

Understanding Prepayments

What are prepayments?

How to account for prepayments

Monitoring the nominal ledger balance of
code 1720 for accuracy

What are Prepayments?

A prepayment arises when a school pays for a cost in advance of receiving the benefit

Example: Insurance premium paid in July for cover running July to June – 10 months relate to the next financial year

Example: Books bought under the Free schoolbook grant scheme for the future academic and financial year

Prepayments Example



Insurance Example:

Pay €19,682 on **July 1** for 12 months insurance



Financial Year ending Aug 31:

Expense: €3,280 in the BOM Income & Exp Account code 5450
Prepayment: €16,402 in the BOM Balance sheet code 1720

Prepayments Example



Insurance Example:

Pay €19,682 on July 1 for 12 months insurance



Financial Year ending Aug 31:

Expense: €3,280 in the BOM Income & Exp Account code 5450

Prepayment: €16,402 in the BOM Balance sheet code 1720

BOM Monthly Reports

Insurance July – June 202x

Must show the amount paid in advance in the BS

BOM Income and Expenditure

Insurance Costs for July – Aug relating to the financial year to Aug 202x. Record in code 5450

BOM Balance sheet

The insurance cost for Sept – June relates to the future Financial Year and is shown in code 1720 in the Balance sheet

BOM I&E
New Fin Year

Journal entry at 1.9.202X required to move the insurance cost for Sept – June *from code 1720 (Cr) in the Bal Sheet to the insurance expense code 5450 (Dr) in the I&E for the new Financial Year*

Reviewing the BOM reports

		<u>Period</u>	<u>Budget</u>	<u>Difference</u>	<u>Prior Year</u>
Repairs Maintenance & Establishment				-	
5450	General Insurance Expense	-	27,500.00	- 27,500.00	27,500.00

Expense paid in advance – Prepayment N/C1720

Activity

1720 Prepayments

Show: This Financial Year Date: 01/09/20XX to XX/XX/20XX Type: All O/S Only Trans. 1 to 612

No	Type	Date	Ref.	Dept	Details	Amount	Debit	Credit
		01/09/20XX		0	B/Fwd Balance	27500.00	27500.00	
83	JC	01/09/20XX	YE adj	0	Prepaid software support 01/XX/20X...	1598.34		1598.34
143	JC	01/09/20XX	YE adj	13	Science Imp. Grant Exp 24/25 relat...	9500.00		9500.00
Balance:							27500.00	11098.34
							16401.66	

Record 1 of 1

Close

General Insurance

– Prepayment in the Prior Year

Reference: Rev YE PP Posting Date: 23/01/20XX

Balance: 0.00

N/C*	Name	Depart	Details	T/C*	Debit	Credit
5450	General Insurance Expense	0	General Insurance Expense Sep - 31.March 20XX	T9	16401.66	0.00
1720	Prepayments	0	General Insurance Expense Sep - 31.March 20XX	T9	0.00	16401.66

16401.66 16401.66

Reverse Journals Reversing Date: 23/01/20XX

Save Close

	<u>Period</u>	<u>Budget</u>	<u>Difference</u>	<u>Prior Year</u>
Repairs Maintenance & Establishment				
5450 General Insurance Expense	16,401.66	27,500.00 -	11,098.34	27,500.00

Prepayments Code 1720

Other Examples of costs prepaid in current year for future use

- Insurance prepaid
- Free Schoolbooks grant expense for a later financial year
- Payroll cost for admin of the schoolbooks grant for a later financial year
- Deposit on school tour for a later academic year
- Science Implementation Grant (Future Year) expense
- Subscriptions
- Software licences
- Maintenance contracts

Sample School XYZ

Reversing Prepayments

Prepayments @ 31-8-2025

School Insurance	€5,000.00
NAPD	€1,500.00
Computer Maintenance	€5,500.00
Books in Advance	€11,500.00
Science Subjects Expense	€5,650.00
	<hr/>
	€29,150.00
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Journal
1-9-2025
DR Expense code
CR 1720

Journal Entry

Clear form Insert row (F7) Remove row (F8) Copy cell above (F6)

Reference: Rev Prepaid Posting Date: 01/09/2025 Balance: 0.00

N/C*	Name	Ex.Ref	Department*	Details	T/C*	Debit	Credit
5450	General Insurance Expense		0	School Insurance Prepaid	T9	5000.00	0.00
6700	Annual Subscriptions Expense		0	NAPD subs prepaid	T9	1500.00	0.00
4420	Computer Maintenance & Support ...		0	Comp Maint prepaid	T9	5500.00	0.00
4731	Free Schoolbook Grant Expense		9	School book Expenses	T9	11500.00	0.00
4390	Science subjects Expense		10	Science Expenses	T9	5650.00	0.00
1720	Prepayments		0	Reverse 24/25 Prepaid	T9	0.00	29150.00

Sample School XYZ

Reversing Prepayments – Nominal Activity

Time: 17:05:39

Nominal Activity - Excluding No Transactions

Date From: 01/09/2025
Date To: 31/08/2026

N/C From: 4731
N/C To: 4731

Transaction From: 1
Transaction To: 99,999,999

N/C: 4731 Name: Free Schoolbook Grant Expense

Account Balance:  11,500.00 DR

No	Type	Date	Account	Ref	Details	Dept	T/C	Value	Debit	Credit	V	B
		01/09/2025			Brought Forward			0.00				
476	JD	01/09/2025	4731	Rev Prepaid	School book Expenses	9	T9	11,500.00	11,500.00		-	-

BOM Balance Sheet

Chart of Accounts: FSSU

Period Brought Fwd - Aug 2026 **Prior Year** Sept 2024 - Aug 2025

Fixed Assets

Fixed assets		
TOTAL Fixed Assets:	<u>0.00</u>	<u>0.00</u>

Current Assets

Debtors and Prepayments		
1720 Prepayments	0.00	29,150.00
Total Debtors and Prepayments:	<u>0.00</u>	<u>29,150.00</u>

Current Account		
Cash Account		
TOTAL Current Assets:	<u>0.00</u>	<u>29,150.00</u>

Current Liabilities

Creditors		
Accruals		
Current Account		
Cash Account		
TOTAL Current Liabilities:	<u>0.00</u>	<u>0.00</u>

Current Assets less Current Liabilities:	0.00	29,150.00
Total Assets less Current Liabilities:	0.00	29,150.00

Long Term

Long Term Liabilities		
TOTAL Long Term:	<u>0.00</u>	<u>0.00</u>

Total Assets less Total Liabilities:	0.00	29,150.00
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Capital & Reserves

Retained Profits		
2710 Surplus Brought Forward	29,150.00	29,150.00
Total Retained Profits:	<u>29,150.00</u>	<u>29,150.00</u>

Contribution Fixed Assets		
Mispostings		
TOTAL Capital & Reserves:	<u>29,150.00</u>	<u>29,150.00</u>

Income And Expenditure Account:	(29,150.00)	
	<u>0.00</u>	

BOM Reports for new financial Year
After recording opening journal entries

BOM Income and Expenditure Account

From: Month 1, September 2025 To: Month 12, August 2026
Chart of Accounts: FSSU

	<u>Period</u>	<u>Budget</u>	<u>Difference</u>	<u>Prior Year</u>
Income				
Department Income				
School Generated Income				
Other Income				
TOTAL Income:	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

Expenditure

Education Salaries				
Education Other				
4390 Science Expense	5,650.00	0.00	5,650.00	4,900.00
4420 Computer Maintenance & Support Expense	5,500.00	0.00	5,500.00	13,100.00
4731 Free schoolbook grant expense	11,500.00	0.00	11,500.00	9,200.00
Total Education Other:	<u>22,650.00</u>	<u>0.00</u>	<u>22,650.00</u>	<u>27,200.00</u>
Repairs Maintenance & Establishment				
5450 Insurance Expense	5,000.00	0.00	5,000.00	10,600.00
Total Repairs Maintenance & Establishment:	<u>5,000.00</u>	<u>0.00</u>	<u>5,000.00</u>	<u>10,600.00</u>
Administration				
6700 Annual Subscriptions Expense	1,500.00	0.00	1,500.00	2,200.00
Total Administration:	<u>1,500.00</u>	<u>0.00</u>	<u>1,500.00</u>	<u>2,200.00</u>
Financial				
Depreciation				
TOTAL Expenditure:	<u>29,150.00</u>	<u>0.00</u>	<u>29,150.00</u>	<u>40,000.00</u>

Monitoring the nominal ledger balance of code 1720 for accuracy

► Look up the nominal ledger activity for code 1720 for the financial year to date and check postings

1. Is opening balance as per statutory accounts? A breakdown of this balance is vital
2. Have the prepayments carried forward and relating to new financial year being journaled out of code 1720 and recorded as an expense in the new years I&E account?
3. Have supporting calculations for any new prepayments posted in the current year
4. Know the exact makeup of the closing balance at month end

► Review the Balance sheet balances monthly – Prepayments show under current assets.

► Balance at 30.9.20xx would be expected to be zero

No	Type	Date	Ref.	Ex.Ref.	Dept	Details	Amount	Debit	Credit
		01/09/2025			0	B/Fwd Balance	131505.18	131505.18	
18813	JC	01/09/2025			0	Colorimeter, Water Bath, Precision B...	5290.05		5290.05
18815	JC	01/09/2025			0	Microscopes	1410.79		1410.79
19935	JC	01/09/2025			0	Free Schoolbooks Admin Salaries	9393.78		9393.78
20053	JC	01/09/2025	Y/E Adj		0	Journals 25/26	10385.03		10385.03
20055	JC	01/09/2025	Y/E Adj		0	Stationary 25/26	12031.08		12031.08
20057	JC	01/09/2025	Y/E Adj		0	Schoolbooks 25/26	80343.48		80343.48
20059	JC	01/09/2025	Y/E Adj		0	schoolbooks	662.97		662.97

Schoolbooks bought for 26/27 will appear here on the debit side later in the year

The balance of €11,988 can only be carried forward if it is a legitimate prepayment and is not an expense for the current financial year – e.g. a deposit for a school trip not yet taken

Balance: 11988.00

Prepayments

Summary of key learning points

Common school prepayments: Amounts paid in advance for:

Schoolbooks, insurance , maintenance contracts, subscriptions, and software licenses

The balance in code 1720 should be

quantifiable

be supported with invoices and calculations and should be legitimate prepayments.

A credit balance in code 1720 should be followed up and corrected

Monitor the nominal activity postings regularly throughout the year for accuracy

The opening balance at 1.9.202X should be the Accountant's figure as per the statutory accounts

Important to have a breakdown of the opening balance to record the correct journals and reflect the correct expenses in the new financial year