

## Prepaid/Deposits Policy and Procedure

Policy Number: 3200

### PURPOSE:

To establish a policy and procedure to standardize the accounting and reporting of prepaid services and deposits in the accounting ledgers.

### SCOPE:

This policy and procedure applies to all Liberty University expenses:

- requiring payment to the vendor before goods/services are obtained, or
- payment is for service/agreement that span across fiscal periods.

### POLICY:

Purchases must be recorded in the fiscal year and period the goods/services are received/rendered. To better manage payments for prepaid services and deposits, the University has set the following thresholds:

#### Prepaid:

##### *Purchases for services less than or equal to \$10,000 per year*

Purchases for contracts and services that span multiple fiscal periods and are less than or equal to \$10,000 in cost per year, will be charged to the organizational budget in the fiscal year and period the services are paid.

##### *Purchases for services greater than \$10,000 per year*

Purchases for contracted services that span multiple fiscal periods and exceed \$10,000 in cost per year will be recorded to the prepaid asset account. When services begin, the organizational budget will be charged on a fiscal period basis, starting when the contract terms begin through the expiration date.

#### Deposits:

##### *Purchases for goods requiring a deposit*

Purchases that require a deposit will initially be recorded to the deposit asset account and then charged to the organizational budget in the fiscal year and period the goods/services are obtained.

### RESPONSIBILITY:

Assistant Controller has the primary responsibility for administering this policy and establishing and maintaining University procedures associated with the recording of prepaid expenses and deposits.

## DEFINITIONS:

**Deposit** – a down payment given in advance to support the intention to complete the purchase of goods or property. *(Example: Ordering 25,000 Liberty t-shirts. Delivery will be in 3 months, but vendor wants a 20% deposit at the time the order is placed.)*

**Fiscal period** – the Banner term for a monthly accounting period within a Fiscal Year. Fiscal period is a 2-digit number beginning with 01 for July and ending with 12 for June.

**Prepaid** – a payment for services in advance; an expense which arises whenever cash is disbursed and a portion of the associated benefit of the disbursement is for a future period. *(Example: Purchase of software maintenance contract that covers a 12 month period. Full payment is due the first month, but the benefit of the purchase will continue for another 11 months.)*

**Services** – agreements/obligations for intangible products including but not limited to subscriptions, memberships, licenses, and insurance. *(Note: Banner account codes associated with services begin with 71.)*

## PROCEDURE:

For purchases totaling less than or equal to \$10,000 per year, departments will follow the [Purchasing Policies and Procedures](http://www.liberty.edu/index.cfm?PID=6405), found here: <http://www.liberty.edu/index.cfm?PID=6405>. These costs will be applied to the organizational budget in the fiscal year and period the expenses were incurred (payment is issued).

Purchases greater than \$10,000 per year will follow the prepaid/deposit procedure outlined below:

### *Initiating the purchase*

- A. The requesting department will submit a Requisition for the full purchase amount of the goods/services.
  1. Using the Transaction Date field, the requisition should be placed into the fiscal year and period of the expected delivery or beginning service date.  
*Notes: Review the [Date Fields on Banner Requisitions & POs](#) documentation for proper use of all date fields. If the purchase crosses fiscal years, the [Procedures for Multi-Year Obligations](#) documentation should be reviewed and followed.*
  2. Document text should include payment requirements, dates of service, etc. Do **NOT** create a separate commodity line for deposits. Simply make a notation in document text indicating the required payment terms.
- B. The requisition will flow through normal Banner approvals.

### *Executing the purchase order*

- A. The Procurement Department will issue a purchase order (PO) to the appropriate vendor once an approved requisition has been obtained.
  1. The amount should reflect the full purchase amount or contractual obligation.

2. Review the Transaction Date field to ensure the PO is placed into the fiscal year and period of the expected delivery or beginning service date.

*Note: If the contract extends beyond the current fiscal year, the Procedures for Multi-Year Obligations process will also be followed.*

### ***P-Card Prepaid/Deposits Process***

- A. When the Procurement Department issues a prepayment with the P-Card, the purchase order will be issued with “LU Prepaid” as the vendor.
  1. Procurement will then manually enter the order in Rapid Recon, referencing the PO number in the comments section:
    - a. The PO number will be the first item in the comments section:
      1. Prepaid: “PRE-“and the PO Number (ex. PRE-P0054321)
      - b. Any other comments will be entered after the PO number.
    2. When reconciling payments, Procurement will use the FOAPAL as provided on the requisition, replacing the account code with the appropriate prepaid asset account: 161001
  - B. When the Procurement Department issues payment for a deposit with the P-Card, the PO will be issued with BB&T as the vendor so the PO will feed to Rapid Recon.
    1. Procurement will then manually enter an order for the deposit in Rapid Recon, referencing the PO number in the comments section:
      - a. The PO number will be the first item in the comments section:
        1. Deposit: “DEP-“ and the PO Number (ex. DEP-P0012345)
        2. Any other comments will be entered after the PO number
      - b. When reconciling the deposit, Procurement will use the FOAPAL as provided on the requisitions, replacing the account code with the appropriate deposit asset account: 163001
    2. Procurement will reconcile the final payment against the PO to charge the department.
    3. Accounting will close the PO when moving the deposit from the asset account to the department.

### ***Issuing payment***

- A. Accounts Payable will issue the prepayment or deposit to the vendor through a Direct Pay Invoice, for the amount specified within the agreement.
  1. The invoice will be applied to the appropriate asset account code:
    - a. Prepaid: 161001
    - b. Deposits: 163001
  2. Utilizing the commodity description field, reference the original PO number:
    - a. Prepaid: “PRE-“and the PO Number (ex. PRE-P0054321)
    - b. Deposits: “DEP-“and the PO number (ex. DEP-P0012345)
- B. Since the PO is not linked to the direct pay invoice, Accounts Payable will make a notation in the PO’s document text field, using the following standard format:

Document Text: Prepayment/Deposit Information  
Banner Invoice: I01234567  
Payment Amount: \$x,xxx.xx  
Payment Date: DD-MON-YYYY

### ***Reversing the deposit or prepaid expense***

- A. When a PO is for more than one service contract, each service contract will be evaluated individually. Accounting will charge the expense back to the organizational budget as follows:
  1. Prepaid services less than or equal to \$10,000 per year:
    - a. Through a journal voucher, Accounting will charge the expense back to organizational budget in the fiscal year and period the purchase occurred.
  2. Prepaid services greater than \$10,000 per year:
    - a. When services begin, Accounting will charge a portion of the expense back to the organizational budget each period through a journal voucher. The calculation for this charge is as follows:  
$$\text{Payment Amount} \div \text{Agreement Terms (number of months)} = \text{Monthly Expense}$$
  3. Deposits:
    - a. Through a journal voucher, Accounting will charge the expense back to organizational budget in the fiscal year and period the goods were received.
- B. Through this journal process, the PO’s reservation against the budget will be reduced and the charge applied, thus keeping the organizational budget’s remaining balance unaffected.

### **RELATED DOCUMENTS:**

- Date Fields on Banner Requisitions & POs
- Procedures for Multi-Year Obligations