### SECTION C  EXAMPLE ACCOUNTING ENTRIES

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</table>
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:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures</td>
<td>$25,000</td>
</tr>
<tr>
<td>Claims payable or</td>
<td>$25,000</td>
</tr>
<tr>
<td>cash or revenue (for</td>
<td></td>
</tr>
<tr>
<td>donated commodities)</td>
<td></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory of food, donated commodities or</td>
<td>$10,000</td>
</tr>
<tr>
<td>supplies</td>
<td></td>
</tr>
<tr>
<td>Increase in reserve for inventory</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

3. Under the purchases 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 purchases 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:]**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in reserve for inventory</td>
<td>$X,XXX</td>
</tr>
<tr>
<td>Fund balance –non-spendable for inventory</td>
<td>$X,XXX</td>
</tr>
<tr>
<td>Fund balance –non-spendable for inventory</td>
<td></td>
</tr>
<tr>
<td>Decrease in reserve for inventory</td>
<td>$X,XXX</td>
</tr>
</tbody>
</table>

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. 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.
   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. Tax and Revenue Anticipation Notes

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:

<table>
<thead>
<tr>
<th>Date</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 1, 20XX</td>
<td>Cash</td>
<td>Revenue anticipation notes payable $435,000</td>
</tr>
<tr>
<td>October 10, 20XX</td>
<td>Expenditures - issuance costs (Functions 2510 or 2513)</td>
<td>$6,525</td>
</tr>
<tr>
<td>March 31, 20XX</td>
<td>Expenditures – Interest (function 2510 or 2513)</td>
<td>Revenue Anticipation Notes Payable $435,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>$450,000</td>
</tr>
</tbody>
</table>
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) -**

<table>
<thead>
<tr>
<th>Date</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 31, 20XX</td>
<td>$84,251</td>
<td>$2,277,500</td>
</tr>
<tr>
<td></td>
<td><strong>Payment to refunded bond escrow agent</strong></td>
<td><strong>Proceeds of refunding bonds</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$2,355,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Due to other funds (20XX G.O. Bonds Debt Service Fund)</strong> $6,751</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>To record proceeds of Refunding Bonds and payment to escrow agent</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 17, 20XX</td>
<td>$77,500</td>
<td>$84,251</td>
</tr>
<tr>
<td></td>
<td><strong>Expenditures - debt service – other</strong></td>
<td><strong>Cash</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$6,751</td>
</tr>
<tr>
<td></td>
<td><strong>Due to other funds (20XX G.O. Bonds Debt Service Fund)</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>To record payment of bond issuance costs and amount due 20XX G.O. Bond Debt Service Fund for accrued interest</strong></td>
</tr>
</tbody>
</table>

**20XX G.O. Bonds Debt Service Fund**

<table>
<thead>
<tr>
<th>Date</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 31, 20XX</td>
<td>$6,751</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Due from other funds (1988 G.O. Bonds Debt Service Fund)</strong></td>
<td><strong>Other payables</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$6,751</td>
</tr>
<tr>
<td></td>
<td><strong>To record amount due from 1988 G.O. Bonds Debt Service fund</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 17, 20XX</td>
<td>$6,751</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Cash</strong></td>
<td>$6,751</td>
</tr>
<tr>
<td></td>
<td><strong>Due from other funds (1988 G.O. Bonds Debt Service Fund)</strong></td>
<td><strong>$6,751</strong></td>
</tr>
</tbody>
</table>
To record receipt of funds due from the 1988 G.O. Bonds Debt Service Fund

November 1, 20XX
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:**
Facilities Acquisition and Construction Services $750,000

Cash $750,000

**Adjustment # 2:**
Facilities Acquisition and Construction Services $469,000

[NOTE: Construction $400,000 and $69,000 for architect fees]

Construction Contracts Payable $285,000

Retained Percentage Payable (10% of $1,150,000) $115,000

Claims Payable (Architect 10% of $400,000) $ 69,000

**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. Qualified Zone Academy Bonds Payable (QZAB)

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.

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

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 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 Governmental 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:
Debt Service Fund - QSCB 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 - QSCB 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 # 4:

Debt Service Fund - QSCB 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 # 5:

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 QSCBs should be reported as restricted assets in the Governmental wide financial statements (Exhibit A of the GASB 34 financial statements)