Appendix C: Examples of Proper Expense Recognition Accounting

Example: Accounting for Accrued Expenses	

Example 1. The Commencement Office does not receive a bill for the Commencement tent rental prior to the year-end Accounts Payable close.

Fiscal year 20X1	Fiscal year 20X2
Debit/charge object code 6773: Rentals, Short Term^ Rentals of Equipment, Furniture+Fixtures, GENERAL	Debit/charge object code 2191: A/P Closing Accruals
Credit object code 2191: A/P Closing Accruals	Credit object code 6773: Rentals, Short Term^ Rentals of Equipment, Furniture+Fixtures, GENERAL

The tent rental expense and any known installation or other related costs must be accrued. The amounts of these costs are determined by contacting the vendor or by calculating an estimate based upon the terms of the rental contract. The entry is recorded as of June 30, 20X1 and reversed in fiscal year 20X2, when the rental company's invoice will be paid. When the rental company's invoice is paid in fiscal year 20X2, it would be charged to the same expense object code used in the accrual. The net effect of these transactions is to record the expense in fiscal 20X1 and zero out the expense in fiscal year 20X2, when the payment is made.

Example: Accounting for Prepaid Expenses	

Example 1: Radcliffe enters into a six-month software maintenance agreement. When the initial payment is made in April of 20X1, it is fully expensed to object code 8092, "Software^Hardware, Software+Network Fees, Repairs, Maintenance Svcs." At the end of June, three months of the contract term remain.

A prepaid expense asset must be recorded for half of the payment amount, given that three out of six months remain in the contract term. The entry is recorded as of June 30, 20X1 and reversed in fiscal year 20X2, when the remaining services will be provided. The net effect of the following two entries is to recognize the expense over the term of the agreement: three months' worth in fiscal year 20X1 and three months' worth in fiscal year 20X2.

Fiscal year 20X1	Fiscal year 20X2
Debit/charge object code 0540: Prepaid+Accrued Items	Debit/charge object code 8092: Software^Hardware, Software+Network Fees, Repairs, Maintenance Svcs
Credit object code 8092: Software^Hardware, Software+Network Fees, Repairs, Maintenance Svcs	Credit object code 0540: Prepaid+Accrued Items

Alternatively, Radcliffe could have initially charged half of the payment to object code 8092, "Software^Hardware, Software+Network Fees, Repairs, Maintenance Svcs" and half to object code 0540, "Prepaid+Accrued Items," thereby recording the prepaid expense asset upon payment and avoiding the need to record a journal entry at year-end. If the prepaid expense asset were recorded in this manner, a separate entry would need to be recorded after year-end to recognize the remaining three months of expense in fiscal year 20X2 and reduce the prepaid expense asset.

Example: Accounting for Deposits Paid

Example 1: HRES rents overflow office space. The rental agreement requires a security deposit of $10,000. HRES expenses the security deposit payment to object code 7230, "Rentals+Leases of Space, GENERAL." The following entry is recorded to move the payment to object code 0550, "Security Deposits Paid."

Debit/charge object code 0550: Security Deposits Paid	Credit object code 7230: Rentals+Leases of Space, GENERAL

This amount must be recorded as a deposit asset upon payment or no later than quarter-end. Alternatively, HRES could have initially charged the payment to object code 0550, "Security Deposits Paid," thereby recording the deposit asset appropriately upon payment and avoiding the need to record a journal entry at quarter-end.

When a security deposit is returned to the University, HRES would fill out a Credit Voucher and submit it to the Cash Receipts department to credit the deposit to object code 0550, "Security Deposits Paid" in order to reduce the deposit asset.

Example 2: The Medical School leases an MRI machine from Brigham & Women's Hospital (BWH). In connection with this lease, BWH requires a deposit of $10,000. The Medical School pays the deposit amount in February of 20X1 and charges the payment to object code 0550, "Security Deposits Paid."

Debit/charge object code 0550: Security Deposits Paid	Credit object code 0010*: Cash (automatically credited when the payment is made)

This amount was correctly recorded as a deposit asset upon payment. If the Medical School had initially charged the payment to an expense object code, the Medical School would have needed to process a journal entry to credit the expense and debit the security deposit asset prior to quarter-end.

When the security deposit is returned to the University, the Medical School would instruct the Cash Receipts department to credit the deposit to object code 0550, "Security Deposits Paid" in order to reduce the deposit asset.

*Object code 0010 "Cash" is debited on the Central Bank's balance sheet and a due to/from entry is created crediting object code 0375 "CO^Due to/from Tub" on the Central Bank's balance sheet and debiting object code 0375 on the appropriate tub's balance sheet.