HARVARD
Faculty of Arts and Sciences

Accounting Topics Quick Guide

Prepaid Expenses

What is it?

A prepaid expense occurs when the University makes advanced payments for goods or services to be received or benefited from in the future.

Prepaid expenses are held on the balance sheet as an asset until the University receives or benefits from the goods or services —then it is recognized as an incurred expense.

How does it affect me?

Following GAAP guidelines, it is important to ensure that expenses are recorded in the same period as the benefit generated from said expense.

At year-end especially, we want to ensure that any expenses paid in the **current fiscal year** for products or services received or benefited from in the **next fiscal year** is properly reflected in the general ledger.

How do I account for it?

The object code for prepaid expenses is 0540. This is the code that will be used on the debit line of the journal.

The object code for the credit line will be where the expense belongs once recognized.

Example

Some members of Department X are attending a conference in August of 2021. They have paid for the lodging in advance of the conference, and the payment was made in June 2021. The payment was made under object code 7652—Lodging^Domestic Travel.

Because the payment was made in FY21, but the expense for the conference won't be incurred until FY22, the expense must be placed into prepaids.

The journal type must be "Auto JV Rvrsl," so it will reverse automatically in the next period—in this case, the next fiscal year.

Uplo	TUB	ORG	OBJECT	FUND	ACTIVITY	SUBACTIVITY	ROOT	Debit	Credit	Line Description
	* List - Text							* Number	* Number	Text
	370	32380	0540	000000	000000	0000	00000	100,000.00		PREPAID: conference lodging expense paid in FY21 but relates to FY22
	370	32380	7652	000001	600100	0000	00000		100,000.00	PREPAID: conference lodging expense paid in FY21 but relates to FY22
Totals:								100,000.00	100,000.00	