Prepaid and Accrued Expenses

Overview

Thresholds:

**Prepaid Expense** – required for items $5,000 or more for UA and CTF, required for items $2,000 or more for Alumni, Capstone, DAF, 1831 and LSF.

**Accrued Expense** – required for items $5,000 or more for UA and CTF, required for items $2,000 or more for Alumni, Capstone, DAF, 1831 and LSF. For UA after October 15, threshold increases to $25,000 and is analyzed through November. For CTF after July 15, threshold increases to $10,000.

1. In accordance with generally accepted accounting principles, The University of Alabama and its Foundations are 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. The University of Alabama, Capstone Foundation and 1831 Foundation fiscal years run from October 1 to September 30. Alumni Association, Crimson Tide Foundation, Donor Advised Fund and Law School Foundation fiscal years run from July 1 to June 30.

2. Goods and/or services received on or before September 30 (June 30 for Alumni, CTF, DAF and LSF) must be recorded as an expense in the fiscal year ended September 30 (June 30 for Alumni, CTF, DAF and LSF). If they are received after September 30 (June 30 for Alumni, CTF, DAF and LSF), 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 annual financial statements present fairly, in all material respects, the financial results for the year.

4. Accounts Payable, Purchasing and Purchasing Card Services currently review all items submitted for payment. For accrued expenses that are Concur transactions, the invoice date should be reviewed. If the work was performed/goods received in FY2017 for UA and Sept 30 Foundation year ends, enter 9/30/17 or prior (6/30/17 or prior for June 30 year ends) to ensure that the invoice is recorded to FY2017 even if the actual invoice date on the invoice is 10/1/17 or later (7/1/17 or later for June 30 year ends). The field prompt for the year should also be updated to indicate old year versus new year by Accounts Payable. For prepaid expenses that are Concur transactions, Accounts Payable/P-Card Services will change the account code to 107101, if necessary, and notify Financial
Accounting and Reporting to 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 Accounts Payable/P-Card Services 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 documentation itself which fiscal year should be charged based on the criteria outlined within this document.

Prepaid Expense

1. Items over $5,000 for UA and CTF ($2,000 for other Foundations) 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. **Concur and Prepaid Expenses** – Departmental users should note on backup documentation to which year the expense belongs along with the appropriate expense account code. Account code 107101 Prepaid Expense should be used in Concur for these items. In some instances, it may be necessary for Accounts Payable/P-Card Services to change the account code to prepaid expense. Accounts Payable/P-Card Services will provide Financial Accounting and Reporting with backup documentation and FOPAs (Chart-Fund-Orgn-Prog-Activity) for items charged to
107101 Prepaid Expense whether by the departmental user or by Accounts Payable/P-Card Services change. Financial Accounting and Reporting will make the entry in the new year to credit prepaid expense and debit the appropriate expense account code.

4. Prepaid expenses for purchase orders may require a special request of Financial Accounting and Reporting.

5. Examples of Prepaid Expenses:
   - Advance travel payments for trips to be taken after September 30 (June 30 for Alumni, CTF, DAF and LSF).
   - Subscriptions or membership fees that begin in the next fiscal year.
   - Maintenance fees or contracts and software licenses with a term date beginning after September 30 (June 30 for Alumni, CTF, DAF and LSF).

Accrued Expense:

1. A cost greater than $5,000 for UA and CTF ($2,000 for other Foundations) that is incurred in the current fiscal year, but has not been paid prior to the fiscal year-end accounts payable closing date (typically mid-October/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.

2. **Concur and Accrued Expenses** – For payment requests, departmental users should carefully enter the invoice date for the request. The invoice date should reflect when the goods were received or when the services were performed. This may not coincide with the actual invoice date on the invoice. The invoice date determines the fiscal year placement of the invoice. If the work was performed in FY2017 for UA and Sept 30 Foundations, enter 9/30/17 or prior (6/30/17 or prior for June 30 Foundations) to ensure that the invoice is recorded to FY2017 even if the actual invoice date on the invoice is 10/1/17 or later (7/1/17 or later for June 30 Foundations). Accounts Payable will review these items to ensure that the appropriate invoice date is used and may change the invoice date prior to final approval. Departments should only reconcile old year pcard charges through October 9th for UA and Sept 30 Foundations (July 15th for June 30 Foundations). No new year pcard charges should be reconciled prior to October 18th for UA and Sept 30 Foundations (July 17th for June 30 Foundations).

3. 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 before the accounts payable
deadline (typically mid-October/July).
- Receipts for travel advances that have not yet been received prior to the accounts payable deadline.
- Equipment/item has been received as of September 30/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.

**Summary of Responsibilities:**

**Departmental users:**

- **Prepaid expenses** (items paid for in the current year but the goods or services will not be received until the next fiscal year): Be sure to use account code 107101 Prepaid Expense in Concur for these items. Please note on your backup documentation the appropriate year for expenditure (for example, FY17 or FY18). Also, make a note on your backup documentation of the expense account code that should be charged in the next fiscal year.

- **Accrued expenses** (expenses incurred in the current year but not paid until the next fiscal year): Be sure to carefully enter the invoice date in Concur. The invoice date for payment requests should reflect when the goods were received or the services were performed. This may not coincide with the actual invoice date on the invoice.

**Accounts Payable/P-Card Services:**

- **Prepaid expenses:** Verify the appropriate account code (107101) is used for prepaid items. Change the account code, if necessary. Then, send a copy of the backup documentation to Financial Accounting & Reporting (Candace Holliday for UA or to the appropriate foundation accountant). This will allow them to later make the entry to the appropriate year.

- **Accrued expenses:** Check the invoice date to be sure that the invoice date in Concur is consistent with the date when the work was performed or the goods were received. Change the invoice date, if necessary. The invoice date is key to Financial Accounting & Reporting’s accrual process.
Financial Accounting & Reporting:

- **Prepaid expenses:** Keep a file of prepaid expenses to be reversed in the new year. Prepare an entry in the new year to debit expense and credit prepaid expense.

- **Accrued expenses:** Currently, invoice date and transaction date are the system date of the invoice feed to Banner. Beginning with the Sept 30 year end, IT will change the way invoices are fed to Banner. The invoice date from Concur will feed to the Banner invoice date. For approximately the first two weeks of the new year, the transaction date will be determined by the invoice date and changed to old year – 9/30 when needed. Following these two weeks, Financial Accounting & Reporting will run reports that pull invoices for review and accrual.