



**Agency Policies and Procedures**

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## Prepaid Expenses

### Policy Objectives:

Agency policies and procedures for processing of prepaid expenses are designed to:

- Ensure consistent accounting treatment for prepaid expenses agency-wide,
- Establish when an expense will be considered incurred, and
- Guarantee that an expense is recorded as it is incurred.

### Background Information:

Prepaid expenses are included as assets based on the concept of matching expenses with revenues. Expenses are recognized when consumed, this will increase the usefulness of the financial statements by giving a more realistic portrayal of the division's operations.

These agency policies and procedures supplement the [MAPS Operations Manual Policy and Procedures 0803-01](#), paragraph S, *Payment Requests, Preparation and Approval*.

### Authority:

- **Minnesota Statute**  
[M.S. § 16A.065 Prepay Software, Subscriptions, United States Documents](#) – This statute authorizes the commissioner of finance to allow an agency to make advance payments for specific goods or services that are not cost effective to pay in arrears.
- [MAPS Operations Manual Policy and Procedure 0803-01](#), specifies the state's policies and procedures on requesting, preparing, approving, and processing payments. In addition, this policy identifies the specific goods and services that can be prepaid.

### Business Risks:

- If expenses are not recognized in the correct period(s), a material misstatement of the financial position could be presented.

### Policies and Procedures:

1. Division personnel purchase goods and services in accordance with [FMR-4A-01, Purchasing \(Ordering, Receiving & Payment Processing\)](#).
2. Division personnel authorize and process payments for goods and services.

3. The division personnel *must* notify the Financial Management and Reporting (FMR) Division accountant of any expenses paid prior to the receipt of goods or services, along with the period when these expenses will be consumed. Direct communication between the FMR Division accountant and division personnel is *critical* to the recording of prepaid expenses.
4. The FMR Division accountant records the prepaid expense as an asset on the balance sheet.
5. As prepaid expenses are consumed, the FMR Division accountant adjusts the prepaid asset account to the appropriate expense account, following the concept of matching expenses with revenues. The amount applicable to future periods remains an asset and is available for future consumption.
6. The FMR Division accountant contacts the division personnel for additional information on prepaid expenses. This may include obtaining copies of invoices.