

1320 Prepaid Expenses

A. Overview

A prepaid expense exists when a prepayment is made for goods or services that are not received during the current period. Prepaid expenses may arise from prepayments for insurance premiums, leases, professional dues, memberships and subscriptions.

B. Accountability

Ministries are responsible for maintaining source documents, working papers and files supporting prepaid expense transactions for internal and external audit and review.

Ministries are required to:

- establish and maintain accounting systems to collect, record and report information on their prepaid expenses;
- establish and maintain adequate internal control systems to ensure the accuracy and reliability of prepaid expense information and reports; and
- monitor prepaid expense balances and record transactions promptly and accurately.

C. Procedures

Prepayments are coded to the appropriate expense account and are subject to appropriation when the expense is incurred. Ministries cannot code invoices directly to account 105000 Prepaid Expenses. Changes in account 105000 Prepaid Expenses are recorded through account 588950 Change in Prepaid Expenses. Transactions recorded in account 588950 Change in Prepaid Expenses do not affect appropriation but do adjust total expense.

The payment of a transfer (grant) before a recipient meets eligibility criteria, is recorded as an expense and not a prepaid transfer. Refer to [Appendix E - Government Transfers Application Guidance](#) for further guidance.

Prepayment amounts will be disclosed by supplier in Volume 2 of the Public Accounts in the year the payments are made.

C1. Throughout the Year

Prepaid expenses can be adjusted at any point during the year by journal entry with no impact on appropriation.

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C. Procedures *(continued)*

C1. Throughout the Year *(continued)*

Example 1.1

Ministry X had \$10,000 in prepaid expenses recorded at March 31 for two months of professional dues paid for employees. Ministry X reverses the prepaid expense in the next fiscal year.

Debit	588950 Change in Prepaid Expenses	10,000	
Credit	105000 Prepaid Expenses		10,000
* journal entry to reverse the prepaid expenses; expense recorded but no impact to appropriation			

C2. Quarter end

Any significant prepayments made in a previous quarter for costs that relate to a subsequent quarter are set up as prepaid expenses. Any significant decrease to prepaid expenses previously recorded should be adjusted by journal entry at quarter end. For purposes of quarter-end accruals, significant is defined to be amounts in excess of \$1 million.

Example 2.1

Ministry X pays \$3,000,000 on April 1 to Worker's Compensation Board for insurance premiums. The term of the policy is for one year (April 1 to March 31). At June quarter end, only one quarter of the policy period has elapsed, so the remaining portion is a prepaid expense.

Debit	578200 Pension and Benefits	3,000,000	
Credit	25xxxx Accounts Payable		3,000,000

* invoice or debit memo to record payment on April 1; expense recorded and subject to appropriation

The prepaid portion of the insurance premium at June 30 of \$2,250,000 ($\$3,000,000 \times \frac{3}{4}$) is significant (in excess of \$1 million).

Debit	105200 Accrued Prepaid Expenses	2,250,000	
Credit	588950 Change in Prepaid Expenses		2,250,000

* journal entry on June 30 (set up to reverse in July) to record the prepaid expense; no impact to appropriation

Refer to [Appendix B - General Revenue Fund Quarter-end Procedures](#) for guidance on recording journal entries that reverse in the following month.

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C. Procedures (*continued*)

C3. Year end

Prepayments that relate to a subsequent year(s) are set up as prepaid expenses.

Example 3.1

Ministry X pays \$120,000 on January 1 for insurance premiums on a building. The term of the policy is for the calendar year. At year end, only one quarter of the policy period has elapsed, so the remaining portion is a prepaid expense.

Debit	522500 Insurance Premiums	120,000	
Credit	25xxxx Accounts Payable		120,000

* invoice or debit memo to record payment on January 1; expense recorded and subject to appropriation

Debit	105000 Prepaid Expenses	90,000	
Credit	588950 Change in Prepaid Expenses		90,000

* journal entry to record prepaid expense (\$120,000 x 9/12 months); no impact to appropriation

D. Definition

A **prepaid expense** is a payment for goods and services (not a transfer payment), other than for inventory or capital assets, before the criteria for expense recognition have been met (i.e., before receipt of goods or services). The payment is expected to yield economic benefits over one or more future periods. Prepaid expenses are recorded as non-financial assets and amortized to expenses over the periods the goods or services are received.

E. References

[Appendix B - General Revenue Fund Quarter-end Procedures](#)

[Appendix E - Government Transfers Application Guidance](#)

Financial Administration Manual

[3150 Timing of Supplier Payments](#)

Public Sector Accounting Handbook

PS 1200 Financial Statement Presentation

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