**Prepayments**

1. A prepayment is used when a supplier requires partial or full payment for goods or services prior to the delivery/provision of the goods or services. When paid, prepayments reflect as amounts due to UNDP and are recorded in the asset account 16065 (Prepaid Voucher Modality). As the goods or services are provided, the prepaid asset balance must be reduced, and an expense must therefore be recorded for the amount of goods or services received by UNDP. This is achieved by receipting and vouchering against the relevant PO and offsetting the prepayment against the Accounts Payable PO voucher. Such offsets need to be communicated to the vendor. If the Payables invoice amount is less than the prepayment, offset the prepayment against the Payables invoice and proceed to refund the difference to the vendor.

**A prepayment should be recorded as follows:**

* Account 16065 Prepaid Expense (current asset account) is debited for the amount of the prepayment.
* Accounts Payable is credited for the amount of the prepayment.
* When a PO-Payables invoice is created, the prepaid invoice is automatically offset against the PO reducing the amount to be disbursed to the vendor.
* When creating a PO-Prepayment invoice, the COA should include only the GL segment. The project segment of the CoA should not be included in the prepaid invoice given that the associated PO has already encumbered resources in PPM segment during the approval process. Including the project segment of the CoA will result in double encumbrance of the funds. It is important that when the prepayment is liquidated, the full project COA is included to have the expense recorded to the project and in PPM.
1. An approved purchase order must be recorded in the ERP system in order for a prepaid voucher to be created.

1. For services such as rent, maintenance, utilities, service contracts, and insurance premiums, where contracts are annual and amounts are relatively stable from month to month and from year to year, it is not necessary to raise a prepayment, even though payment will be made prior to receiving the services. These items can be processed via a regular PO with immediate receipting for the value of the prepaid amount. At year end, OFM Accounts Section will provide the necessary guidance for any adjustments needed to reallocate expenses to prepaid assets, depending on materiality.

1. For one-off transactions, such as individual contracts, refundable deposits for conference facilities, or start-up costs for civil works, a prepaid voucher should be created if the time period between payment and full-service delivery extends over a quarter or year end.
2. Except where normal commercial practice or the interests of UNDP so require, no contract or purchase order shall be made on behalf of UNDP requiring advance payment(s) for goods or the performance of contractual services. Purchases of goods where the supplier requires payment prior to delivery should be made using a PO and an associated prepaid voucher. If an advance payment is agreed to, all reasons therefore shall be documented. If the contract calls for an advance payment exceeding USD 30,000, the Supplier shall be asked to provide a bank guarantee (valid for the duration of the contract) or certified cheque before such prepayment is paid. The advance payment, in all cases, should not exceed 20 percent of the total contract amount. The advance payment requirement above does not apply to UN agencies.
3. If an advance payment is required to be made that exceeds USD 30,000 or 20 percent of the total contract amount, OFM prior approval is required.[[1]](#footnote-1) Examples of activities that may justify an advance payment are (1) mobilization costs (civil works); (2) start-up costs (services); or (3) design costs. Such advances should use the prepaid voucher modality for disbursement.
4. Any interest earned by a payee on an advance payment by UNDP shall be recoverable and, when paid to UNDP, credited to miscellaneous income in the UNDP accounts.
5. In the case of progress payments, the UNDP RR or Head of the Business Unit may, where appropriate (i.e., in the interest of UNDP), authorize such payments. These are not considered advance payments, and thus no prepayments are required. Progress payments, however, should be linked to the successful completion of requested deliverables.
6. To recover an advance payment, progress payments and the final payment shall be subject to a percentage deduction equal to the percentage that the advance payment represents over the total price of the contract.
7. Non-refundable deposits, where the partial payments will not be reimbursed to UNDP if the procurement process is not completed, should not be considered as prepayments, and should be treated as an expense.
8. Security deposits are not considered prepayments and should be processed via non-PO voucher modality using the general ledger account code 13500 – Security deposits.

1. The advance payment requirement does not apply to UN agencies. [↑](#footnote-ref-1)