



EASTERN
MICHIGAN UNIVERSITY

Prepaid Expense Policy and Procedures

Description: Prepaid expenses are future expenses that have been paid in advance. In other words, prepaid expenses are costs that have been paid but are not yet used up or have not yet expired. As the amount expires, the current asset is reduced and the amount of the reduction is reported as an expense on the income statement.

Concur: Best practice for invoices or charges entered through Concur is always to allocate the prepaid to A180 through Concur so no Journal Entry is required from General Accounting. All prepaid charges should be accompanied by the Prepaid Expense Form found on the General Accounting website.

Materiality: No prepaid expense is required to be recorded on any transaction less than \$1,000.00. This is the threshold we have determined to be immaterial to financial reporting. (Note: General Accounting reserves the right to adjust this threshold based on analysis of activity).

Invoices: If an invoice has a period of service in the next fiscal year (for example: 2021 right now) but will actually be paid (not just submitted) in the current fiscal year (for example: 2020 right now) then it should be recorded to account A180.

Example: Invoice is for a service to be provided in FY2021 and is for \$2,500. The invoice should be recorded to A180 for FY 2020 and then General Accounting will move the expense out of A180 in July for FY2021.

Travel: If an expense is for travel, is greater than \$1,000.00 and needs to be recorded as a prepaid (and can't be allocated to A180 through Concur) General Accounting will need to be notified so that we can move the expense to prepaid expenses (A180). Prepaid travel charges should be accompanied by the Prepaid Expense Form found on the General Accounting website to ensure that all information to properly relieve the expense in the next fiscal year is included.

Example: Charge for a flight or other prepaid travel of \$2,500 is recorded to A180 in Concur. Notify General Accounting along with the completed prepaid expense form and they will relieve the charge out of the expense account 4040 to prepaid account A180 in the following fiscal year.

Athletics: Athletics often has larger prepaid travel expenses due to group travel for sports teams. These should be put to A180 when entered into Concur as well. This applies in particular to group charges that might not otherwise need to be put to prepaid expense (such as hotel charges paid up front to achieve a group rate).

Contracts: If an invoice is for a contract period that spans fiscal years then it should be prorated and put to both A180 and expense. If this allocation can be entered into Concur when the invoice is entered that is considered to be best practice (and should be accompanied by the Prepaid Expense Form found on the General Accounting website to ensure that all information to properly relieve the expense in the next fiscal year is included). If the charge is not allocated between years in Concur when the invoice is entered, General Accounting will have to be notified to do a Journal Entry.

Example: IT has a contract that runs from 1/1/2020 to 12/31/2020 for \$100,000.00 to be paid in June of 2020

6 months (1/1/2020 - 6/30/2020) is attributable to FY2020 and can be in expense (3015)

6 months (7/1/2020 - 12/31/2020) is attributable to FY2021 and should be in prepaid (A180)

Allocation of invoice:

\$50,000 goes to 3015 for FY2020

\$50,000 goes to A180 to be relieved to expense in FY2021