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. The beginning of the year inventory amounts would be adjusted by the increase or decrease in the ending inventories.

Purchases Method:

1. Under the purchases 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 purchases method, it is necessary to reserve the 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 purchases method changes from period to period, the related reserved 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 - reserved for inventory		$X,XXX
Fund balance - reserved 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

Leases by the school district are classified as either capital leases (lease-purchases) or operating leases.

1. Capital Leases (lease-purchases):

If the district has entered into a lease-purchase agreement, various entries are required to properly account for the transactions in the financial records. The entries required are presented in the example below:

Assume a five-year lease-purchase. 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 capital lease agreement:

General Fixed Assets Account Group:	Debit	Credit
Leased property under capital lease	$15,000	
Investment in general fixed assets		$15,000

General Long-term Debt Account Group:		
Amount to be provided for payment for ret. of GLTD	$15,000	
Obligations under capital leases		$15,000

General Fund:		
Expenditures	$15,000	
Other financing sources - inception of capital leases		$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 Account Group:

Obligations under capital leases	$ 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 Account Group:

Buildings, equipment or other fixed assets category	$15,000	
Leased property under capital leases		$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.

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 (capital lease) agreement. Account titles would change to reflect the installment purchase agreement wording.

C. Deferred Compensation Plans

[NOTE: As explained on page B-5 of this manual, effective January 1, 1997, the Mississippi Deferred Compensation Plan (MDCP), an IRC Section 457 plan, is no longer considered to represent assets and liabilities of the school districts that have employees who participate in the plan.]

D. Revenue Anticipation Notes

[NOTE: This would apply for Tax Anticipation Notes also.]

Participation in the Mississippi School Boards Association (MSBA) cash flow management program should be accounted for in the district maintenance fund. Assume a school district participated in the plan for the fiscal year with the following results:

On July 10, 200X, the school district, through the MSBA CFM Program, 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 and pays the same to the program's trustee. The program's trustee allocates the $435,000 as follows: $6,525 to costs of issuance, $30,060 to interest on notes, and the remaining $398,415 to net proceeds available to the school district. The school district makes a draw down of $273,513 on August 1, 200X, and repays the $273,513 draw down on March 1, 200Y. The program's trustee credited the school district with investment earnings totaling $24,577 for July 10, 200X through June 30, 200Y and $12,582 for July 1, 200Y through August 10, 200Y. The note was repaid by the program's trustee on August 10, 200Y and the remaining balance of $574 in the account was paid to the school district on August 25, 200Y.

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

		Debit	Credit
July 10, 200X			
1.	Cash	$435,000	
	Revenue anticipation notes payable		$435,000
July 10, 200X			
2.	MSBA cash flow management plan assets	$398,415	
	Expenditures - issuance costs (Functions 2510 or 2513)	$6,525	
	Expenditures - interest (Function 2510 or 2513)	$30,060	
	Cash		$435,000
August 1, 200X			
3.	Cash	$273,513	
	MSBA cash flow management plan assets		$273,513
March 1, 200Y			
4.	MSBA cash flow management plan assets	$273,513	
	Cash		$273,513

June 30, 200Y

5.	MSBA cash flow management plan assets	$ 24,577	
	Revenues - interest		$ 24,577

August 10, 200Y

6.	MSBA cash flow management plan assets	$ 12,582	
	Revenues - interest income		$ 12,582

August 10, 200Y

7.	Revenue anticipation notes payable	$435,000	
	MSBA cash flow management plan assets		$435,000

August 25, 200Y

8.	Cash	$ 574	
	MSBA cash flow management plan assets		$ 574

The balance sheet for the district maintenance fund at June 30, 200Y, would include the asset MSBA cash flow management program assets with a debit balance of $422,992 and the liability revenue anticipation notes payable with a credit balance of $435,000. The difference of $12,008 would represent the net effect for the fiscal year ending June 30, 200Y, on the fund balance of the district maintenance fund due to the reporting of program revenues of $24,577 and program expenditures of $36,585.

E. Debt Extinguishment (Advance Refunding)

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

The school district issued 200X 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, 200X, 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, 200X, 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 200X G.O. Bonds in the amount of $61,603 was paid to the paying agent by the school district on November 1, 200X.

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, 200X			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 (200X G.O. Bonds Debt Service Fund)		$ 6,751
	To record proceeds of Refunding Bonds and payment to escrow agent			

June 17, 200X

2.	Expenditures - debt service - other		$ 77,500	
	Due to other funds (200X G.O. Bonds Debt Service Fund)		$ 6,751	
		Cash		$ 84,251
	To payment of bond issuance cost and amount due 200X G.O. Bond Debt Service Fund for accrued interest			

200X G.O. Bonds Debt Service Fund -

May 31, 200X

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, 200X

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, 200X

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 Account Group:

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		

F. MAEP Funds

[NOTE: The following adjustment should be recorded by the district if any or all the amount allowed to be pledged for the repayment of debt obligations through the MAEP Funding source was pledged. All other MAEP Funds received should be recorded in the 2010 - Interim Capital Expenditures Fund.]

Assume: The trust department of a banking institution will be handling transactions associated with this debt. All state funds pledged for debt repayment from MAEP Funding is sent directly to the banking institution which will repay the debt. The bank statements from the banking institution have the following information reported at June 30, 200X. The debt instrument was a Limited Obligation Bonds Payable issued for building purposes in the amount of $5,000,000. The district has not recorded any transaction for this situation.

Cash	$ 500
Investments	$ 25,000
State MAEP Funds Received	$200,000
Interest Earned	$ 1,500
Service Fees	$ 250
Principal Payments	$ 75,000
Interest Payments	$ 90,000

Adjustment #1 Fund: MAEP Retirement fund (4041 - 4049)	**Debit**	**Credit**
Cash with fiscal agent	$201,500	
MAEP funds (State Revenue)		$200,000
Interest (Local Revenue)		$1,500
To record revenue and interest		
Principal (Expenditure)	$ 75,000	
Interest (Expenditure)	$ 90,000	
Service Fees (Expenditure)	$ 250	
Cash with fiscal agents		$ 165,250
To record principal, interest and paying agent fees		
Investments	$25,000	
Cash with fiscal agent		$ 25,000
To reclassify investments per investment statements		

Please note that the $11,250 excess of revenues over expenditures would be closed to the fund balance.

Adjustment #2:

General Long - Term Debt Account Group

Amount to be provided for Retirement of General Long-Term Debt	$5,000,000	
Limited obligation bonds payable		$5,000,000

[NOTE: To record the debt issued]

Adjustment # 3:

General Long - Term Debt Account Group

Limited obligation bonds payable	$ 75,000	
Amount to be provided for Retirement of General Long-Term Debt		$ 75,000

[NOTE: To record yearly principal payment]

G. 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		$115,000
Claims Payable ***[NOTE: for 6% Architect Fee due]***		$ 24,000

General Fixed Assets Account Group:

Adjustment # 3:		
Construction in Progress	$1,174,000	
Investment in General Fixed Assets		$1,174,000
[NOTE: Includes $750,000 and $424,000]		

H. Qualified Zone Academy Bonds Payable

Assume: 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.

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:

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

Adjustment # 3:

Debt Service Fund - Three-mill note fund (fund #'s - 4021-4029)		
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.]

Adjustment # 4:

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

[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		$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 Account Group

	Debit	Credit
Amount Available in Debt Service Funds	$ 127,200	
Amount to be Provided for Retirement of GLTD	$ 872,800	
Qualified Zone Academy Bonds 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 Governmental wide financial statements (Exhibit A)