

# LEGISLATIVE ASSEMBLY OF BC

## POLICY MANUAL

**Section:** Financial Management and Administration

**Policy:** 3240 Prepaid Expenses

**Authorized By:** CRAIG JAMES

**Issue/Revision Date:** JULY 23, 2015

**Signature:**

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### Purpose

The objective of this policy is to ensure prepaid expenses are accounted for in a consistent and efficient manner while complying with Public Sector Accounting Standards.

This policy applies to all Vote 1 (Legislative Assembly) expenditures. It does not apply to expenditures made by constituency offices.

### Authority

Legislative Assembly operational policies are approved and authorized by the Clerk of the House per policy 1100 *Creating and Updating Policies*.

### Key Definitions

**Prepaid Expense:** A prepaid expense is a payment, other than for inventory or capital assets, before the criteria for expense recognition have been met (i.e. before the receipt of goods or services). The payment is expected to yield economic benefits over one or more future periods.

For accounting purposes, the Legislative Assembly has defined two specific types of prepaid expenses.

- **Time-Based:** Time based prepaid expenses are payments in advance for the receipt of a good or service that expires over a set period of time. Examples include: annual insurance premiums, software licenses, maintenance/support agreements, and subscriptions.
- **Use-Based:** Use based prepaid expenses are payments in advance for a good or service that is reduced through usage. An example is prepaid airfare.

### 1. General

- .01 The practice of paying expenses in advance should be avoided if possible. If unavoidable, or if it is beneficial to pay in advance (for example, where a discount can be received for paying early), prepayment is allowed.
- Please contact Financial Services for additional guidance on the appropriateness of prepaid expenses.

### 2. Accounting and Reporting Requirements

- .01 A prepaid expense exists when a payment is made for goods or services that are not received during the current fiscal year.
- .02 The amount relating to the current fiscal year should be expensed. The value of the future benefit portion should be recorded as an asset in the prepaid expense account. As the goods and services are received in subsequent years, that portion of the asset should be reduced (i.e. amortized) and recorded as an expense.
- .03 For administrative efficiencies, a Time-Based prepaid expense should only be recorded at fiscal year-end when the amount is greater than \$2,000.

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- .04 Use-Based prepaid expenses are recorded as an asset in the prepaid expenses account. As the assets are used, that portion of the asset should be reduced (i.e. amortized) and recorded as an expense.
- .05 Departments, with support from Financial Services, are responsible for ensuring that prepaid expenses are properly coded for processing.
- .06 Departments must appropriate budget funds in the fiscal year in which goods and services are expected to be received and/or used.

### Contacts

Please contact [financialservices@leg.bc.ca](mailto:financialservices@leg.bc.ca) for questions regarding this policy.

### Procedures

No detailed procedures have been created related to prepaid expenses.

### References

There are no applicable references for this policy.