

University of Rhode Island

Miscellaneous Prepaids Procedures

PURPOSE:

To establish a procedure to standardize the accounting and reporting of prepaid services and deposits in the accounting ledgers.

SCOPE:

This procedure applies to the following University of Rhode Island expenses:

- required payment to the vendor before goods/services are obtained, or
- payment for service/agreement that span across fiscal periods.

ACCOUNTING PROCEDURE:

Purchases must be recorded in the fiscal year and period the goods/services are received/rendered. To better manage payments for prepaid services, the University of Rhode Island has set the following thresholds:

Prepaid:

- **Purchases for services less than or equal to \$25,000**

Purchases for contracts and services that span two fiscal years and total less than or equal to \$25,000, will be expensed to the organizational budget in the fiscal year the services are paid.

Example 1:

- Invoice for 12-month service contract for time period January 1, 2021-December 31, 2021 which totals \$20,000.
 - The total of this service (\$20,000) will be expensed at time of payment in FY21.
 - The CFS allocation can no longer be split into 6 month increments in order to account for one-half in FY21 and one-half in FY22 using prepaid account 1500.

Example 2:

- Invoice for 18-month service contract for time period January 1, 2021-June 30, 2022 which totals \$20,000.
 - The total of this service (\$20,000) will be expensed at time of payment in FY21.
 - The CFS allocation can no longer be split into increments in order to account for 6 months in FY21 and 12 months in FY22 using prepaid account 1500.

- **Purchases for services greater than \$25,000**

Purchases for contracted services that span two fiscal years and exceed \$25,000 in cost per year will be recorded to the prepaid asset account. When services begin, the organizational budget will be charged on a fiscal year basis, starting when the contract terms begin through the expiration date.

Example:

- Invoice for 12-month service contract for time period January 1, 2021- December 31, 2021 which totals \$30,000 will be split into 2 fiscal years using the prepaid account.
- 6 months (\$15,000) of the service will be expensed in FY21 and 6 months (\$15,000) will be paid using the prepaid account 1500 (and expensed in FY22).

- **Purchases for multi-year services less than or equal to \$25,000**

Purchase for contracts and services that span multiple fiscal years and total less than or equal to \$25,000 will be charged to the organizational budget in the fiscal year the services are paid.

Example:

- Invoice for 3-year service contract for time period July 1, 2021-June 30, 2023 which totals \$15,000.
 - The total of this service (\$15,000) will be expensed at time of payment in FY21.
- The CFS allocation can no longer be split into yearly increments to account for one-third in FY21, one-third in FY22 and one-third in FY23 using the prepaid account 1500.

- **Purchases for multi-year services greater than \$25,000**

Purchase for contract and services that span multiple fiscal years and exceed \$25,000 in total will be recorded to the prepaid asset account. When services begin, the organizational budget will be charged on a fiscal year basis, starting when the contract terms begin through the expiration date.

Example:

- Invoice for 3-year service contract for time period July 1, 2021-June 30, 2023 which totals \$30,000 (\$10,000/year) will be split amongst 3 fiscal years using the prepaid account.
- 1 year of the service will be expensed in FY21, and the allocation of the remaining service will go into the prepaid account 1500 for each respective fiscal year the service occurs:
 - Expense Account: FY21 \$10,000
 - Prepaid Account: FY22 \$10,000
 - Prepaid Account: FY23 \$10,000