

## 12.2 Prepaid Expenses

### Policy Statement

The Province of Nova Scotia records its assets in accordance with pronouncements of the Canadian Institute of Chartered Accountants and/or the Public Sector Accounting Board.

### Definitions

#### **ASSET**

An asset of the province is an item that has future benefit that can be controlled by the province and that is derived from past transactions.

#### **PREPAID EXPENSE**

A prepaid expense is a cash disbursement or other transfer of economic resources, other than an outlay for inventory or capital property, before the criteria for expense recognition have been met, that is expected to yield economic benefits over one or more future periods. It is recorded as an asset at the time of incurrence and amortized to expenses over the periods expected to benefit from it. Prepaid expenses generally expire either through the passage of time, such as prepaid rent or insurance, or through use or consumption. Prepaid expenses are non-financial assets.

#### **PREPAYMENT**

A prepayment (also called Advance Payments or Preflows) are financial assets of the transferring government. Prepayments finance future operations because the government will not have to pay cash to the recipient in the future when the transfer is due, e.g., operating or capital grants paid in advance of the operating period or capital expenditure, respectively.

#### **FINANCIAL ASSETS**

Financial assets are assets that could be used to discharge existing liabilities or finance future operations that are not for consumption in the normal course of operations.

#### **NON-FINANCIAL ASSETS**

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge exiting liabilities, but instead:

- a) are normally employed to deliver government services
- b) may be consumed in the normal course of operations; and
- c) are not for sale in the normal course of operations.

**Policy Objectives**

This policy explains which payments qualify as prepaid expenses to create consistent application across departments. The objective is to record expenses in the period in which the goods are received or services consumed and to avoid having prepayments incorrectly classified as prepaid expenses.

**Application**

This policy applies to all members of the government reporting entity.

**Policy Directives**

A prepaid expense exists when a payment is made for goods or services that are not received during the current period. This does not include prepayments, such as grants. The amount relating to the current period should be expensed in that period. The value of the future benefit portion should be recorded as an asset in the prepaid expense asset accounts. As the goods or services are received in subsequent periods, that proportion of the value should be expensed to operations. When all goods or services are received in full, the prepaid expense account balance should be zero.

**Policy Guidelines**

Common prepaid expenses include fees paid for a specified period of time extending beyond a period end date or advance payments for shipments of goods or delivery of service. Some examples include annual professional dues, insurance premiums, advance lease payments, retainer fees, and subscriptions.

Prepayments should be classified as Accounts receivable and Advances (financial assets) and kept separate from prepaid expenses (non-financial assets).

Materiality should be a consideration when assessing this policy. A prepaid expense should be recorded in situations where expensing the full payment would result in material misstatement of the period's expenses and assets.

**Accountability**

Departments are responsible to ensure that prepaid expenses are properly reflected in their accounts.

## Monitoring

These accounts are subject to review by Government Accounting and the auditors. Government Accounting will monitor the policy's implementation, performance, and effectiveness.

## Enquiries

Director, Government Accounting, Department of Finance (902) 424-7021

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Approval date:	<b>January 9, 2003</b>	Effective date:	<b>July 5, 2001</b>
Approved by:	<b>Executive Council</b>	Administrative update:	<b>August 21, 2008</b>

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