



COLLEGE OF CHARLESTON POLICY AND PROCEDURE

Number & Title: Prepaid Expenses

Originated: 4/27/06

Reviewed:

Owner: Controller's Office

Revised:

Policy Statement:

The College of Charleston records its assets in accordance with Generally Accepted Accounting Principles (GAAP) and pronouncements issued by the Governmental Accounting Standards Board (GASB). GAAP requires that all College operations be maintained on the *accrual basis* of accounting. This requires that expenses be recorded in the period that the goods and/or services are received and/or rendered.

Procedure:

- A. Recording Prepaid Expenses – Payments of \$750 or more for goods or services to be received in future accounting periods will be recorded as prepaid expenses. Such amounts are not reflected in the department's expenses for the current year but are reported as assets in the College's financial statements. On July 1, a reversing journal entry will be made to charge the expenses to the next fiscal year.

In some instances, a payment for goods or services will need to be allocated between fiscal years based on the unused portion of the payment. The unused portion at the end of the first fiscal year is an asset of the College to be expensed in subsequent periods as the benefits of the asset are derived.

- B. Supporting Documentation – The Controller's Office is responsible for maintaining source documents, working papers, and files supporting prepaid expense transactions for internal and external audit and review. At a minimum, supporting documentation should include a description of the

prepaid expense, the amount expended, date of receipt for goods, and the contract terms for services.

- C. **Review and Reconcile Prepaid Expenses** – The Controller’s Office is responsible for reviewing and reconciling all prepaid expense accounts on a monthly basis. A complete review includes ensuring that supporting documentation is available and up to date for each item included in the account. The accounts should also be reviewed for reasonableness.

Roles and Responsibilities:

It is the responsibility of the COFC Controller’s Office to assure compliance with this policy and related procedures. The Controller’s Office is required to establish and maintain accounting systems to collect, record, and report on prepaid expenses. Departments that purchase goods or services in advance are responsible for maintaining adequate records showing dates of receipt and/or dates of service.

Definitions:

For College of Charleston purposes, a prepaid expense is a current year payment of \$750 to be received in the next fiscal year. Expenses for goods and services may be allocated between fiscal years based on the unused portion of the payment. The unused portion at the end of the first fiscal year is an asset of the College to be expensed in subsequent periods as the benefits of the asset are depleted.

Examples:

1. A subscription is purchased for \$1,200. The subscription period is from July 1 through June 30 which covers a future fiscal year. The entire amount will be accrued because it is for a future period and meets the dollar threshold set by the college.
2. A subscription is purchased for \$1,200. The subscription period is for April 1 through March 31 which straddles fiscal years. The College will expense \$300 during the current year and accrue \$900 because \$900 represents the amount that is for a future period and has met the dollar threshold set by the college.
3. A subscription is purchased for \$1,200. The subscription period is for January 1 through December 31 which straddles fiscal years. The college will expense the entire amount because while \$600 of the subscription price is for a future period it does not meet the dollar threshold set by the college.