Prepaid Expense Amortization Guide 2026-2027

Book prepaids once, spread them by month, tie out the balance. For QuickBooks Desktop and QuickBooks Online files.

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Use with Prepaid_Expense_Amortization_Scheduler_2026 (.xlsx)

Built by a US tax and bookkeeping practice with 20+ years of bookkeeping experience.

Important. This guide is educational. It is not tax, legal or accounting advice and does not guarantee any result. The tax deduction timing for prepaid expenses can differ from book amortization; ask your tax preparer how your prepaids are treated on your return.

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What a prepaid expense is

A **prepaid expense** is a payment for something you will use over future months: an annual insurance policy, a yearly software plan, a trade show booth for next spring. On accrual books, the payment first goes to an asset account (Prepaid Expenses), then a slice moves to expense each month.

> **Example:** pay $12,000 for 12 months of insurance. Day of payment: debit Prepaid Insurance 12,000 / credit Bank 12,000. Each month-end: debit Insurance Expense 1,000 / credit Prepaid Insurance 1,000. After 12 months the prepaid balance is 0.

Why people get stuck

- QuickBooks has no built-in amortization schedule for prepaids, so many people track it in a spreadsheet, or forget.
- Forgotten entries leave the prepaid sitting on the Balance Sheet and understate expenses.
- Several policies with different start dates make the monthly amount change.
- Odd amounts (like 1,199 / 12) leave rounding pennies behind.

How the scheduler handles it

Rule	What it means
Straight-line by month	Amount paid ÷ number of months, rounded to cents
Last month absorbs rounding	1,199 over 12 = 99.92 × 11 + 99.88; total stays 1,199.00
Starts on the first service month	Payment in November for a February event expenses in February
Not paid yet	If the date paid is after the month-end, it is left out of the balance

Step 1: Set up the account and record the payment

QuickBooks Desktop

1. **Lists > Chart of Accounts > Account > New**. Choose **Other Account Types > Other Current Asset**.
2. Name it, for example "Prepaid Insurance" or "Prepaid Expenses".
3. Record the payment with **Write Checks** or **Enter Bills**, using the prepaid account on the Expenses tab.

QuickBooks Online (explained step by step)

1. Open the **Chart of accounts** (type it in the search bar if the menu differs) and select **New**.
2. For account type choose the current-asset type (shown as **Other Current Assets** or **Current assets**), and if a detail type is offered, choose **Prepaid Expenses**.
3. Record the payment with **+ New > Expense** (or **Bill**), and put the prepaid account in the Category column.

> Use the same account names in the workbook as in QuickBooks. The JE tab and the tie-out match accounts by name.

Step 2: Fill in the scheduler

Column	What to type	Example
Item	Short description	General liability insurance
Prepaid account	Asset account from Step 1	Prepaid Insurance
Expense account	Where the monthly slice goes	Insurance Expense
Amount paid	Total payment	4,800.00
Date paid	Payment date	06/20/2026
First month	First month of service	Jul 2026
Months	Number of months covered	12

Type any date in the month you are closing at the top. The green boxes show **this month's expense** and the **prepaid balance after posting**. Example values: December 2026 expense 909.92, balance 6,179.80.

Step 3: Post the monthly journal entry

The **JE for Month** tab lists every line for the chosen month: one debit to the expense account and one credit to the prepaid account per item. Enter them as **one** journal entry dated the month-end.

QuickBooks Desktop

- **Company > Make General Journal Entries**. Copy the lines, check that debits equal credits, save.
- To reuse the layout, memorize it (**Ctrl+M**). Review the amounts each month: they change when an item starts, ends or hits its rounding month.

QuickBooks Online (explained step by step)

1. Select **+ New > Journal entry**.
2. Set the **Journal date** to the month-end and the **Journal no.** to the number shown (for example PP-2026-12).
3. Enter each line: Account, Debits or Credits, Description. Select **Save**.
4. Optional template: Intuit's help article on recurring transactions shows the path **All apps > Accounting > Recurring transactions > New**, then pick the transaction type, name the template and choose Scheduled, Reminder or Unscheduled.

> **Use Reminder or Unscheduled, not Scheduled,** for amortization templates. A scheduled entry posts the same amount every month, but your total changes when items start or end. Recurring transactions are not included in every QuickBooks Online plan (an Intuit community answer says Simple Start does not have them). If yours lacks it, enter the entry each month.

Example: December 2026 (example values)

Account	Debit	Credit
Insurance Expense	760.00	
Software & Subscriptions	99.92	
Dues & Licenses	50.00	
Prepaid Insurance		760.00
Prepaid Expenses		149.92
Total	**909.92**	**909.92**

The workbook lists one debit and one credit per item; this table groups them by account.

Step 4: Tie out the balance

After posting, run the **Balance Sheet** as of the same month-end. On the **Balance Tie-Out** tab, type each prepaid account name and its QuickBooks balance. The tab compares it with the schedule.

Difference	Common cause	What to do
QuickBooks higher	A month's entry was missed	Post the missing month (check the Monthly Grid)
QuickBooks lower	Payment was expensed directly, or an entry was posted twice	Reclass the payment or delete the duplicate
Not matched to an account	Account name typed differently	Use the exact QuickBooks name

Example: Prepaid Expenses shows a 99.92 difference, one month of the software plan was not posted (example values).

Year-end checklist

✓	Task
☐	Every prepaid paid this year is on the list (insurance, software, licenses, deposits for events)
☐	December entry posted and the tie-out shows "all accounts match"
☐	Items that ended this year show "Done" and a 0.00 balance
☐	Refundable security deposits are kept out (they are not amortized)
☐	Your tax preparer knows which prepaids cross into next year
☐	Closing date set after review

> **Need a hand?** taxnpaypro.com is a US tax and bookkeeping practice with 20+ years of bookkeeping experience (English and Korean) and can review year-end adjustments with you.

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