

## What are Prepayments?

### **SGL Definitions**

The Standard General Ledger (SGL) definition for account 1450 Prepayments states they are for "expenditures that provide future benefits," but the posting examples given in the transactions listing never post expenditures--instead they result in a posting to 4802 Undelivered Orders - Advanced/Prepaid. These are the same postings as are used for 1410 Advances, whose definition states these are "made in contemplation of the future. . . incurrence of expenditure."

### **How Prepayments are Often Used**

Most agencies I work with post to 1450 when they incur an expenditure (in agreement with the SGL account definition), but haven't yet gotten the benefit, e.g., when they pay rent a month in advance. In this way, they treat debits to 1450 like the purchase of an asset. However, when the services are received and 1450 is credited, they usually post to funded expenses, not an unfunded account (as is done for the depreciation of an asset). So when these agencies reconcile expenditures to expenses, their expenditures = expenses + asset purchases + net change in prepayments. This treatment works for prepayments because, unlike fixed assets, an agency would never transfer or retire a prepayment.

The main difference between prepayments and advances is that, for an advance, the agency doesn't know if or how the funds will be used. They are waiting for a travel voucher or some other invoice and possibly also a refund of any unused portion. Prepayments, on the other hand, are generally made against an invoice.

### **Effect on Eliminations**

In some cases, such as payments to GSA for rent, both the seller and buyer know how much is attributable to each month. The buyer can debit 1450 when the payment is made, then credit 1450 and debit 6100 Operating Expenses when the benefit is received. The seller agency can credit 2320 Deferred Credits when the money is received, and later move this to 5200 Revenue from Services Provided. If this is done, Treasury should be able to properly eliminate the buyer's expense against the seller's revenue.

In cases where the buyer controls the benefits, such as purchasing postage stamps from the USPS, the seller would normally credit the whole amount to revenue, which would cause an eliminations imbalance for whatever amount the buyer determines was prepaid. To assist with Treasury's eliminations, the buyer would either have to expense the whole amount initially with USPS as the vendor, then capitalize the unused portion at the end of the month with a non-federal vendor; or the buyer would have to notify the seller how much revenue to recognize each month.

### **Summary**

The description in the SGL of account 1450 Prepayments does not match the suggested postings, but does agree with how many agencies use this account. There is obviously a

need for an expended prepayment account, so why don't the SGL transaction listings show one?

Comments, suggestions, and critiques are welcome. Send them to [Simcha.Kuritzky@ams.com](mailto:Simcha.Kuritzky@ams.com), and not to the AGA