

**SWARTHMORE COLLEGE
BUSINESS OFFICE
POLICIES AND PROCEDURES**

HOW TO PROCESS PREPAID *and* ACCRUED EXPENSES

Overview:

1. In accordance with generally accepted accounting principles, Swarthmore College is required to report transactions in the proper fiscal period. For that reason, expenses are recorded in the period when goods are received and/or services are rendered. Swarthmore College's fiscal year runs from July 1st to June 30.
2. Goods and/or services received on *or* before June 30 will be recorded as an expense in the fiscal year ended June 30. If they are received after June 30, they will be recorded in the new fiscal year. It is important to note that neither the budgeting process nor the purchasing process has any bearing on when a transaction is recorded for financial accounting purposes.
3. Prepaid *and* accrued adjustments are intended to ensure that the College's annual financial statements present fairly, in all material respects, the financial results for the year.
4. With respect to prepaid *and* accrued expenses, departments are required to review all expenses greater than \$250 that are received throughout the entire fiscal year to ensure that the payment is expensed to the proper fiscal year. The Business Office currently reviews all items submitted for payment. If an adjustment is warranted, the Business Office will post an adjusting journal entry to ensure the payment is expensed to the proper fiscal year.
5. For *accrued* expense adjustments, the entry will ***increase current year expenses*** and decrease subsequent year expenses for the amount of the transaction.
6. For *prepaid* expense adjustments, the entry will ***decrease current year expenses*** and increase subsequent year expenses for the amount of the transaction.
7. For larger expense items it may be necessary to provide the Business Office with evidence of when the goods were received and/or services were rendered.
8. In all cases, please code the expense for payment as you normally would and also make a clear notation on the expense item itself which fiscal year should be charged based on the criteria outlined within this document.

Prepaid Expense:

1. Items over \$250 that are paid during the current fiscal year, but will not be received until the next fiscal year will be considered prepaid expenses. Please note in some instances an expense may not occur within the confines of one fiscal year. For example, a subscription renewal *or* maintenance contract may be for 9 months of one fiscal year *and* 3 months of another fiscal year. In these cases, the fiscal year in which the majority of the expense will be incurred is the proper fiscal year to which it should be charged. If, for example, an expense is for a recurring calendar year expense (and thus for 6 months in one fiscal year

and 6 months in another fiscal year) in this case, please simply charge the entire item to the current fiscal year. Please note, for larger expense items, more specific fiscal year allocations may be necessary.

2. Such amounts classified as prepaid expense items are not reflected in the expenses for the current year, but are charged to a subsequent fiscal year.
3. Examples of Prepaid Expenses:
 - Advance travel payments for trips to be taken after July 1.
 - Subscriptions *or* membership fees that begin in the next fiscal year.
 - Maintenance fees *or* contracts and software licenses with a term date beginning after July 1.

Accrued Expense:

1. A cost greater than \$250 that is incurred in the current fiscal year, but no invoice has been received prior to the fiscal year-end accounts payable closing date (typically mid-July) will be considered an accrued expense. When goods are received and/or services are rendered in the current fiscal year, an expense must be established in the current fiscal year. Please notify the Business Office Manager, at extension 8390, if this situation should present itself so an adjusting entry can be made.
2. Examples of Accrued Expenses:
 - Typical accrued expenses are monthly statements, such as telephone, utilities and credit card bills. The reporting of these expenses by the vendor is often delayed and the invoice may not be received after the accounts payable deadline (typically mid-July).
 - Receipts for travel advances that have not yet been received prior to the accounts payable deadline.
 - Equipment/item has been received as of June 30; however, no invoice has been sent/received from the vendor prior to the accounts payable deadline.
 - Contractor has not yet invoiced for work performed in the current fiscal year prior to the accounts payable deadline.

If you should have any questions regarding any of these procedures or to make expense adjustments, please feel free to contact our Business Office Manager at extension 8390.