

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

5. Chapter 9, *Nonadmitted Assets*, in the Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies includes “other prepaid expenses” in its list of “Common Examples” of nonadmitted assets. Chapter 9, *Nonadmitted Assets*, in the Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies contains similar wording.

6. Many states also include prepaid expenses as nonadmitted assets. An example is the Regulations of the Alabama Insurance Department, Regulation No. 18, *Admissibility of Assets*, which states “*Admitted assets, for example, will not include such items as furniture and fixtures, automobiles, supplies, prepaid expenses...*”.

7. Some states nonadmit most prepaid expenses but allow particular prepaid expenses to be recorded as admitted assets. An example is the Virginia Insurance Laws, Title 38.2 - Insurance, Chapter 13, *Reports, Reserves and Examination, Insurance Holding Companies*, Article 2. Valuation and Admissibility of Assets which nonadmits “*prepaid and deferred expenses except prepaid property taxes.*”

Generally Accepted Accounting Principles

8. *Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins, Chapter 3, Working Capital*, states:

4. For accounting purposes, the term current assets is used to designate cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. Thus the term comprehends in general such resources as...(g) prepaid expenses such as insurance, interest, rents, taxes, unused royalties, current paid advertising service not yet received, and operating supplies.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- *Issue Paper No. 4—Definition of Assets and Nonadmitted Assets*
- Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies, Chapter 9, *Nonadmitted Assets*
- Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies, Chapter 9, *Nonadmitted Assets*

Generally Accepted Accounting Principles

- *Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins, Chapter 3, Working Capital*
- *AICPA Practice Bulletin No. 13, Direct-Response Advertising and Probable Future Benefits*
- *AICPA Statement of Position 93-7, Reporting on Advertising Costs*
- *FASB Emerging Issues Task Force No. 88-23, Lump-Sum Payments under Union Contracts*

State Regulations

- Virginia Insurance Laws, Title 38.2 - Insurance, Chapter 13, *Reports, Reserves and Examination, Insurance Holding Companies*, Article 2. Valuation and Admissibility of Assets
- Regulations of the Alabama Insurance Department, Regulation No. 18, *Admissibility of Assets*