Microsoft Dynamics NAV

Prepayments

White Paper

Date: May 2011
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SUMMARY

This document provides an overview of the current implementation of the Prepayments feature in Microsoft Dynamics NAV.

In Microsoft Dynamics NAV, the prepayments feature enables a user to create and post an invoice for the advance payments (prepayments) that are required for a sales or purchase order. Microsoft Dynamics NAV handles the prepayment invoice as a standard sales or purchase invoice, with its own receivables-payables flow; the prepayment invoice is also linked to the related sales or purchase order, which enables you to apply deductions for amounts already paid when invoicing that order.

In the basic scenario, the prepayments feature covers most of the needs of the Microsoft Dynamics NAV customer.

The prepayments functionality is designed to:

- Fulfill documentation requirements for advance payments in some countries.
- Provide improved documentation support for Sarbanes-Oxley type controls, that is, advance payments are documented through an invoice, are tracked for the corresponding sales order, and are automatically deducted in the final invoice.
- Provide functionality for most common advance payment scenarios, and to add control and tracking in customer deposit processes.

However, in more advanced scenarios, the user will experience some limitations as to what the prepayments feature can support. This document describes supported prepayments scenarios, and known limitations.

Note: There are plans to update the prepayments functionality in a future release of Microsoft Dynamics NAV. As planning continues, Microsoft Dynamics NAV customers using or considering using prepayments should use this document to decide if their current business needs are suited to prepayments as currently implemented.
PREPAYMENTS BASIC FUNCTIONALITY

Note: The following information presents an overview of prepayments and it is not a replacement for existing training and Help material. Refer to the training manuals and the Help for more detailed descriptions of the features.

PREPAYMENTS WORKFLOW

The following describes how a prepayment invoice is created, how amounts are posted, and how they are reversed/deducted in the final invoice.

1. A sales order is created and for business reasons a prepayment is required before the order can be executed.
2. A prepayment invoice is created based on the information on the sales order or as a fixed amount prepayment invoice.
3. The prepayment invoice amount to be posted is calculated automatically when created, that is, the user cannot modify the content of the prepayment invoice.
4. The prepayment invoice amount is posted to a designated Sales Prepayment (payables) account. VAT is posted according to settings in setup (either as Realized VAT or Unrealized VAT).
5. When the prepayment is received, the order is executed and at some point the order will be ready for invoicing.
6. The final invoice for the order includes a deduction for the prepayment and the prepayment amounts are moved from the Sales Prepayment account to the Accounts Receivable account.

The following diagram illustrates the flow among accounts. The original sales order is for $10,000 worth of goods or services and requires a 10% prepayment.

<table>
<thead>
<tr>
<th>Sales Prepayments</th>
<th>Sales VAT Account</th>
<th>Receivables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>Credit</td>
<td>Debit</td>
</tr>
<tr>
<td>1,000.00</td>
<td>(1)</td>
<td>250.00</td>
</tr>
<tr>
<td>(3b) 1,000.00</td>
<td>(3b) 250.00</td>
<td>(3b) 1,250.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bank Account</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>Credit</td>
</tr>
<tr>
<td>(2) 1,250.00</td>
<td></td>
</tr>
</tbody>
</table>

(1) Prepayment Invoice Posting
(2) Payment received for prepayment
(3a) Final Invoice Posting - Sales Part
(3b) Final Invoice Posting - Prepayment Invoice Deduction

The illustration presents a simple scenario. Variations and extensions are examined in the following sections.
SETUP FOR PREPAYMENTS

If you require your customers to submit payment before you ship an order to them, or if your vendor requires you to submit payment before it ships an order to you, you can use the prepayments functionality.

You can set up default prepayment percentages for customers, vendors, and items.

After you create a sales or purchase order, you can create a prepayment invoice. You can use the default percentages for each sales or purchase line, or you can adjust the amount as necessary. For example, you can specify a total amount for the entire order.

Before you can create and post prepayment invoices, there are a few setup prerequisites.

SETUP OF G/L ACCOUNTS FOR PREPAYMENTS

Since the prepaid amount belongs to the buyer until it has received the goods or services and you should reflect this in your financial statements, you need to set up G/L accounts to hold the prepayment amounts until the final invoice is posted. Sales prepayments must be recorded in a liabilities account until the items are shipped. Purchase prepayments must be recorded in an assets account until the items are received.

In addition, you must set up a separate G/L account for each VAT identifier.

To Add Prepayment Accounts to the General Posting Setup

In the General Posting Setup window, you must fill in the following fields:

- Sales Prepayments Account
- Purch. Prepayments Account

To Set Up Number Series for Prepayment Documents

If you use prepayments for sales, in the Sales & Receivables Setup window, fill in the following fields:

- Posted Prepmt. Inv. Nos.
- Posted Prepmt. Cr. Memo Nos.

If you use prepayments for purchases, in the Purchases & Payables Setup window, fill in the following fields:

- Posted Prepmt. Inv. Nos.
- Posted Prepmt. Cr. Memo Nos.

Note: You can use the same number series for prepayment invoices and regular invoices, or you can use different number series. If you use different series, they must not overlap — there must not be any numbers that exist in both series.

To Set Up Prepayment Percentages for Items, Customers, and/or Vendors

For an item, you can set up a default prepayment percentage for all customers, a specific customer, or a customer price group. To set up prepayment defaults for an item, on the item card, in Related Information, click Sales, and then click Prepayment Percentages.

For a customer or vendor, you can set up one default prepayment percentage for all items and all types of sales lines. You enter this on the customer card, in the Prepayment % field.
BASIC PREPAYMENT FEATURES

CREATING A PREPAYMENT INVOICE FOR A SALES ORDER

To Create a Prepayment Invoice

1. Create a new sales order or purchase order and fill in the header.
   The **Prepayment %** field on the header will be filled in automatically if there is a default prepayment percentage on the customer card. You can change the contents of the field. The prepayment percentage is only copied from the header to lines that do not copy the default prepayment percentage from the item.

2. Fill in the sales or purchase lines.
   If default prepayment percentages have been set up for your items, the program automatically copies the default to the **Prepayment %** field on the line. Otherwise, the prepayment percentage is copied from the header. You can change the contents of the **Prepayment %** field on the line.

3. If you want to apply one prepayment percentage to the entire order, change the **Prepayment %** field on the header after filling in the lines.

4. You can print a test report before posting the prepayment invoice. To do so, click **Posting, Prepayment, Prepayment Test Report**.

5. To post the prepayment invoice, click **Posting, Prepayment, Post Prepayment Invoice**.
   To post and print the prepayment invoice, click **Posting, Prepayment, Post and Print Prepm. Invoice**.

When you are ready to post the rest of the invoice, post it as you would post any invoice, and the prepayment amount will automatically be deducted from the amount due.

CREATING MULTIPLE PREPAYMENT INVOICES FOR A SALES ORDER

You can issue additional prepayment invoices for the order. To do this, increase the prepayment amount on one or more lines, adjust the document date if necessary, and post the prepayment invoice. A new invoice will be created for the difference between the prepayment amount(s) invoiced so far and the new prepayment amount.

You can also add new lines to an order after issuing a prepayment. Click **Posting, Prepayment, Post Prepayment Invoice** (or **Post and Print Prepm. Invoice**), to create a prepayment invoice for the new line.

You can also issue additional prepayment invoices by increasing the **Prepayment %** on the order lines. To do this increase the **Prepayment %** on one or more lines and post the prepayment invoice. A new invoice will be created to cover the difference between the prepayment amount(s) invoiced so far and the new prepayment amount (recalculated by the increase in **Prepayment %**).

CREATING A FIXED AMOUNT PREPAYMENT INVOICE

You can view the total prepayment amount by clicking **Order, Statistics**. If you want to adjust the total prepayment amount for the order, you can change the contents of the **Prepayment Amount** field in the **Sales Order Statistics** window. (If the **Prices Including VAT** field on the sales header contains a check mark, the **Prepayment Amount Incl. VAT** field is editable. If the **Prices Including VAT** field on the sales header does not contain a check mark, the **Prepayment Amount Excl. VAT** field is editable.)

If you change the contents of the **Prepayment Amount** field, the amount will be distributed proportionately between all lines, except those that have 0 in the **Prepayment %** field.
COMPRESSING PREPAYMENT LINES
A check mark in the Compress Prepayment field means lines will be combined on the invoice if:

- They have the same general ledger account for prepayments (as determined by the general posting setup).
- They have the same dimension combination values.

Leave the field blank if you want to specify a prepayment invoice with one line for each sales order line that has a prepayment percentage.

CREATING A CREDIT MEMO FOR PREPAYMENTS
Sometimes, you may need to make a correction to an order after you have posted a prepayment invoice for the order. You can add new lines to an order after issuing a prepayment, and then you can post another prepayment invoice, but you cannot delete a line from an order once a prepayment has been invoiced for the line.

To Correct Prepayments
You can do one or more of the following:

- Issue a prepayment credit memo to cancel all invoiced prepayments for an order. On the order, click Posting, Prepayment, Post Prepayment Credit Memo (or Post and Print Prepmt. Cr. Memo). Recreate the correct entries.
- Reduce the amount in the Line Amount field (for example, because you want to reduce the quantity on the line). However, you must first increase the prepayment percentage on the line, so that the Prepmt. Line Amount is not decreased below the Prepmt. Amt. Inv.
KNOWN LIMITATIONS

The following is a list of known limitations of the prepayments feature. In some instances, a limitation represents a scenario that we are considering for inclusion in a future redesign of prepayments.

SETUP LIMITATIONS

PREPAYMENT SALES TAX SETUP

Prepayment accounts must have a matching tax percentage to the product being sold in the W1 version of Microsoft Dynamics NAV. However, in the United States and Canada, a multi-state customer may have 100s of different combinations of tax jurisdictions and tax groups set up in the Tax Details table with varying tax rates. Therefore, to have the Prepayment Account be so tightly linked to the tax percentage in the case of sales taxes makes its use in prepayments limited.

PREPAYMENT VAT SETUP

VAT accounts used in prepayments transactions are set up through the Prepayments G/L account. If you change the VAT Product Posting group on order lines, it does not have an impact on the VAT Posting Groups, VAT account, and VAT percentage used in posting of prepayment transactions. See "Setup for Prepayments" in this document for information on how to do this. Since the original implementation is intended to cover financial transactions, Microsoft Dynamics NAV uses the prepayment account’s VAT Posting setup only.

To Change the VAT Account to Which Sales VAT from a Prepayment Invoice will be Posted

1. Open the General Posting Setup window.

![General Posting Setup Window]

2. In the Sales Prepayments Account column, click the drop-down arrow in the field, and then click Advanced.

   Note  You may need to add the Sales Prepayments Account column to the window. To do so, click the Customize button, and then click Choose Columns.
3. In the G/L Account list, select and right click a G/L Account and click Edit.

4. In the VAT Bus. Posting Group and VAT Prod. Posting Group fields, select the Sales VAT Account the VAT amount from which a prepayment invoice will be posted.
PREPAYMENT UNREALIZED VAT

When unrealized VAT is used, you need different G/L accounts for posting realized and unrealized VAT. To do this, set up these G/L accounts in the VAT Posting Setup window.

Prepayments use the Prepayment G/L account’s VAT Setup to determine where VAT will be posted. When used with the Prepayment Unrealized VAT check box in the General Ledger Setup window (which is the case in many countries), VAT from the prepayment invoice will be realized once payment is applied to it.

Another opportunity to realize VAT from a prepayment invoice is when goods or services on order are delivered. In this case, the posting of the sales order (final invoice posting) realizes the unrealized VAT posted in the prepayment invoice if that invoice is open. If this is not the behavior you want, select the Check Prepmt. When Posting check box in the Sales & Receivables Setup window. This setting ensures that a prepayment invoice is applied before the final invoice can be posted. Both realized and unrealized transactions are handled through the Prepayments Account set up in the General Posting Setup window. This makes it very challenging to reconcile VAT Base amounts (which are stored in this single account). This isn’t a problem for VAT Amount, since realized and unrealized VAT Amounts are posted to different G/L Accounts.

See “Setup for Prepayments” in this document for information on how to do this.
ORDERS WITH PREPAYMENT REQUIREMENT

ORDER STATISTICS AND PREPAYMENTS

When selling an item from a sales order, for example, setting a prepayment requirement (on header or lines) skews the profit calculation when you view Sales Order Statistics. This manifests itself as the posted document statistics being different from the statistics you can see on Sales Order Statistics. If you look at both Posted Prepayment Invoice statistics and Posted Sales Invoice statistics in combination you can get the correct view of what the profit was in such a transaction.

1. Create a Sales order with Item line type (check Profit % on Item card) and add a prepayment requirement (in header or lines), for example, 10%.

2. On the Action pane, click Statistics; you can see Original Profit %, Original Profit (LCY), and Adjusted Profit (LCY) calculated on the General FastTab.

3. Post the prepayment invoice.

4. Open the Posted Sales Invoices window, and on the Action pane click Statistics; you can see Original Profit %, which equals 100%, and Original Profit (LCY) and Adjusted Profit (LCY), which are equal to the prepayment invoice total.
5. Ship and invoice the sales order.

6. Review the updated Posted Sales Invoice Statistics; you can see that the statistics skews Original Profit % and Original and Adjusted Profit (LCY) equal to prepayment invoice total.

<table>
<thead>
<tr>
<th>General</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount: 370.50</td>
</tr>
<tr>
<td>Inv. Discount Amount: 0.00</td>
</tr>
<tr>
<td>Total: 276.30</td>
</tr>
<tr>
<td>25% VAT: 69.08</td>
</tr>
<tr>
<td>Total incl. VAT: 345.38</td>
</tr>
<tr>
<td>Sales (LCY): 276.30</td>
</tr>
<tr>
<td>Original Profit (LCY): 119.30</td>
</tr>
<tr>
<td>Adjusted Profit (LCY): 119.30</td>
</tr>
<tr>
<td>Original Profit %: 43.2</td>
</tr>
</tbody>
</table>

When you add Original and Adjusted Profit (LCY) from Posted Sales Invoice Statistics and Posted Prepayment Invoice Statistics, you can get an idea of how much you profited from this transaction; however, Profit % shows the wrong number.
**Note:** This works correctly when order line type is not Item or Resource; Microsoft Dynamics NAV assumes that profit is 100% for those line types.

**INVOICE DISCOUNTS AND PREPAYMENTS**

When Prepayment % is set to 100%, it's expected that the whole amount for the order/line will be paid in advance. Sometimes, such orders are awarded an additional invoice discount, which may turn the receivables amount expected from the order as "payable" in a way that the total amount posted to receivables/payables amount is negative. Customer and vendor posting routines in Codeunit 11 strictly check for this and cause an error to be thrown in this situation.

There is a workaround: you can lower the initial prepayment amount requested. To be able to do this, the posting of a credit memo for prepayment invoice is required.

**CHANGE IN QUANTITY AFTER PREPAYMENT INVOICE HAS BEEN MADE**

The ability to exchange the initial quantity on order lines that have a prepayment requirement is disabled after a prepayment invoice is posted. This is done to preserve data consistency throughout the process. However, the ability to change Prepayment % on order lines may lead you to think otherwise, since this can be done.

One way to work around this is to reopen the sales order and add a new line with the same setup as the line for which the prepayment invoice was posted. In this way, the full prepayment invoice amount is not deducted automatically. To avoid this, you can enable direct posting on the prepayments account and manually create credit memos with G/L Account line with prepayment account and prepayment invoice leftover amount.

We are considering adding this in a future version of prepayments functionality.

Here is an example of how this could work:

1. Create a sales order that has one line of type Item. Set Prepayment % = 10 and Quantity=10.
2. Post the prepayment invoice.
3. You can ship only 8 of the ordered item, so you offer to ship 2 substitute items (or the same item or anything else). Reopen the sales order.
4. Change Qty. to Ship and Qty. to Invoice to 8 in the original order line.
5. Add a new line for the substitute item with Quantity = 2.
6. Post the shipment and invoice the order.
7. Create a credit memo and add G/L Account Type line.
8. Find the prepayment account and set it as direct posting G/L Account.
9. Set No. on newly added G/L Account Type line to prepayment account’s G/L Account No.
10. Enter the amount remaining to be deducted (from Sales Order line) in Amount field.

11. Post credit memo.

Note that the credit memo that is used to deduct the remaining prepayment amount will need to contain one G/L Account type line per VAT Product Posting Group to match the VAT Accounts that need to be used for prepayment deduction.

Also note that you can use this approach to use the nondeducted prepayment amount on a different document.

There is a drawback to this approach, however: You won’t be able to delete such an order.

**CHANGE OF VAT RATES MAY RESULT IN OFF BALANCE PREPAYMENT DEDUCTIONS**

Changes in VAT rates are a very frequent legal change in multiple countries. Depending on the treatment of prepayments within a country's VAT Rate change legislation, a user may end up in the situation where prepayment handling may require off balance prepayment deductions. This happens when a prepayment invoice is posted in one period, the final invoice is posted in another period, and VAT rates are different for these periods. We recommend that you close as many orders that have a prepayment requirement before the VAT rate change occurs and you run the VAT Rate Change tool to reduce the amount of manual corrections needed to handle such cases.
SERVICE ORDERS

When the prepayments feature was introduced in Microsoft Dynamics NAV 5.0, the Service Management module shared invoicing capability with Sales. In Microsoft Dynamics NAV 5.0 SP1, service management invoicing was separated from Sales and now has its own invoicing. At that time, it was decided to postpone the integration of prepayments with service orders for a later release. As a result, service orders do not have prepayments capabilities. There are plans to update prepayments to support service orders in a future release.

PREPAYMENT INVOICES

POSTING PREPAYMENT INVOICE WITH FULL VAT SETUP

Some countries require sending a separate prepayment invoice that covers only the VAT portion (contained in an advance payment) to account for VAT. If the Prepayments G/L account has VAT Posting Setup set to VAT Calculation Type = Full VAT, you will not be able to post such a prepayment invoice. The reason for this is that the standard Full VAT calculation posts only VAT Amount. Prepayment invoice posting requires VAT Base amount (set in the prepayments account in General Posting Setup) since it determines VAT Posting setup to be used when VAT is calculated and posted.

COMPRESSING PREPAYMENTS

When a prepayment invoice is posted with the Compress Prepayments option (which is the default behavior), Microsoft Dynamics NAV groups order lines by Prepayment G/L Account. The legislation of some countries, however, requires that a prepayment invoice contain the list of order line items, which is not an option here.

In the case where the prepayment invoice is not compressed, all lines from the order are transferred to the prepayment invoice as G/L Account line items, descriptions are copied, and quantities set to 1.

A prepayment invoice represents a financial only view of order lines, so technically this is correct, as the line type is G/L Account. However, for the user and receiver of the invoice, this is confusing as the printed prepayment invoice may look similar to the following invoice:
The quantity in the sales order is 10 and the unit price is 100.

The other side of posting a prepayment invoice without the compress prepayments option manifests itself during final invoice posting. For more information, see "Printing Final Invoices" later in this document.

SETTLING PREPAYMENT INVOICES

PREPAYMENTS POSTED TO SAME G/L ACCOUNT AS UNPAID PREPAYMENTS

In multiple countries, prepayments are not treated the same way as receivables or payables based on orders without prepayments. The reason is that no shipment or receipt happens when they are posted. For this reason, these prepayments need to be posted to a different G/L account than that of the receivables or payables G/L account. Such transactions, to be correctly reconciled, need to be applied only to dedicated prepayments (advance payments). This kind of application allows the prepayment G/L account to be reconciled easily. Microsoft Dynamics NAV, however, posts prepayments to standard receivables or payables G/L accounts, making it challenging to reconcile them against the G/L.
POSTING PREPAYMENT CREDIT MEMOS

ONLY ONE CREDIT MEMO OPTION FOR PREPAYMENTS

A prepayment invoice document is automatically generated from order documents and the user has limited ability to influence how it will be posted. Following this logic, prepayment credit memos behave the same way.

1. Create a sales order that has one line of type Item. Set **Prepayment %** = 10 and **Quantity** = 10.
2. Post the prepayment invoice.
3. Reopen the sales order for which the prepayment invoice was posted and add a new line or increase the prepayment % on the existing line.
4. Post the prepayment invoice.
5. To view posted prepayment invoices for this sales order, on the Action Pane, click **Related Information, Order, Prepayment Invoices**.

6. Click **Actions**, **Posting, Prepayment, Post Prepayment Credit Memo**.
7. Click **Related Information, Order, Prepayment Credit Memos**.
8. View the Posted Prepayment Credit Memo.
Notice that the posting of a prepayment credit memo creates a reversal of all posted prepayment invoices. In particular cases, such as a change in quantity or an order that has multiple order lines, this makes it challenging to manage prepayment invoices.

PRINTING FINAL INVOICES

REFERENCE TO PAID PREPAYMENTS

Multiple countries require that the final invoice printout, where prepayment was required, specify dates, document numbers, and amounts of prepayments received. Microsoft Dynamics NAV does not provide this information due to a current design limitation. There are a couple of reasons for this:

- This is usually required for the supply of goods; however, the prepayments feature was originally designed to reflect financial transactions only.
- As explained in the Prepayments Workflow section, a prepayment invoice is intended to have the same receivable and payable flow as a standard invoice. For this reason, an invoice created during final invoice posting (even though it is related to prepayment invoices) is unaware of any payments applied to prepayment invoices. Accordingly, it cannot show this information on the printed invoice.

COMPRESSING PREPAYMENTS

The printout of the final invoice, for which prepayment invoices were posted without the Compress Prepayment option selected, contains all the prepayment lines. From a prepayments perspective, the
final invoice printout provides a recapitulation of all posted prepayment invoices. In a case where multiple prepayment invoices were posted without the Compress Prepayments option selected, the final invoice printout could show a multiple of all order lines. This clutters the overview of prepayment invoices included in the entire process (deducted from final invoice).

This is a side effect of posting a prepayment invoice without having the compress prepayments option set. For information, see the "Prepayment Invoice" section.

GROSS AND NET PRINTOUT OF FINAL INVOICE
The final invoice printout of VAT is always shown with net amounts and there is no way to change this behavior.

<table>
<thead>
<tr>
<th>Revenue</th>
<th>10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Prepay</td>
<td>-2,000</td>
</tr>
<tr>
<td>Amount</td>
<td>8,000</td>
</tr>
<tr>
<td>+25% VAT</td>
<td>2,000</td>
</tr>
<tr>
<td>Amt.incl.VAT</td>
<td>10,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue</th>
<th>10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>+25% VAT</td>
<td>2,500</td>
</tr>
<tr>
<td>Amount</td>
<td>12,500</td>
</tr>
<tr>
<td>- Prepay</td>
<td>-2,000</td>
</tr>
<tr>
<td>-25% VAT</td>
<td>-500</td>
</tr>
<tr>
<td>Amt.incl.VAT</td>
<td>10,000</td>
</tr>
</tbody>
</table>

RECONCILING PREPAYMENT ENTRIES

PREPAYMENTS UNREALIZED VAT RECONCILIATION
If prepayments are used with Prepayments Unrealized VAT, it is challenging to reconcile the VAT Base, since both unrealized and realized prepayments use the Prepayments account (see "Prepayments Unrealized VAT" for more detail).

1. In the General Ledger Setup window, select the Prepayment Unrealized VAT check box.
2. On the VAT Posting Setup card, set Unrealized VAT Type to something other than blank, for example, Percentage.
   
   Note: You may need to add the Unrealized VAT Type column to the window. To do so, click the Customize button, and then click Choose Columns.
3. Create a sales order with a prepayment requirement.
4. Post the prepayment invoice.
5. Apply a payment to the prepayment invoice.
6. Review the G/L Entries to confirm that VAT was moved from the unrealized to the realized Sales VAT account, but prepayment VAT Base (posted on Sales Prepayment G/L Account) remains posted to same account.
Since a dedicated receivables account for prepayments is missing (see “Settling Prepayment Invoices” for more detail), to see the unsettled prepayment invoice amount in the G/L you sum Sales Prepayment Account and the related VAT account to get this value. You get the same sum if you look at VAT Entries (unrealized base and amount) and at General Ledger Entries.

Realizing VAT, by applying a payment to the prepayment invoice, posts the payment amount against the receivables account and moves unrealized VAT from the Unrealized VAT account to the realized VAT Account. After this operation, the same logic for calculating and reconciling unsettled prepayment invoice amount in the general ledger is no longer valid. You will no longer get the same sum if you look at VAT Entries (realized base and amount) and at General Ledger Entries.

PREPAYMENTS IN PAYABLES AND RECEIVABLES REPORTS
Because prepayments are posted to the payables and receivables accounts, Microsoft Dynamics NAV doesn’t distinguish them from regular receivables or payables transactions. In addition, in supply of goods transactions, they are not liabilities/assets because nothing has been shipped or received at this point in time. When posting prepayment transactions, Microsoft Dynamics NAV sets the Prepayment check box to Yes in Customer and Vendor Ledger entries to distinguish them from other receivables and payables.
When you print the Customer/Vendor Entries Due and Customer/Vendor Balance reports, prepayments are included in the reports.
For reasons mentioned previously, it is difficult to distinguish open prepayment invoices for which you are expecting payment from ones for which you have received payment and reconcile them against G/L entries.
NORTH AMERICAN SALES TAX LIMITATIONS

The prepayments feature has been in a limited release for North America since its original inclusion in Microsoft Dynamics NAV 5.0. At that time, the integration between Sales Tax and Prepayments was difficult because a user had to release a sales order to have tax calculated on the orders for North America. This was due to different rounding requirements for United States and Canada sales tax. The prepayments feature didn’t allow for the release of the order until the prepayment was posted. Therefore, the functionality was mutually exclusive – you could have prepayments but there was no way to know the tax because you could not release the order to get the tax calculated.

Microsoft Dynamics NAV 5.0 SP1 added the ability to generate the tax calculation, so a prepayments invoice could include the amount of taxes in the prepayment required amount. However, this introduced another challenge: When posting the prepayments invoice, there is no posting to the tax ledger. There is a simple calculation of the tax, which is included in the prepayment invoice amount.

CONCLUSION

The prepayments feature was designed to create documentation for financial transactions only. The inclusion of scenarios that had more advanced usage of prepayments and related tracking and reconciliation requirements were not all considered or included at the introduction of the feature.

For some Microsoft Dynamics NAV customers, the absence of these features may be critical, for others, this absence can be worked around or accepted as is.

Since the prepayments feature was first released, users have started to see the advantages of the feature and have asked for more functionality, for example, payments and invoice scheduling, support for more advanced scenarios, for example, reconciling paid prepayments, item dependent VAT calculation and tracking, credit memos for individual prepayment invoices, and so forth. We’re aware of the issues these limitations pose for prepayments users and we’re planning to redesign the feature in a future release.

This paper has given both an overview of the supported scenarios and feature set as well as listed the known limitations. This information is designed to help inform existing and future users of prepayments of the feature’s ability to meet company specific requirements for prepayment processes.
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