

## Guidelines for Prepaid Expenses

A prepaid expense is a payment made to an external supplier in advance of receiving products or services.

Specific units with material prepaid expense activity throughout the year use prepaid expense accounting routinely and have been assigned a unique prepaid expense account.

**Very few other units need to use prepaid expense accounting.** As Financial Services performs a review at fiscal year end and records any material prepaid expenses at the institutional level, the majority of units are not required to identify prepaid expenses. For most units, products or services are received and paid for within the same fiscal year, or the year-over-year difference is not material. Therefore, when a payment is made for products or services to be received in a subsequent fiscal year, the unit will code the invoice payment to the expense account (502xxx – 506xxx account ranges). If the payment is \$100,000 or more and the unit does not wish it to be reflected in the current fiscal year (i.e. would prefer to “defer” the expense until the products or services are received), the unit will contact Supply Management Services to request that the transaction be recorded as a prepaid expense. **No amount less than \$100,000 will be recorded as prepaid expense.**