

How to Create Prepaid Invoices

There may be instances when you have an invoice for a future period which must be paid in an earlier period. Some good examples are rent, health insurance, etc. which must be paid prior to incurring the expense. In order to pay that bill on time you enter the invoice in the normal fashion, but you still do not want the expenditure to reflect on your financial statement for the month of January. In order to properly account for this scenario Sage MIP Fund Accounting allows you to accomplish the entry in one document. The simplest solution is to utilize a prepaid type account. The first step in this process is to set up a prepaid type account by going to Maintain>Chart of Account Codes.

The screenshot shows the 'Setup' window for a 'Prepaid Expense' account. The 'Account Type' is set to 'Other Assets', which is circled in red. A red callout box points to this field with the text: 'Note that this is an Other Asset Account Type.'

When entering your invoice you will want to debit your Prepaid and credit your AP type accounts respectively. This ensures that the invoice date and effective date remain the same. By using the same document you can easily record the expense in the appropriate period by changing the effective date. Debit your expense type accounts and credit the prepaid type account with the effective date corresponding to the economic event. This is illustrated below

The screenshot shows an invoice entry with the following details:

- Invoice: 001, Date: 1/15/2007, Amount: \$500.00
- Description: Sample Prepayment
- Vendor ID: Windell, Windell Property Management, Dye: 2/1/2007

The table below shows the journal entry details:

Fund	Grant	GL	Progr	Dept	117	Debit	Credit	Entry Type	Effective Date	Description
01	101	15555				500.00	0.00	N	1/15/2007	Sample Prepayment
01	101	20000				0.00	500.00	N	1/15/2007	Sample Prepayment
01	101	55001	101	101	1	100.00	0.00	N	2/1/2007	Sample Prepayment
01	101	55001	201	201	1	100.00	0.00	N	2/1/2007	Sample Prepayment
01	101	55001	301	301	1	300.00	0.00	N	2/1/2007	Sample Prepayment
01	101	15555				0.00	500.00	N	2/1/2007	Sample Prepayment

The net effect of this transaction allows you to pay your bills in accordance to your vendors' terms while recording your transactions according to GAAP. The effect on your financial statements is as follows:

Account Title	Effect on January	Effect on February
Cash	Invoice Amount (Credit)	No effect
Prepaid	Invoice Amount (Debit)	Invoice Amount (Credit)
Expense	No effect	Invoice Amount (Debit)