SECTION C **EXAMPLE ACCOUNTING ENTRIES**

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A. **Inventory Accounting**

Inventory items, such as food, donated commodities, and supplies, are current assets of a school district. All inventories should be accounted for by using the purchases method. Under the purchase method, purchases of inventories are recognized as expenditures when the goods are received. At the end of the period, no adjustment is made to the expenditure account. At the beginning of the year inventory amounts would be adjusted by the increase or decrease in the ending inventories.

Purchases Method:

1. Under the purchase method, purchases of inventories are recognized as expenditures when the goods are received. For example, if the district purchased $25,000 of food or supplies, when the goods are acquired, the transaction would be recorded as follows:

	Debit	Credit
Expenditures	$25,000	
Claims payable or cash or revenue (for donated commodities)		$25,000

2. At the end of the fiscal year, no adjustment is made to expenditures even though only $15,000 of goods were used or consumed. However, if it were concluded that the ending inventory of goods was significant, the following entry would be made at the end of the fiscal year:

Inventory of food, donated commodities, or supplies	$10,000	
Increase in reserve for inventory		$10,000

3. Under the purchase method, it is necessary to reserve the fund balance as a non-spendable fund balance by an amount equal to the reported value of the inventories since the inventories reported as assets do not represent a proper component of net current assets (i.e., it is not available for appropriation and expenditure).

4. As the annual ending inventory reflected under the purchase method changes from period to period, the related non-spendable fund balance will change by the same amount. This change is recorded as follows:

[NOTE: The debit entry to reflect an increase in inventory would be offset by an equal credit to revenue function code #7200 (increase in reserve for inventory) while the credit entry to reflect a decrease would be offset by an equal debit to expenditure function code #8200 (decrease in reserve for inventory). When the accounting records are "closed" at fiscal year-end and the balance sheets are prepared, the increase/decrease accounts are "closed" directly to fund equity as reflected by the following entries:]

Increase in reserve for inventory	$X,XXX	
Fund balance –non-spendable for inventory		$X,XXX
Fund balance –non-spendable for inventory	$X,XXX	
Decrease in reserve for inventory		$X,XXX

5. For financial reporting purposes, the district may, at their discretion, make all entries except the entries to acquire the inventories, once a year at the fiscal year-end. This is not to preclude more frequent accounting for inventories that may be required by some other state or federal agency.

B. **Leases**

Beginning in fiscal year 2022, GASB 87 (Leases) is effective for financial statement reporting purposes. Capital leases and the related terminology associated with capital leases will no longer exist. Leases (lease-purchase) whereby ownership is transferred to the district by the end of the lease and have no termination options will be treated as a finance lease. For GASB reporting purposes, the total amount of the lease is recorded as a debt obligation. The initial lease and the subsequent payments should be recorded in the district's accounting records as follows:

1. Finance Lease (formerly capital lease):
Assume a five-year lease and ownership transfers to the district. The cost of the equipment, if purchased, would be $15,000. Yearly payments are $3,200 (Principal of $3,000 and Interest of $200). Payments are made from the General Fund.

The following entry is necessary at the inception of the lease agreement:

General Fixed Assets Subsidiary Ledger:	Debit	Credit
Leased property under finance lease	$15,000	
Investment in general fixed assets		$15,000

General Long-term Debt Subsidiary Ledger:		
Amount to be provided for payment for ret. of GLTD	$15,000	
Obligation under finance lease		$15,000

General Fund:		
Expenditure	$15,000	
Other financing sources – inception of finance lease		$15,000

When the yearly payments are made, the following entries would be made:

General Fund:		
Debt service - principal	$3,000(*)	
Debt service - interest	$ 200(*)	
Claims payable or cash		$3,200

General Long-term Debt Subsidiary Ledger:		
Obligation under finance lease	$3,000(*)	
Amount to be provided for ret. of GLTD		$3,000(*)

(*) ***These amounts would normally change each year as the allocation of the annual payment between principal and interest changes.***

After the lease obligation has been fulfilled, the following entry would be made:

General Fixed Assets Subsidiary Ledger:		
Buildings, equipment, or other fixed assets category	$15,000	
Leased property under finance lease		$15,000

2. Operating Leases:

Operating leases are essentially rental of property. See Section M of this manual for the appropriate function and object codes. The operating lease payments would be recorded as follows.

	Debit	Credit
Rentals	$X,XXX	
Claims Payable or Cash		$X,XXX

3. Installment Purchase Agreements:

Property purchased under an installment purchase agreement should be accounted for in a manner similar to property acquired under a lease-purchase (finance lease) agreement. Account titles would change to reflect the installment purchase agreement wording.

For GASB 34 financial statement reporting purposes for operating leases, an asset (right-of-use asset) will be reported on the GASB financial statements at the present value of the payments to be made during the term of the lease and any payments made to lessor at the beginning of term plus certain direct costs. Likewise, a liability will be recorded at the present value of the payments to be made during the term of the lease. For each year thereafter, the district should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

For further guidance in reporting leases on your GASB 34 financial statements, see GASB 87 and/or discuss with your financial auditor.

C. <u>Tax and Revenue Anticipation Notes</u>

Tax and revenue anticipation notes should be accounted for in the district maintenance fund, as a current liability.

On Oct 1, 20XX, the school district, issued a revenue anticipation note payable in the face amount of $435,000. At issuance of the note, the school district receives the note proceeds of $435,000. On Oct 10, 20XX, the district pays $6,525 in costs of issuance. On March 31, 20XX, the district repaid the note in full including interest of $15,000.

The following entries would be made in the district maintenance fund to record the transactions:

October 1, 20XX	Debit	Credit
1. Cash	$435,000	
Revenue anticipation notes payable		$435,000
October 10, 20XX		
2. Expenditures - issuance costs (Functions 2510 or 2513)	$6,525	
Cash		$6,525
March 31, 20XX		
3. Expenditures – Interest (function 2510 or 2513)	$15,000	
Revenue Anticipation Notes Payable	$435,000	
Cash		$450,000

D. **Debt Extinguishment (Advance Refunding)**

Assume a school district did an in-substance defeasance of old debt as described below:

The school district issued 20XX G.O. Bonds in the face amount of $2,355,000 to advance refund $2,175,000 of the $2,610,000 outstanding from its 1988 G.O. Bonds. The $2,175,000 advance refunded represents the principal portion of the old bond issue that will not mature prior to the call date, which is five years from now. The other $435,000 of the old debt was not advance refunded since it will mature on or before the call date and, therefore, will continue to be serviced through the existing debt service fund previously established for the old debt. The new bonds, dated May 1, 20XX, were issued for face value of $2,355,000 plus $6,751 of accrued interest; however, the school district only received $84,251 on May 31, 20XX, from the bond issue because the remainder was paid directly by the purchaser to the escrow agent. The school district used $77,500 of the $84,251 that it received to pay the bond issuance costs and related costs on June 17, 200X, as provided by the terms of the new bond issue; the other $6,751 was paid on that date to the debt service fund for the new bonds since it represented the accrued interest required to be placed in that fund. The first interest payment on the 20XX G.O. Bonds in the amount of $61,603 was paid to the paying agent by the school district on November 1, 20XX.

The following entries would be made in the applicable Governmental Fund Type fund(s) to record the transactions:

1988 G.O. Bonds Debt Service Fund (or 1988 G.O. Bonds Refunding Debt Service Fund) -

May 31, 20XX	Debit	Credit
1. Cash	$ 84,251	
Payment to refunded bond escrow agent	$2,277,500	
Proceeds of refunding bonds		$ 2,355,000
Due to other funds (20XX G.O. Bonds Debt Service Fund)		$ 6,751

To record proceeds of Refunding Bonds and payment to escrow agent.

June 17, 20XX		
2. Expenditures - debt service – other	$ 77,500	
Due to other funds (20XX G.O. Bonds Debt Service Fund)	$ 6,751	
Cash		$ 84,251

To record payment of bond issuance costs and amount due 20XX G.O. Bond Debt Service Fund for accrued interest.

20XX G.O. Bonds Debt Service Fund

May 31, 20XX		
3. Due from other funds (1988 G.O. Bonds Debt Service Fund)	$ 6,751	
Other payables		$ 6,751

To record amount due from 1988 G.O. Bonds Debt Service fund

June 17, 20XX		
4. Cash	$ 6,751	
Due from other funds (1988 G.O. Bonds Debt Service Fund)		$ 6,751

To record receipt of funds due from the 1988 G.O. Bonds Debt Service Fund

November 1, 20XX

		Debit	Credit
5.	Other payables (Accrued Interest)	$ 6,751	
	Expenditures - Debt service - interest	$ 54,852	
	Cash		$ 61,603

To record payment of interest

General Long-term Debt Subsidiary Ledger:

6.	G. O. bonds payable (1988 issue)	$2,175,000	
	Amount to be provided for ret. of GLTD	$ 180,000	
	G. O. bonds payable (200X)		$2,355,000

To remove defeased debt and record G.O. refunding bonds payable

E. **Construction in Progress**

Assume: A new addition (no renovations or remodeling) to the high school has been approved in the amount of $5,000,000. A capital projects' fund received the proceeds, and all payments will be made from this same fund. A contract was signed, and work began in March 200X. Payments of $750,000 have been made through June 30, 200X. Work completed to date, as certified by the architect on the billings, amount to $1,150,000 as of June 30, 200X. A 10% Retained Percentage is required. The Architect has a signed contract for 6% of the construction contract.

Capital Projects Fund - (3000's)

Adjustment # 1:	Debit	Credit
Facilities Acquisition and Construction Services	$750,000	
Cash		$750,000
Adjustment # 2:		
Facilities Acquisition and Construction Services	$424,000	
[NOTE: Construction $400,000 and $24,000 for architect fees]		
Construction Contracts Payable		$ 285,000
Retained Percentage Payable (10% of $1,150,000)		$ 115,000
Claims Payable (Architect 6% of $400,000)		$ 24,000

General Fixed Assets Subsidiary Ledger:

Adjustment # 3:

Construction in Progress	$1,174,000	
Investment in General Fixed Assets		$1,174,000

[NOTE: Includes $750,000 and $424,000]

F. **<u>Qualified Zone Academy Bonds Payable (QZAB)</u>**

<u>Assume:</u> The school district has entered into an agreement with a lending institution that qualified the debt obligation to be classified as Qualified Zone Academy Bonds Payable. Proceeds of $1,000,000 issued under the three-mill debt authority were received and placed in a Capital Projects Fund. All requirements surrounding this situation have been met. The agreement with the lending institution requires the district to remit $100,000 each year for 10 years. These remittances are held in trust for ten years and then the trust department will pay the debt obligation, in total, at that time. Each remittance is due by June 30. As part of the requirements a local business has agreed to contribute $25,000 in cash each year to help satisfy the debt obligations.

A local business must agree to contribute 10% of the loan amount to the project.

<u>Adjustment # 1:</u>

<u>Debt Service Fund - Three mill note fund (fund #'s - 4021-4029)</u>	**<u>Debit</u>**	**<u>Credit</u>**
Payment to Qualified Zone Academy Debt Escrow Agent	$100,000	
Cash and other deposits		$100,000

[Note: To record payment of yearly transfer to the lending institution. This fund should be used to account for the tax revenue received from the three-mill note levy.]

Adjustment # 2:

<u>Debt Service Fund - QZAB Debt Retirement Fund (Fund #'s -4091-4999)</u>

Cash with fiscal agent	$100,000	
Payment to Escrow Agents (Other Financing Source)		$100,000

[Note: To record payment of yearly transfer to the lending institution. These funds are held by the trust department but should be considered the district's funds.]

<u>Adjustment # 3:</u>

<u>Debt Service Fund - Three-mill note fund (fund #'s - 4021-4029)</u>

Cash with fiscal agent	$25,000	
Contributions and donations from private sources (Local Sources Revenues)		$25,000

[Note: To record the contribution from the local business.]

<u>Adjustment # 4:</u>

<u>Debt Service Fund - QZAB Debt Retirement Fund (Fund #'s -4091-4999)</u>
[NOTE: This adjustment will depend on the bank statement information as of June 30 of each fiscal year. Information should be reviewed to determine what accounts will be affected. The trust department may keep some of the funds in cash. If so, that amount would remain as "Cash with fiscal agent".]

Investments	$125,000	
Cash with fiscal agent		$125,000

[NOTE: The trust account bank statement note money is in T-Bills, U.S. Treasury Notes, or other investments.]

Adjustment # 5:

Debt Service Fund - QZAB Debt Retirement Fund (Fund #'s -4091-4999)

Fiscal agent fees (object code 845)	$ 300	
Cash with fiscal agent	$2,200	
Interest revenue		$2,500

[NOTE: To record noted bank service charges and interest earned for the fiscal year ending June 30.]

Adjustment # 6:

General Long - Term Debt Subsidiary Ledger

	Debit	Credit
Amount Available in Debt Service Funds	$ 127,200	
Amount to be Provided for Retirement of GLTD	$ 872,800	
Tax Credit Bonds/Loans Payable		$1,000,000

[***NOTE: The total amount of debt remains for ten years or until actual debt is repaid by the trust department of the lending institution. The amount available would change each year end to account for funds held by the trust account.]***

NOTE: The amount reported as cash w/ fiscal agents for QZABs should be reported as restricted assets in the Government~~al~~ wide financial statements (Exhibit A of the GASB 34 financial statements)

G. **Qualified School Construction Bonds Payable (QSCB)**

Assume: The school district has entered into an agreement with a lending institution that qualified the debt obligation to be classified as Qualified School Construction Bonds Payable. Proceeds of $1,000,000 issued under the three-mill debt authority were received and placed in a Capital Projects Fund. All requirements surrounding this situation have been met. The agreement with the lending institution requires the district to remit $100,000 each year for 10 years. These remittances are held in trust for ten years and then the trust department will pay the debt obligation, in total, at that time. Each remittance is due by June 30.

Adjustment # 1:

Debt Service Fund - Three mill note fund (fund #'s - 4021-4029)	**Debit**	**Credit**
Payment to Qualified Zone Academy Debt Escrow Agent	$100,000	
Cash and other deposits		$100,000

[Note: To record payment of yearly transfer to the lending institution. This fund should be used to account for the tax revenue received from the three-mill note levy.]

Adjustment # 2:

<u>Debt Service Fund - QSCB Debt Retirement Fund (Fund #'s -4091-4999)</u>

Cash with fiscal agent	$100,000	
Payment to Escrow Agents (Other Financing Source)		$100,000

[Note: To record payment of yearly transfer to the lending institution. These funds are held by the trust department but should be considered the district's funds.]

<u>Adjustment # 3:</u>

<u>Debt Service Fund - QSCB Debt Retirement Fund (Fund #'s -4091-4999)</u>

[NOTE: This adjustment will depend on the bank statement information as of June 30 of each fiscal year. Information should be reviewed to determine what accounts will be affected. The trust department may keep some of the funds in cash. If so, that amount would remain as "Cash with fiscal agent".]

Investments	$125,000	
Cash with fiscal agent		$125,000

[NOTE: The trust account bank statement note money is in T-Bills, U.S. Treasury Notes or other investments.]

<u>Adjustment # 4:</u>

<u>Debt Service Fund - QSCB Debt Retirement Fund (Fund #'s -4091-4999)</u>

Fiscal agent fees (object code 845)	$ 300	
Cash with fiscal agent	$2,200	
Interest revenue		$2,500

[NOTE: To record noted bank service charges and interest earned for the fiscal year ending June 30.]

<u>Adjustment # 5:</u>

<u>General Long - Term Debt Subsidiary Ledger</u>

	Debit	Credit
Amount Available in Debt Service Funds	$ 127,200	
Amount to be Provided for Retirement of GLTD	$ 872,800	
Tax Credit Bonds/Loans Payable		$1,000,000

[***NOTE: The total amount of debt remains for ten years or until actual debt is repaid by the trust department of the lending institution. The amount available would change each year end to account for funds held by the trust account.]***

NOTE: The amount reported as cash w/ fiscal agents for QSCBs should be reported as restricted assets in the Governmental wide financial statements (Exhibit A of the GASB 34 financial statements)

H. <u>Subscription Based Information Technology Arrangements (SBITAs)</u>

<u>Assume:</u> Founder School District uses Drops to maintains its financial accounting records. Founder recognizes its contract with Drops as a SBITA due to the following facts:

1. The agreement does not meet the definition of a lease under GASB 87
2. The agreement provides the school district the use and control of an instance of the financial accounting software in an exchange-like transaction.
3. The agreement has a defined, finite, non-cancelable subscription term of three years.

- Subscription Start Date: July 1, 2022
- Subscription End Date: June 30, 2025
- First Payment Date: July 1, 2022
- Payments: $10,000 annually, paid in advance (on July 1st)
- Discount Rate: 3% (stated in contract or government estimated incremental borrowing rate should be used)

Periodic Payment (P)	10,000.00
Rate per Period (r)	3.00%
Number of Periods (n)	3
Present Value	29,134.70

GASB 96 SBITA Amortization Schedule

Period	Cash	Interest Expense	Liability Reduction	Accured Interest Liability	Cummulative Accrued Interest Liability	Subscription Liability	Amortization Expense	Net Subscription Asset Balance	Accumulated Amortization
Beginning Balance						$ 29,135		$ 32,135	
Jul-22	$ 10,000	0	$ 10,000	$ -	$ -	$ 19,135	$ 893	$ 31,242	$ 893
Aug-22		$ 32	$ -	$ 32	$ 32	$ 19,135	$ 893	$ 30,349	$ 1,786
Sep-22		$ 32	$ -	$ 32	$ 64	$ 19,135	$ 893	$ 29,456	$ 2,679
Oct-22		$ 32	$ -	$ 32	$ 96	$ 19,135	$ 893	$ 28,563	$ 3,572
Nov-22		$ 32	$ -	$ 32	$ 128	$ 19,135	$ 893	$ 27,670	$ 4,465
Dec-22		$ 32	$ -	$ 32	$ 159	$ 19,135	$ 893	$ 26,777	$ 5,358
Jan-23		$ 32	$ -	$ 32	$ 191	$ 19,135	$ 893	$ 25,884	$ 6,251
Feb-23		$ 32	$ -	$ 32	$ 223	$ 19,135	$ 893	$ 24,991	$ 7,144
Mar-23		$ 32	$ -	$ 32	$ 255	$ 19,135	$ 893	$ 24,098	$ 8,037
Apr-23		$ 32	$ -	$ 32	$ 287	$ 19,135	$ 893	$ 23,205	$ 8,930
May-23		$ 32	$ -	$ 32	$ 319	$ 19,135	$ 893	$ 22,312	$ 9,823
Jun-23		$ 32	$ -	$ 32	$ 351	$ 19,135	$ 893	$ 21,419	$ 10,716
Jul-23	$ 10,000	$ 32	$ 9,615	$ (351)	$ -	$ 9,520	$ 893	$ 20,526	$ 11,609
Aug-23		$ 16	$ -	$ 16	$ 16	$ 9,520	$ 893	$ 19,633	$ 12,502
Sep-23		$ 16	$ -	$ 16	$ 32	$ 9,520	$ 893	$ 18,740	$ 13,395
Oct-23		$ 16	$ -	$ 16	$ 48	$ 9,520	$ 893	$ 17,847	$ 14,288
Nov-23		$ 16	$ -	$ 16	$ 64	$ 9,520	$ 893	$ 16,954	$ 15,181
Dec-23		$ 16	$ -	$ 16	$ 80	$ 9,520	$ 893	$ 16,061	$ 16,074
Jan-24		$ 16	$ -	$ 16	$ 96	$ 9,520	$ 893	$ 15,168	$ 16,967
Feb-24		$ 16	$ -	$ 16	$ 112	$ 9,520	$ 893	$ 14,275	$ 17,860
Mar-24		$ 16	$ -	$ 16	$ 128	$ 9,520	$ 893	$ 13,382	$ 18,753
Apr-24		$ 16	$ -	$ 16	$ 144	$ 9,520	$ 893	$ 12,489	$ 19,646
May-24		$ 16	$ -	$ 16	$ 160	$ 9,520	$ 893	$ 11,596	$ 20,539
Jun-24	$ -	$ 16	$ -	$ 16	$ 176	$ 9,520	$ 893	$ 10,703	$ 21,432
Jul-24	$ 10,000	$ 16	$ 9,810	$ (176)	$ -	$ -	$ 893	$ 9,810	$ 22,325
Aug-24	$ -	0	$ -	$ -	$ -	$ -	$ 893	$ 8,917	$ 23,218

On July 1, 20XX, the journal entry is made to record the subscription asset and liability:

Account	Debit	Credit
Gross Subscription Asset	32,135	
Subscription Liability		29,135
Cash (for initial implementation costs)		3,000

To record initial subscription asset and liability and payment of implementation cost.

Account	Debit	Credit
Amortization Expense	893	
Subscription Liability (reduction)	10,000	
Accumulated Amortization		893
Cash (for subscription payment)		10,000

To record initial subscription payment and recognize activity for the month of July.

Account	Debit	Credit
Gross Subscription Asset	32,135	
Amortization Expense	893	
Accumulated Amortization		893
Subscription Liability		19,135
Cash		13,000

To record the combined entry for the month of July. This entry can be used to combine the previous two entries into one entry.

In the next month, August 20XX, the following entry is recorded, despite the government making a cash payment:

Account	Debit	Credit
Amortization Expense	893	
Interest Expense	32	
Accrued Interest Liability		32
Accumulated Amortization		893

To record amortization of the subscription asset and liability monthly.

In each of the following months, a similar entry will be made to amortize the asset and liability throughout the subscription term.