



PREPAID EXPENSES POLICY

Policy #	Origination Date	Responsible Office	Status	Approval Date
		Business & Finance	2018 Draft	

Reason for Policy/Purpose Update

To update review and update prepaid expenses policies.

Policy Statement

Dillard University records its assets in accordance with Generally Accepted Accounting Principles (GAAP) and pronouncements issued by the Financial Accounting Standards Board (FASB). GAAP requires that all operations be maintained in the accrual basis of accounting. This requires that all expenses be recorded in the period that the goods and/or services are received and/or rendered.

Who Needs to Know This Policy

This policy affects all departments of Dillard University.

Definitions

Prepaid expenses are expenses that have been paid in one year but have not yet been fully used or consumed at the end of the accounting period.

Matching Principle is a concept of accrual accounting which states that expenses should be recorded during the period in which they are incurred regardless of when the transfer of cash occurs.

Amortized is gradually writing off the initial value of an assets to expense

Policy/Procedures

Dillard University recognizes most expenses after the goods have been received or services rendered. However, purchases made in the current year that benefit the next fiscal year, in excess of \$5,000 must be recorded as a prepaid asset and amortized over the period benefited based on the matching principal. Expenses are recognized when consumed.

A few examples of typical prepaid expenses include annual maintenance contracts, dues and memberships, and insurance. (For example, if the University pays a six-month insurance premium in advance on 6/1/20XX, the amount recorded as prepaid after the first month would be five/sixths of the premium).

The department personnel who request the purchase must provide appropriate documentation so the accountant and the procurement department can make an accurate determination of a prepayment. Staff accountants and procurement personnel will review the requisition and other pertinent information in order to determination if the purchase qualifies as a prepaid expense.

The designated accountant will record the prepaid expense as an asset on the balance sheet. Prepaid expenses are coded to account number 10-01-001-1650 and prepaid insurance premiums are coded to account number 10-01-001-1605. As prepaid expenses are consumed, the accountant will adjust the prepaid asset account to the appropriate expense account (via monthly journal entries), following the concept of matching expenses with revenues. The amount applicable to future periods remains an asset and is available for future consumption. The adjusting journal entries are to be provided to the Controller for review prior to posting. The accountant responsible for prepaid schedule will summarize and present to Controller for review.

Website Address(es) for this Policy

Dillard University website-Office of the Controller

Contact(s)

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Who Approved this Policy

Senior Cabinet

History/Revision Dates

Origination Date: July 1, 2011

Cabinet Approval Date:

Updated: February 19, 2016

Revised:

Agreement - Signature