

<b>Security Role</b>	
<b>Responsibility/Role</b>	
<b>File Name</b>	EX_020_112 - Understanding Prepaid Expenses_BUSPROC.docx
<b>Version</b>	
<b>Document Generation Date</b>	12/15/2010
<b>Date Modified</b>	7/6/2021
<b>Last Changed by</b>	
<b>Status</b>	

## **EX.020.112 - Understanding Prepaid Expenses**

### **Trigger:**

### **Concept**

This topic is an overview of employee pre-paid expenses from the Expenses module perspective. For Accounts Payable users, additional information about Employee Pre-Paid is available in business process AP.020.030 "Entering Regular Voucher for Travel Prepayment".

The term "Pre-Paid" has a limited meaning when used inside PeopleSoft. A pre-paid expense refers to an amount that is paid to a third party for certain expenses that will be incurred by an employee. In other words, a pre-paid is when your institution pays an amount in advance of the employee's travel directly to a vendor on the traveler's behalf.

Because a portion of employee pre-pays is handled through Accounts Payable and a portion is handled in the Expense module, there should be a good understanding of how both pieces fit together.

### **Topic Objectives:**

Upon completion of this topic, you will be able to:

- Define what a pre-paid expense is.
- Identify what does not qualify as a pre-paid expense.
- Identify the actions required of an employee before travel occurs concerning the pre-paid expense.
- Identify the actions required of an employee after travel occurs concerning the pre-paid expense.
- Identify the Chartfields a traveler should use for a pre-paid expense.
- Identify the three items between Accounts Payable and Expenses that must match.

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Assumptions

Dependencies/Constraints

## Additional Information

### Procedure

This topic provides an overview of Employee Pre-paid Expenses. For a printout of this topic, please click [here](#).

Step	Action
1.	<p>Usually, all items related to an employee's travel or expenses are processed solely through the Expenses module. Meaning, an employee or his/her delegate enters the appropriate transaction through the Employee Self-Service portal for Travel and Expenses.</p> <p>Examples of transactions handled within the Expenses module include:</p> <ul style="list-style-type: none"><li>- An employee needs a cash advance for an upcoming trip (if applicable for your institution)</li><li>- An employee needs to be reimbursed for a ream of paper she purchased at Office Max out of her personal funds</li><li>- An employee needs to request permission to travel (issues a travel authorization)</li><li>- An employee needs to be reimbursed for expenses incurred during a business trip</li><li>- An employee needs to be reimbursed for Flexible Spending Account expenses (if applicable for your institution)</li></ul> <p>Pre-Paid Expenses are more involved in that they require an action by your institution's Accounts Payable office/department in addition to requiring an action by the traveler (or his/her delegate) in the Expense module.</p>
2.	<p>First, let's clarify what a Pre-Paid Expense is... and what it is not.</p> <p>The term "Pre-Paid" has a limited meaning when used inside PeopleSoft. A pre-paid expense refers to an amount that is paid in advance to a third party for certain expenses that will be incurred by an employee. In other words, a pre-paid is when your institution pays an amount directly to a vendor on the traveler's behalf.</p> <p>Examples may include:</p> <ul style="list-style-type: none"><li>- Your institution pays a travel agency directly for a traveler's airplane fare.</li><li>- Your institution pays an airline directly for a traveler's airplane fare.</li><li>- Your institution pays a hotel directly for a traveler's lodging expenses (this is not a typical practice).</li></ul> <p>As each institution may use pre-pays for employees differently, please check with your institution to determine what items are eligible for direct pre-payment.</p>

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Step	Action
3.	<p>What is <b>NOT</b> considered to be a Pre-Paid Expense when discussing employee pre-paids?</p> <ul style="list-style-type: none"><li>- Typically, registration fees that are paid directly to a vendor for an employee's attendance are not considered to be a pre-paid expense (unless the payment crosses fiscal years).</li><li>- P-card purchases for registration fees are not a pre-paid expense.</li><li>- Cash Advances are not considered to be a pre-paid Expense.</li><li>- Amounts that an employee pays directly to a third party from their personal funds are NOT a pre-paid expense. (Example... an employee pays Delta directly for his airfare several months in advance of the travel and he pays Orbitz a week before traveling for his anticipated lodging expense.)</li></ul>
4.	<p>The process for having a pre-paid expense paid for an employee can differ by institution, but it will probably be similar to the process that was used in PeopleSoft v. 7.5 by your school.</p> <p>At your institution, you will need to consider the following:</p> <ul style="list-style-type: none"><li>- How does an employee notify the Accounts Payable office/department that he/she needs a pre-paid expense paid on their behalf? For some schools this notification may come from the travel agency for pre-paid airfare and/or an employee may be required to make an indication on the travel authorization.</li><li>- How does the institution receive the appropriate information for making the prepayment?</li><li>- How does the institution notify an employee that they have successfully pre-paid the expense for the employee?</li></ul>
5.	<p>Pre-paid expenses can be divided into two sections: what happens before the employee travels and what happens after the travel has been completed.</p> <p>So far, we have discussed only what happens before an employee travels. In summary:</p> <ul style="list-style-type: none"><li>* The employee or someone knowledgeable of the travel notifies the Accounts Payable office/department that a payment needs to be made (institution specific)</li><li>* The employee may or may not be required to create a travel authorization (this depends on your institution's policies)</li><li>* The Accounts Payable department will directly pay a vendor for the expense before the travel has occurred.</li></ul>

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Step	Action
6.	<p>The second part of understanding pre-pays is to discuss what happens after the travel has taken place.</p> <p>When the Accounts Payable office/department issues a pre-paid item, one-half of the process is complete. The other half of the pre-paid process must be completed by the employee (or his/her delegate) on the expense report. The actual process takes only a few clicks on an expense report, however a traveler should understand the concept behind what is happening to ensure that the pre-paid is accounted for correctly.</p>
7.	On an Expense Report, the Payment Type field is how the system knows whether or not the expense was a pre-paid item.
8.	<p>From the drop down list, if a traveler selects any of the payment types <b>except</b> for the ones that begin with "Prepaid", the employee is indicating that they themselves paid for the expense and that they need to receive reimbursement.</p> <p>For clarification: American Express, Cash, Check, Discover Card, MasterCard, NA (Mileage), and Visa are NON pre-paid payment types.</p>
9.	<p>If an employee selects one of the three prepaid payment types he/she is indicating that Accounts Payable already paid for this expense and that he/she does not need to be reimbursed. This action creates the required offset to the piece that was completed by Accounts Payable.</p> <p>Prepaid Air Prepaid Expenses Prepaid Hotel</p> <p>When any of these three payment types are selected, the system will automatically use account 132160 as the offset.</p>
10.	Notice the <b>Totals</b> section when a Prepaid payment type is selected. The amount of \$489.00 is displayed as a Prepaid Expense and the amount that is due to the employee is \$0.00
11.	<p>The short answer, is that the chartfield used in Expenses on the Expense Report should match the chartfield that was used on the voucher for the pre-paid in Accounts Payable. Your institution will decide which specific values these should be. This concept is discussed in more detail later in this topic.</p> <p>An important clarification, is that the Account number should not be changed from the 6401XX account on the Expense Report. This account is required so that the department can be charged for the Expense. The system will automatically create the offset "behind the scenes" to the Pre-Paid 132160 account based solely on the payment type of pre-paid. For this reason, you should not enter account 132160 (employee pre-paid account) on an Expense Report.</p>

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Step	Action
12.	<p>You may ask yourself, if the item has already been paid by Accounts Payable and the employee/traveler is not seeking reimbursement, then why does this need to be recorded on an expense report?</p> <p>Without a lengthy accounting discussion, the concept is that Accounts Payable puts the money for the pre-paid expense in a liability account when the prepayment is issued. At this point, the department has not yet been charged for this expense. The only way that this item clears the liability account and becomes an expense to the department, is when the employee/traveler correctly selects the prepaid payment type on an expense report.</p> <p>Essentially, Accounts Payable is performing one half of the process and the Expense Report performs the other half of the process. The Expenses payment type of "pre-paid" reverses the liability and charges records the expense. In PeopleSoft v 7.5, an adjustment voucher or journal entry would have been required to complete the pre-paid process.</p>
13.	<p>Since Accounts Payable and Expenses are each doing one half of the pre-paid functionality, it is important to make sure that both sides match.</p> <p>The three matching items to consider are ChartFields, Amounts, and EmplID. More information on each item is contained in the following slides.</p> <p><b>ChartFields</b> - Accounts Payable processes their portion of the pre-paid first by issuing a voucher containing a string of ChartField values. Since the offset to this entry happens in Expenses, the same chartfield that is used in AP on the voucher should be used on the chartfield for the expense type in Expenses for report balancing purposes.</p> <p><b>Amounts</b> - The amount of the pre-payment in Accounts Payable should match the amount selected as the prepaid item in Expenses exactly.</p> <p><b>EmplID</b> - When a prepaid item is entered in Accounts Payable, an open item key for EmplID is required so that the expense can be tied to a particular employee. When the expense is offset in Expenses, the system automatically recognizes the EmplID that is submitting the expense report through the traveler's login, so this match can occur.</p>

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Step	Action
14.	<p>To ensure that you have balanced reports, the ChartFields that are used in Accounts Payable should match the ChartFields used on the Expense Report.</p> <p>The decision as to what ChartFields will be used will be institution specific. At a minimum, ensure that the ChartFields your institution uses to balance are the same between Accounts Payable and Expenses.</p> <p><b>Note for AP Users:</b> The Account 132160 must be used in Accounts Payable for all employee pre-paid items. The Account 132170 is used in AP for all non-employee pre-paid items.</p>
15.	<p>It is critical that the amount that was pre-paid in Accounts Payable match the amount selected as a prepaid payment type on the Expense Report.</p>
16.	<p>Consider the following scenario:</p> <p>What happens if the amount pre-paid in Accounts payable was the predicted amount of the airfare, \$489.00, but the employee had to pay an additional \$25.00 at the time of travel due to a fuel surcharge.</p> <p>If the employee enters the amount of prepaid expense to be \$514, two issues occur. One, the prepaid account will not balance by amount AND the employee will not be reimbursed for the \$25.00 that he paid out of his pocket.</p> <p>To prevent this situation, only the amount that was prepaid should be listed as a prepaid on the expense report. Any additional money should be shown independent of this amount, and it should not be listed with a payment type of prepaid. The screenshot on this page accurately displays how this situation should be entered on an expense report.</p>
17.	<p>In Accounts Payable, the individual submitting the voucher for an employee pre-paid expense must select an EmplID to identify who the expense is for. The correct EmplID must be selected in AP so that when the employee selects the pre-paid payment type on his/her Expense Report, these two numbers match exactly.</p>
18.	<p>This is an example of the results of a pre-paid query showing the entries for both the Expense Report (A) and the Accounts Payable voucher (B).</p> <p>Notice the following: The Account number for both entries is 132160. This is the only account number that can be used for employee pre-paid expenses.</p> <p>The Dept, Fund, Program, Class, Bud Ref and Amount all match exactly. This is because the chartfield that was entered on the voucher in AP matched exactly to the chartfield that the traveler entered on the expense report.</p>

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Step	Action
19.	<p>This page contains two examples of ChartFields that do not match.</p> <p>In the first example, the Expense Report (A) used Dept "TC5DPT1" where the AP Voucher (B) used "TC5DPT2".</p> <p>In the second example, the Expense Report (C) has a Dept, Program, and Class populated. These fields were not entered on the AP Voucher (D).</p> <p>Remember that it is up to your institution to decide what Dept, Fund, Program, and Class should be entered on pre-paids to ensure that the AP side will match the Expense side of the entry. The Account 132160 must be used by all institutions for employee pre-paids.</p>
20.	<p>Congratulations. You have just completed the <b>Understanding Prepaid Expenses</b> topic. Below is a summary of the key concepts of this lesson:</p> <ul style="list-style-type: none"><li>- A pre-paid expense refers to an amount that is paid in advance to a third party, for certain expenses that will be incurred by an employee.</li><li>- Before an employee travels:<ul style="list-style-type: none"><li>- They must notify the AP department that a pre-payment needs to be made</li><li>- The employee may or may not be required to create a travel authorization (depending on your institution's policies)</li><li>- AP Department will pay a vendor directly for the expense before the travel occurs</li></ul></li><li>- Once travel is complete, the employee must complete the expense report, indicating the pre-paid expense through the Payment Type.</li><li>- Pre-paid expenses are not included in the total due to the employee on the expense report.</li><li>- Pre-paid expenses should be charged to a 6401XX account on the expense report.</li><li>- When clearing a pre-paid expense through an expense report, ensure that the Chartfields (Fund, Program, Class, Dept), Amounts, and EmplID match those previously used by the AP Department.</li></ul> <p><b>End of Procedure.</b></p>