

12.2 Prepaid Expenses

Policy Statement

It is the policy of the Province of Nova Scotia (Province) to record and report its assets on an accrual basis in accordance with Canadian public sector accounting standards (PSAS).

Definitions

ASSET

An asset of the Province is an item that has future benefit to the Province, can be controlled by the Province, and is derived from a past transaction.

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 a non-financial 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, such as prepaid licenses. Prepaid expenses do not include government transfers for which the Province will not receive any goods or services directly in return.

FINANCIAL ASSETS

Financial assets are assets that can be used to discharge existing liabilities or finance future operations that are not for consumption in the normal course of operations. Prepayments or advances finance future operations because the government will not have to pay cash to the recipient in the future. See Policy #12.1 on Advances.

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

The objective of this policy is to provide guidance on the types of payments that qualify as prepaid expenses to facilitate consistent application across departments.

Application

This policy applies to all of the Province's departments, public service units, agencies, boards, and commissions contained in the General Revenue Fund (hereinafter referred to as "departments").

Organizations outside of the General Revenue Fund (GRF) but within the Government Reporting Entity (GRE) are encouraged to adopt a policy that allows for the accurate and consistent reporting of prepaid expenses. This policy should comply with the entity's generally accepted accounting framework. It is recognized that many entities may already have an appropriate policy in place. These organizations are responsible for reporting their prepaid expenses, and any significant deviations from this policy, to the Government Accounting Division as part of the year-end consolidation reporting requirements.

Policy Directives

This policy only applies to cash disbursements or other transfers of economic benefits for goods or services that are received by government directly in return. Transfers of economic resources that do not result in the government receiving a direct good or service in return are accounted for as government transfers under section PS 3410. A prepaid expense exists when a payment is made for goods or services that are not received during the current period.

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.

Expenses are to be recorded in the period in which the goods are received or services consumed.

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.

Accountability

Department staff and Financial Advisory Services Units serving the departments are responsible for ensuring that prepaid expenses are properly reflected in their accounts.

Monitoring

Financial Advisory Services Units are responsible for monitoring the implementation and compliance of this policy. Government Accounting is responsible for monitoring the application, performance, and effectiveness of this policy.

Enquiries

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