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Purpose

This task exists to provide the steps and considerations required to consistently record and reverse prepaid expenses. Proper recording ensures the appropriate cutoff has been recorded for financial reporting purposes, as accounting standards dictate we are required to record expenses in the appropriate period they are incurred in and not when they are paid for.

Definitions

Current year expense – the cost of goods or services that are received or used in the current year.

Direct Pay Invoices – payments initiated by invoices not associated with a Purchase Order.

FOAP – Fund, organization, account, program number.

Prepaid expense – the result of paying for a good, service or contract before the yearend date and the University receiving the good, service or contract after the yearend date. The recording of the payment is split between a current year and a prepaid expense, provided the prepaid portion is the stated minimum threshold of \$5,000.

Purchase Order (PO) invoices – payments made by invoices that relate to purchase orders set up in Banner.

Threshold – the amount of \$5,000 set by Financial Services as the minimum amount to record as a prepaid expense. A prepaid below the threshold will only be considered where revenue is also being deferred.

Yearend date – March 31st of each year. The University’s fiscal year is April 1 – March 31 for accounting and reporting annual result purposes.

Prepaid account code – the following three account codes are used to record prepaids:

- 1401 – Prepaid – General
- 1402 – Prepaid – Insurance
- 1405 – Prepaid – Leases

Responsibility

General System Functionality

- Banner Finance will automatically calculate GST expense and GST rebates for amounts coded to expense accounts through PO and AP functions (direct pay, miscellaneous cheque requisitions)
- GST is not calculated for amounts posted to expense accounts through journal vouchers

Payment Preparer for Direct Pay Invoices:

1. Determine if the University receives the good or service in future months even though the payment is being made now.
2. Determine if any of the future months are after the fiscal yearend date (i.e. April and/or beyond).
3. Calculate the prepaid portion and record it to the following FOAP only if the amount is the \$5,000 minimum threshold. The prepaid portion is calculated by determining how much of the cost relates to periods after March 31.
 - For Ancillary funds – Use Ancillary FOAP with account 140X
 - For all other funds – Use 11005-XXXX-140X-XXXX
4. Calculate the current portion expense and record it using department FOAP.
5. Add both prepaid and current expenses together to ensure it agrees to the invoice total.
6. Submit approved payment to Financial Services.
7. Example in Appendix 1.

Financial Services – Financial Services Review

1. Review transactions for prepaid component, noting amounts that are in future fiscal years.
2. Prepare prepaid calculations as required.
3. Scan the prepaid expense backup to the Prepaids folder on the Financial Services shared drive. Backup would include a copy of the invoice with FOAP breakdown that has been recorded.

Financial Services – Accounts Payable Review for PO Invoices

1. Determine if any amount of an invoice relates to expenses of future months after the fiscal yearend date (i.e. April and/or beyond).
2. Accounts Payable will prepare the journal voucher to record the prepaid portion (refer to Appendix 2)
3. For PO Invoices or any prepaid being recorded on a journal voucher the amount used to record the prepaid portion should be net of the GST rebate as the rebate has already been recorded in the expense account.
4. Scan the prepaid expense backup to the Prepaids folder on the Financial Services shared drive .

Financial Services – Reconciler of Account 140X

1. Reconcile the account monthly.
2. Maintain copies of payment information for all prepaids.
3. Review accounts for unrecorded prepaids for yearend purposes. Specific accounts subject to review include:
 - 6026 Registrations
 - 6027 Subscriptions
 - 6031 Training
 - 6032 Licenses
 - 608x Memberships

- 6085 Property taxes
 - 612x Rental
 - 6152 COGS Postage
 - 6171 Lodging
 - 6172 Airfare
 - 619x Contracts
 - 6196 Insurance
 - 6203 Utilities - gas
4. Reverse all Financial Services /Accounts Payable initiated prepaid amounts for the next fiscal year by the end of the first month of the next fiscal year, or when it is appropriate to do so.

Department Review

1. Bring the prepaid to the attention of Financial Services by indicating on the invoice or in the comments or the description field of an expense claim that a prepaid entry is required and ensure the expense FOAP is provided for the purposes of the reversal.
2. Financial Services will record and reverse the prepaid.

Financial Services Approver for Travel Expenses

1. Calculate the prepaid portion and record it if the amount is \$5,000 or more for online expense claims and miscellaneous cheque requisitions for travel. If one travel expense item on a claim is prepaid, all related items on the same claim will also be recorded as prepaid even if the \$5,000 threshold is not met.
2. Print the expense claim summary as a record of the original FOAP charged which will also be used for reversal.
3. Change the expense type to “Prepaid (Fin Services use only)”.
4. Manually change the expense type to 140X on the printed claim summary.
5. Scan the prepaid expense backup to the Prepays folder on the Financial Services shared drive .Change the financial code to “Travel Advance 11005-1002-6111” for all FOAPs other than 11005 and Ancillary
6. Prepaid portions will not be recorded for professional supplement claims

Frequency

Daily, with applicable invoices

Inputs

N/A

References

- Appendix 1 Prepaid Calculation Example
- Appendix 2 Prepaid Calculation Example – PO Invoices

Authority	Contact	Last Update	Last Review
Carrie Takeyasu, Executive Director Financial Services	Kim Ordway, Associate Executive Director, Financial Services	December 2, 2013	December 2, 2013

Appendix 1 – Prepaid Calculation Example (prior to expense being paid)

1. Bill Date: Due in full October 31, 2011
2. For: Bi-Annual Maintenance Contract plus supplies
3. Term: November 1, 2011 to October 31, 2013 = *i.e. 2 years or 24 months*
4. Amount: Total invoice: \$17,850, includes
 - \$15,000 plus \$750.00 GST for the maintenance contract = *i.e. \$7,500 / year*
 - \$ 2,000 plus \$100.00 GST for the supplies (*received upon invoicing, if not they would be in the prepaid category instead of current expense*)

Contract Detail:	Current Year Expense Up to March 31, 2012	Prepaid Expense After March 31, 2012	Notes
A. Term:	Nov 1, 2011 – Mar 31, 2012 = 5 months or 152 days	Apr 1, 2012 – Oct 31, 2013 = 19 months or 579 days	<i>Use of months in the calculation is used when the dates are on the first and last days of the month. Otherwise days must be used.</i>
B. Amount converted to term	Determine amount per month or day (contract total/term): \$15,000/24=\$625/month Or \$15,000/730=\$20.55/day	Determine amount per month or day(contract total/term): \$15,000/24=\$625/month Or \$15,000/730=\$20.55/day	<i>Calculation occurs on amount EXCLUDING GST and expenses for the current year. Divided by 24 because the \$15,000 was for services provided over 2 years (i.e. 24 months, or 730 days)</i>
C. Calculation at time of invoicing	Determine the current year expense (AxB): (5 months X \$625) and supplies: \$3,125+\$2,000 = \$5,125 + 5% GST (system calc) \$5,381.25 current year expense + GST	Determine the prepaid expense (AxB): 19 months X \$625 = \$11,875 + 5% GST (system calc) \$12,468.75 prepaid expense + GST	Banner will record the GST rebate during processing. Verification: Current year expense + Prepaid = invoice total: \$5,381.25 + \$12,468.75 = \$17,850 total invoice
D. Prepaid Reversal	n/a	Determine the prepaid net of GST Prepaid per above PLUS GST LESS Rebate \$12,468.75-(67% of GST) \$12,070.94 CR Prepaid 140X, DR Expense 6XXX	Net GST is determined by taking the GST charge less GST rebate as recorded in Banner

Conversion to Canadian currency from alternate currencies completed as a result of D. calculation and posting of invoice. GST will be self assessed as required on foreign expenses in addition to amounts calculated above. GST self-assessments are coded to the expense only – no prepaid portion will be recorded.

Appendix 2 – Prepaid Calculation Example (Journal Voucher prepaid entries)

1. Bill Date: Due in full October 31, 2011
2. For: Bi-Annual Maintenance Contract plus supplies
3. Term: November 1, 2011 to October 31, 2013 = *i.e. 2 years or 24 months*
4. Amount: Total invoice: \$17,850, includes
 - \$15,000 plus \$750.00 GST for the maintenance contract = *i.e. \$7,500 / year*
 - \$ 2,000 plus \$100.00 GST for the supplies (*received upon invoicing, if not they would be in the prepaid category instead of current expense*)

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C. Calculation for journal voucher entry	Expense already recorded	Determine the prepaid expense (AxB): 19months X \$625 + 5% GST -67% GST rebate \$11,875+\$593.75-\$397.81 = \$12,070.94 CR expense 6XXX, DR Prepaid 140X	All GST calculations are manual when done by journal voucher. No changes required to GST balance sheet accounts as they recorded cash basis amounts for GST returns.
D. Prepaid Reversal	n/a	Reverse Entry to Record Prepaid \$12,070.94 CR Prepaid 140X, DR Expense 6XXX	

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