,530 (January to May = 152 days)
 \$100,000 (1 year contract = 366 days)

Banner in June 2015:

- The invoice is debited for \$100,000 (when processed through procurement)
- \$91,803 is credited for July 2015 to May 2016 prepaid expense
- \$8,197 remains in Banner as June 2015 expense

Banner in July 2015:

- \$8,470 is charged for the July 2015 expense
- An O/S Commitment is created for \$41,803 (August - December 2015 expense)
- Year to date expense in Banner = \$16,667 (June + July).

Acct	Title	Jul-2015 Annual Adjusted Budget	Jul-2015 YTD Actual	Jul-2015 Commitments	Jul-2015 Budget Balance
445	Service Contracts fo...	100,000	16,667	41,803	41,530

This process occurs each month until May 2016 when the amount of expense charged back to the budget centre for the invoice reaches \$100,000 (\$58,470 will be in 2015, \$41,530 will be in 2016).

Monthly Trend (2015 “Actuals”):

Acct	Title	Jan-2015	Feb-2015	Mar-2015	Apr-2015	May-2015	Jun-2015	Jul-2015	Aug-2015	Sep-2015	Oct-2015	Nov-2015	Dec-2015	Year
445	Service Contracts for Equipment	0	0	0	0	0	8,197	8,470	8,470	8,197	8,470	8,197	8,470	58,470

Cents have been ignored to simplify this example.

Criteria

The following criteria are used as a guide by the Division of Finance for reviewing Banner.

- Invoices greater than \$50,000 excluding GST
- On fund code types:
 - 11 Normal Operating Funds (e.g. A102, A109 funds)
 - 12 Other Operating Funds (e.g. A103, A105, A108 funds)
 - 31 Enterprise Funds (e.g. E116, E164 funds)
- On account codes/groups:
 - 22 Library materials
 - 30 Communications
 - 35 Advertising, marketing, promotion
 - 33 Fees for services rendered (selected accounts)
 - 38 Insurance
 - 40 Stores and provisions (selected accounts)

Where prepaid expenditure is identified outside of these criteria, it may be managed through the prepayments process at the discretion of the Management Accountant (Reporting), with consideration of the impact to the budget centre.

At the end of the year the value threshold is reduced down from \$50,000 on the advice of the Senior Financial Accountant, Corporate Finance. Using the lower threshold, transactions for the year in all University budget centres are reviewed to identify prepaid expenditure. This prepaid expenditure is credited to the budget centre in December (prepaid portion only) and is fully reversed as a debit to the budget centre on 1 January

in the following year. This differs to the monthly management process in that the lower value invoices will not be spread over the months to which the prepaid expenditure relates, only the years.

Contacts

Topic	Name/s	Email
Questions regarding reporting/ transactions	Natasha Harris, Carmen Frost, Peter Sinclair	financems@csu.edu.au
Questions regarding budgets	Letetia Nicholls	budget@csu.edu.au
Questions regarding journals	Kate Hadley	ledgers@csu.edu.au