1. Prepaid Expenses Definition:

Prepaid expenses are expenses that have been paid in advance. They are costs that have been paid but have not yet been used up or have not yet expired.

When goods or services are paid in a fiscal year but received or consumed in the next fiscal year, a prepaid expense must be recorded in the fiscal year in which the goods or services have been paid. This prepaid expense is then reversed in the fiscal year in which the goods or services are received or consumed and an expense is recorded. A prepaid expense is an asset account (as opposed to an expense account) and is reported on the balance sheet. Prepaid expenses are assets because they will provide a future benefit.

For example, if an employee pays for travel expenses in May 2016 (Fiscal year 2016) to attend a conference that will take place in August 2016 (Fiscal year 2017), the amount paid is not considered an expense in fiscal year 2016. When the travel expenses are paid in May 2016, they must be recorded as a prepaid expense. In fiscal year 2017, when the employee attends the conference, the prepaid expense is eliminated and an expense is recorded.

2. Prepaid Items on expense reports

Expense report items submitted to A/P for payment are generally recorded as expenses because the expense report form in Workday requires the selection of a spend category and that spend category will automatically record an expense. Therefore, two separate journal entries are necessary: one to reclassify the amounts on the expense report from an expense to a prepaid account (this journal entry will be recorded in the fiscal year in which the goods or services were paid) and a second journal entry is necessary to reverse the first journal entry (this journal entry will be recorded in the fiscal year in which the expense is incurred).

3. Prepaid Expense Journal Entries

Although the next section of this job aid will detail the steps to be followed in Workday to record the prepaid expense journal entries, these are the five main elements to consider:

- The ledger account to be used for the debit side of the first journal entry will always be: 11700 Prepaid Items. The ledger account to be used for the credit side of the first journal entry will always be the expense account associated with the spend category used when the expense report was submitted for the items/services paid in advance. The second journal only reverses the first journal entry by crediting ledger account 11700 Prepaid Items and by debiting the expense account.

- The SmartTag to be used for both, the debit and credit side of the first and second journal entries will be the same SmartTag used when the expense report was submitted for the items paid in advance. Enter the SmartTag under the “SmartTag” field of the journal entries.

- The budget date and the accounting date for the first journal entry will be the date in which the prepaid items were paid. The budget date and accounting date for the second journal entry will always be July 1st of the fiscal year in which the expenses will be incurred. For example, if travel expenses are paid in May 2016 for a conference that will take place in September 2016, the first journal entry will be recorded using the May 2016 date for both, the accounting and budget date, and the second journal entry will be recorded using the first month of the fiscal year in which the expense will be incurred, which in this example will be July 1st 2016. For this reason, two separate journal entries need to be recorded.

- Under “Additional Worktags”, and for the credit side of the first journal entry only, enter the same Expense Treatment and the
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same spend category used when the expense report was created for the prepaid items. Both the Expense treatment and spend category should be listed under “Additional Worktags”. The second journal entry will be a reversal of the first journal entry and the spend category and expense treatment fields will be already filled.

- Although both journal entries will be recorded in different fiscal years, the second journal entry must be recorded immediately after the first journal entry has been recorded (to avoid the need of keeping reconciliation schedules).

4. Create the First Prepaid Journal Entry in Workday:

4.1 Log into Workday, then in the search field, type Create Journal.

4.2 Click Create Journal in the search results.

4.3 In the Ledger field, click the Prompt, and then select the ledger Florida Atlantic University: Actuals from the dropdown menu.

4.4 In the Accounting Date field, select the Accounting Date by selecting from the calendar, or manually type the date of the entry in MM/DD/YYYY format. For the first Prepaid Expense journal entry, enter the date in which the prepaid item was paid.
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4.5 In the Journal Source field, click the Prompt, then select Accounting Journal.

4.6 In the Balancing Fund field, type FAU_99999 and press enter or click the prompt then select FAU_99999 FAU_Default Fund from the dropdown menu.

4.7 In the Memo field, type a short description of the purpose/reason for creating the journal. In this step indicate: "To Reclassify Prepaid Expense processed through Expense Report as Expense".

Note: It is optional to enter a Control Total Amount in the box above. Workday automatically calculates your total debits and your total credits after you enter your journal entry lines.

4.8 Click Continue (bottom left corner of window).
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4.9 Click the **Attachments** tab, then either click the "paperclip" icon and select your supporting document files or drag and drop your supporting documents into the blue box. The attachment for the prepaid journal entry will be a print screen of the expense report indicating the prepaid item and the spend category used to code it when the expense report was created and support showing that the item is a prepaid expense (support needs to indicate the date when the goods or services will be received or consumed):

4.10 Add a short comment in the **Comment** field to describe each attachment. If you need to delete the attachment, click on the "trash can" icon.

4.11 The **Company** field on each journal entry line will default in with the “Florida Atlantic University.”
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4.12 Click on the “Prompt” in the Ledger Account field and locate then select the account on the drop down menu. If you prefer, you may also type the account number and/or name in the search field. The Ledger Account that will be debited for the first journal entry is 10700: Prepaid Items, and the ledger account that will be credited is the expense account that corresponds to the spend category initially selected when the expense report was created for the prepaid item.

*** Use the Crosswalk site to find the Workday ledger account that corresponds to the spend category used on expense report. ***

4.13 Enter the Debit Amount or Credit Amount on each journal entry line. Do not enter both a debit and credit amount on one line.
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4.14 Provide a more detailed **Memo** (a detailed justification/purpose for the journal entry line) in the memo section. Remember this can be more detailed than the memo you entered in the header section.

*Hint: the copy and paste feature can be used.*

4.15 **Budget Date** defaults to the Accounting Date chosen in Step 4.4, and **should not be changed**. Workday will place a hard stop on the journal transaction if this date is changed.

4.16 Click the **SmartTag** Prompt, then type in the Search field the name of the SmartTag. **The SmartTag to be used on the first journal entry on the Debit side is the same SmartTag used when the Expense Report was created for the prepaid item. The same SmartTag will be used for the credit side of the Journal Entry.** Once you select the SmartTag, the Cost Center, Fund, Business Unit, and Program fields will populate automatically.
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4.17 In the Additional Worktags field on each journal line, click the prompt and select the spend category for the Credit side of the journal entry only (which is the credit to the expense account). The spend category to be used is the same spend category used when the expense report was created. In addition to the spend category, add the Expense Treatment selected when the expense report was created for prepaid items.

To select a Spend Category, after you click on Spend Category", click “Spend Category again, then scroll and click to select your Spend Category from the drop down list. Do the same for the Expense Treatment. Remember to use the same expense treatment and spend category used when the expense report was created.
4.18 If you have need to delete a line(s), click the minus sign to remove the journal entry line.

4.19 Once you have entered all the necessary journal entry line information (as shown in the supporting documents, click Submit).

4.20 If you receive an error message, resolve the error(s) then click “Submit” again.

4.21 If there are no errors, you will see a “Business Process Record” screen which will also tell you who is next on the approval chain in the “Up Next” section.
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4.22 You can click on Details and Process to obtain more information about the journal in the Detail tab (a summary of the journal, journal number, and current status) as well as the Process tab which allows you to see the next step(s) on the approval chain. Your entry is NOT posted until all approvals are complete and the journal entry status is changed to “Posted.”

4.23 Keep the journal entry number, since it will be needed to record the second journal entry on step 5.

5 Reverse the Prepaid Journal Entry created in step 4.

5.1 To reverse the journal entry created in step 4 of this job aid, first find the journal entry that you just created by typing the journal entry number from step 4.23 in the “Search” field of the Homepage (see below). Press Enter.

5.2 Click on “All of Workday” (see below)
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5.3 Click on the Journal Entry Number as shown below

5.4 The journal entry will be displayed. You will copy the journal entry by clicking on the three areas specified below. This step copies the journal entry recorded in step 4.

5.5 In the “Accounting Date” field, enter the first month of the fiscal year in which the expense will be incurred. In our example, the expense will be incurred in September 2016. The first month for that fiscal year is July 2016. In this example, you will enter 07/01/2016.

After the date has been entered, delete the old memo on the “memo” field, and enter a new memo, such as “To reverse prepaid expense Journal Entry # JRNL-000005580”. Then click on the “Reverse” field as shown below. Click OK to continue.
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5.6 The journal entry created in step 4 will then be displayed, but the ledger account that was debited in the original journal entry will now show a credit and the ledger account that was originally credited will now show a debit.

5.7 Click on “Attachment” (as indicated on step #4.9) to add the attachment for the journal entry.

5.8 Because all the fields are now completed (you are only reversing the previous journal entry), you can click on “Submit” to submit the journal entry.