

Prepaid and Accrued Expenses

Overview

1. In accordance with generally accepted accounting principles, TCNJ 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. TCNJ's fiscal year runs from July 1st to June 30th.
2. Goods and/or services received on or before June 30th will be recorded as an expense in the fiscal year ended June 30th. If they are received after June 30th, 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 \$2,500 that are received throughout the entire fiscal year to ensure that the payment is expensed to the proper fiscal year. Chart of Account (COA) corrections discovered during review should be forwarded to the Finance and Business Services Office (FBS) on or before the deadline listed in Year-end Memo annually to make the correction. All COA corrections requested after the deadline will be reviewed by FBS for materiality (over \$2,500). If an adjustment is warranted, FBS 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 the current fiscal year expenses** and decrease subsequent fiscal year expenses for the amount of the transaction.
6. For prepaid expense adjustments, the entry will **decrease current fiscal year expenses** and increase subsequent fiscal year (s) expenses for the amount of the transaction.
7. For larger expense items it may be necessary to provide FBS 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 examples

1. Expenses over \$2,500 that are paid during the current fiscal year, but will not be received/ completed 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 prepaid amount is calculated using the prepaid form and the charges are reflected in each fiscal year accordingly. 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, the expense is split between both years equally. 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 1st.
 - 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 1st.

Accrued Expense examples:

1. A cost greater than \$2,500 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 FBS@budfin@tcnj.edu 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 or contracted services. The reporting of these expenses by the vendor is often delayed and the invoice may not be received until 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 30th; 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 Controller.