



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: Current Assets
Sub-section: Prepaid Assets and Deferred Charges

Effective Date: 07/01/1999

Revision Date: 07/01/2004

General Procedures

Generally, for budgetary basis of accounting purposes, prepaid items should **not** be recorded since expenditures such as rent and insurance are usually budgeted in the year that the payment is made regardless of the year to which the transaction applies. If such transactions are not budgeted and prepaid items are recorded, offsetting reserves should not be disclosed for budgetary basis of accounting purposes.

Deferred charges normally pertain to bond issuance costs. Deferred charges should not be recorded on the budgetary basis of accounting.

Recognition of Expenditures

Prepaid items include transactions for prepaid expenses such as rents and insurance. In the governmental funds and governmental component units, only significant prepayments should be recorded as assets. Other prepayments should be charged directly to expenditures. Determining the significance of prepaid items is a matter of professional judgment and should be determined on a per fund basis taking into effect the cumulative amount of all fund prepayments.

Prepayments and deferred charges are established as an asset at the date of payment and are subsequently amortized over the accounting periods that are expected to benefit from the initial payment. For example, the purchase of a three-year property insurance policy for \$45,000 would be recorded as follows:

		<u>Debit</u>	<u>Credit</u>
156001	Prepaid Items – Insurance	\$ 45,000	
200001	Accounts Payable		\$ 45,000

(To record the purchase of a three year \$45,000 property insurance policy).

At the end of each year, the partial expiration of the insurance coverage would be recorded as follows:

		<u>Debit</u>	<u>Credit</u>
620002	Insurance and Bonding - Property	\$ 15,000	
156001	Prepaid Items - Insurance		\$ 15,000

(To record a year's expense on a three-year \$45,000 property insurance policy).

Prepayments are reported as assets of the specific fund that will derive future benefits from the expenditure. In the above example, the agency would report prepaid insurance as a \$30,000 asset at the end of the first year of the insurance coverage within the fund for which the insurance was purchased.

Deferred charges for bond issuance costs are normally amortized over the life of the bond issue.

Classification of Fund Balance*Governmental Funds*

Because prepayments are not current financial resources, fund balance should be reserved in the amount presented on the balance sheet as an asset. Thus, at the end of the first year in the above example, the following entry would be made:

	<u>Debit</u>	<u>Credit</u>
390001 Unreserved Undesignated Fund Balance (Surplus)	\$ 30,000	
333001 Fund Balance – Nonspendable		\$ 30,000

(To reserve fund balance at the end of year one on a three-year \$45,000 property insurance policy).

The reserved fund balance would fluctuate each year as a result of changes in the carrying value of the prepayment.

Synopsis of Significant Variances between GAAP and Budgetary Basis

If GAAP financial statements are not provided, SAO must be furnished with information to meet the following GAAP reporting requirements:

- GAAP requires prepayments to be recorded as assets (and classified as nonspendable fund balance in governmental funds) regardless of the year in which the payment is budgeted (provide amounts/accounts relating to material prepayments which were recorded as expenditures).
- Bond issuance costs are recorded as deferred charges on proprietary fund and government-wide statements (provide amount/accounts relating to costs associated with debt issuance/premiums/discounts on debt).

Year-end reporting forms are provided on the SAO website at SAO.Georgia.gov > [Reporting](#) > [Year-End Reporting](#) > [Reporting Forms](#).