

Title: Financial: Prepaid Expense Procedure  
Policy Administrator: Controller, Finance Department  
Effective Date: Apr-01-2024  
Approved by: Elizabeth Dionne, Associate VP for Finance

### Prepaid Expense Procedure

**Description:** Prepaid expenses are amounts that have been paid in advance of receiving benefit from the product or service. The amount of benefit not yet received is an asset to the College. As the amount expires, the asset is reduced and the amount of the reduction is reported as an expense on the income statement. This ensures that the expense is recorded in the same year as the benefit is received.

**Materiality:** No prepaid expense is required to be recorded on any transaction less than \$10,000. Expenses should not be recorded as prepaid expenses if they are less than \$2,500. This is the threshold we have determined to be immaterial to financial reporting. (Note: Controller's Office reserves the right to adjust this threshold based on analysis of activity).

**Expense System:** Best practice for invoices or charges entered through an expense system (i.e. Chrome River) is always to record the prepaid to Account Code 1501 with Allocation to the appropriate department (i.e. 1000-340000) through the system so no Journal Entry is required from the Controller's Office.

**Invoices:** If an invoice has a period of service in the next fiscal year but will actually be paid (not just submitted) in the current fiscal year then it should be recorded to Account Code 1501.

**Example:** Invoice is dated in FY2024 (03/01/24) that is for a service to be provided in FY2025 (07/15/24) and is for \$3,000. The invoice should be recorded to 1501 for FY 2024 and then the Controller's Office will move the expense out of 1501 in July for FY2025.

**Exceptions:** If an expense cannot be allocated to Account Code 1501 in the expense system or is paid outside of the expense system, is greater than \$10,000 and needs to be recorded as a prepaid, the Controller's Office will need to be notified so that we can move the expense to prepaid expenses.

**Contracts:** If an invoice is for a contract period that spans fiscal years then it should be prorated and put to both 1501 and the related expense account (typically starts with 5xxx or 6xxx). This allocation should be entered into Chrome River when the invoice is submitted for payment. The invoice and/ or contract should be included as support that identifies the contract period. If the charge is not allocated between years in Chrome River when the invoice is entered, the Controller's Office will have to be notified to do a Journal Entry.

**Example:** IT has a contract that runs from 1/1/2024 to 12/31/2024 for \$100,000 to be paid in June of 2024. 6 months (1/1/2024 - 6/30/2024) is attributable to FY2024 and should be in expense. 6 months (7/1/2024 - 12/31/2024) is attributable to FY2025 and should be in prepaids.

Allocation of invoice:

- \$50,000 goes to expense account for FY2024
- \$50,000 goes to prepaid expense account 1501 to be relieved to expense in FY2025