

## **Statutory Issue Paper No. 29**

### **Prepaid Expenses (excluding deferred policy acquisition costs and other underwriting expenses, income taxes and guaranty fund assessments)**

#### **STATUS**

**Finalized March 16, 1998**

**Original SSAP and Current Authoritative Guidance: SSAP No. 29**

#### **Type of Issue:**

**Common Area**

#### **SUMMARY OF ISSUE**

1. A prepaid expense is an amount which has been paid in advance of receiving future economic benefits anticipated by the payment. Current statutory accounting guidance requires prepaid expenses to be recorded as nonadmitted assets. This conflicts with the GAAP treatment which states that prepaid expenses are to be recorded as assets and expensed over the period that the benefits are received from the payment.
2. The purpose of this paper is to establish statutory accounting principles for the accounting for prepaid expenses that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).

#### **SUMMARY CONCLUSION**

3. Prepaid expenses generally meet the definition of an asset in *Issue Paper No. 4—Definition of Assets and Nonadmitted Assets* (Issue Paper No. 4). Such expenditures also meet the criteria defining nonadmitted assets as specified in Issue Paper No. 4 (i.e. the assets are not readily available to satisfy policyholder obligations). Prepaid expenses shall be reported as nonadmitted assets and charged against unassigned funds (surplus). They shall be amortized against net income as the estimated economic benefit expires. In accordance with the reporting entity's capitalization policy, immaterial prepaid expenses may be expensed when purchased.

#### **DISCUSSION**

4. The conclusion above is consistent with the definition of nonadmitted assets as noted in Issue Paper No. 4, which defines an asset as "*probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.*" Issue Paper No. 4 further states that an asset that is not readily available to satisfy policyholder obligations shall be reported as a nonadmitted asset. Prepaid expenses meet the definition of a assets as they represent future economic benefits obtained as a result of past transactions. Additionally, prepaid expenses meet the definition of nonadmitted assets because they are not readily available to satisfy policyholder obligations.

