

SECTION 13: FUND ACCOUNTING

Accounting Entries

INTRODUCTION

Accounting Entries provides general guidelines for recording accounting entries necessary to properly reflect fund balances. Agencies are responsible for recording routine and/or periodic accounting entries to funds for which they have oversight authority.

Agencies should consult with their Division of Finance Accountant to ensure the appropriate accrual, reversing, and correcting journal entries are recorded at fiscal year end to accurately reflect fund balances.

AKSAS TRANSACTIONS

- 410-96: Agency Finance Journal Entry
- 430-11: Agency Journal Entry
- 430-25: Accounts Receivable Journal Entry

PROCEDURES

The following procedures provide general information for recording various types of transactions to properly reflect fund balances.

I. Accounts Receivable.

Refer to *Section 6: Revenue, Add Accounts Receivable, Change Accounts Receivable, and Year End Accounts Receivable* for procedures to add or change accounts receivable open items.

II. Notes Receivable

Notes receivable represent amounts due the state from outside entities that are payable in a time frame extending beyond one year. There are interest amounts payable to the state as well, so a portion of each payment is recorded as interest income.

- A. Process a 430-11: Agency Journal Entry transaction to record the Notes Receivable. Based on the content of the note, determine the offset account (credit) for the Notes Receivable. Refer to *Section 9: Journal Entries* for procedures to record an agency journal entry.
- B. Record payments received against the notes receivable with a portion going to interest income.
 - 1. When payment is received, determine the amount to be applied against the notes receivable and the amount to be recorded as interest income.
 - 2. Process an agency receipt transaction to record the deposit. Refer to *Section 6: Revenue, Agency Receipts* for procedures.
 - 3. If the deposit is recorded to liability account 22730 (Unapplied Receipts), process a 430-11: Agency Journal Entry to record the deposit to the appropriate notes receivable and interest income accounts.
- C. Periodically (i.e., monthly, quarterly, semi-annually) reconcile the notes receivable balance, either through a payment schedule or by obtaining the amount from the payor if the collections are from an

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outside source (i.e., financial institution transmits funds to the state). Review any variances with your supervisor.

***NOTE:** Transactions prepared after August 31 must be dual authorized by the Division of Finance, RD 120, if they relate to a prior year adjustment. The Division of Finance determines if the adjustment amount is material enough to record.*

III. Loans Receivable.

Many different agencies deal with loans to individuals, partnerships, and/or corporations. The following is a general process to record the loan, adjust loan balances (if necessary), and record collections.

- A. Obtain the amount of loans receivable to record in AKSAS. Loans receivable balances are usually posted to a loans receivable account by the issuance of a warrant. To issue a warrant, refer to the procedures in *Section 8: Payments, Add General Warrant Request*.
- B. Occasionally, corrections to loan balances must be made to correct interest earnings or correct amounts associated with NSF checks.
 1. Determine the adjustment necessary to correct the loans receivable balance.
 2. Process a 430-11: Agency Journal Entry transaction to record the correction to the loans receivable account in AKSAS.
- C. Record payments received against the loans receivable with a portion going to interest income.
 1. When payment is received, determine the amount to be applied against the loans receivable and the amount to be recorded as interest income.
 2. Process an agency receipt transaction to record the deposit. Refer to *Section 6: Revenue, Agency Receipts* for procedures.
 3. If the deposit is recorded to liability account 22730 (Unapplied Receipts), process a 430-11: Agency Journal Entry to record the deposit to the appropriate loans receivable and interest income accounts.
- D. Periodically (i.e., monthly, quarterly, semi-annually) reconcile the balance of the loans receivable account with spreadsheets or a subsidiary system, if used. Review any variances with your supervisor.
- E. At the end of the fiscal year, agencies are required to prepare and send to the Division of Finance a "Fiscal Year-End Loans Receivable and Accrued Interest Report." These reports must be received in the Division of Finance by mid-September for use in preparation of the State's Comprehensive Annual Financial Report (CAFR). The balances provided on this report should reflect all activity through June 30 that affects that loan and/or the interest balance.

***NOTE:** Transactions prepared after August 31 must be dual authorized by the Division of Finance, RD 120, if they relate to a prior year adjustment. The Division of Finance determines if the amount is material enough to record.*

IV. Accrued Interest Receivable.

Notes and Loans Receivable accounts typically have balances due that have accrued interest income. Agencies are required to determine the amount of the accrued interest receivable. The accrued interest receivable amount must be recorded in AKSAS by the end of each fiscal year. These adjustments may be recorded by the Division of Finance during the CAFR process.

- A. Following agency procedures, determine the amount of the interest accrual for the notes or loans receivable to record in AKSAS.
- B. Process a 430-11: Agency Journal Entry - Miscellaneous or 410-96: Agency Finance Journal Entry transaction according to the procedures in *Section 9: Journal Entries* and the following criteria.

NOTE: *If the accrued interest will be recorded by the Division of Finance, notify the Division of Finance in writing of the amount to be recorded.*

1. **FISCAL PERIOD CODE** - Enter **P** (Prior) to record the accrual for the prior fiscal year.
 2. **Debit Financial Line** - Enter **10162** (Accrued Interest Receivable) in the **ACCT** field.
 3. **Credit Financial Line** - Enter the appropriate interest income revenue account.
- C. At the end of the fiscal year, prepare and send to the Division of Finance a "Fiscal Year-End Loans Receivable and Accrued Interest Report." These reports should be received in Division of Finance by mid-September for use in preparation of the State's Comprehensive Annual Financial Report (CAFR). The balances provided on this report should reflect all activity through the reappropriation period that affects that loan and/or the interest balance.

V. Judgements and Repossessed Properties.

Judgements and repossessed properties represent claims of the state (to collect money owed to the state) or repossessions by the state (such as collateral on an unpaid loan). The Department of Law determines whether a judgement or repossession of properties is the correct course of action. Once a legal rendering is made, the agency records the judgement or repossessed property.

- A. Determine the type of collection process, either judgement or actual repossession of property.
- B. Evaluate the balance of the loans or notes receivable, determine the fair market value of repossessed property (if necessary), and/or the amount of the judgement.
- C. Record an allowance for doubtful accounts, if any. See Step VI.
- D. If property was repossessed, record the gain or loss on the repossessed property.
 1. Process a 410-95: Agency Finance Journal Entry or 430-11: Agency Journal Entry according to the procedures in *Section 9: Journal Entries* and the following criteria.
 - a. To record a judgment, enter **10605** (MLI Premiums Receivable) or LLs in the **ACCT** field. To record repossessed property, enter **10640** (Repossessed Property AFR) or LLs.

VI. Allowance for Doubtful Accounts.

- A. Review receivables and determine if there is an uncollectible amount based on analysis of each type of receivable. If an uncollectible amount exists, record a 410-96: Agency Finance Journal Entry or 430-xx: Agency Journal Entry transaction according to the procedures in *Section 9: Journal Entries* and the following criteria:
1. **Debit Financial Line** - In the **ACCT** field, enter expenditure account **73055** (Bad Debt Expense).
 2. **Credit Financial Line** - In the **ACCT** field, enter asset account **10113** (Allowance Uncollectible Accounts) or **10123** (Loans Receivable Allowance).

NOTE: In some situations it may be necessary to debit the allowance account and credit the bad debt expense. If agency review determines the allowance account is too large, then revenue must be recognized. This is allowable under generally accepted accounting principles (GAAP).

VII. Inventories.

Inventories represent asset items held for sale in the ordinary course of business or goods that will be used or consumed in the production of goods to be sold.

- A. At the end of each fiscal year, perform a physical inventory. Verify the physical inventory balance is equal to the inventory account balance in AKSAS. If the physical and AKSAS inventory amounts do not match, adjust the balance of the inventory account in AKSAS to equal the amount of the physical inventory.

NOTE: If a perpetual inventory is used, such as the Department of Administration, Pioneer Homes uses for patient medication supplies, a physical inventory should be performed every other year.

1. To adjust the AKSAS inventory account balance, process a 430-11: Agency Journal Entry or 410-96: Finance Journal Entry transaction according to the procedures in *Section 9: Journal Entries* and the following criteria.
 - a. Record the increase or decrease to a lower level of asset account **10610** (Inventories AFR).
2. If the adjustment should be made by the Division of Finance, notify the Division of Finance in writing of the adjustment amount or correct account balance. The Division of Finance prepares a 410-90: Finance Journal Entry transaction to record the adjustment.

VIII. Plant in Service, less Accumulated Depreciation.

Plant in Service and Accumulated Depreciation are only used for those funds that use proprietary fund accounting, such as the Enterprise Funds, Internal Service Funds, and Non-expendable Trust Funds. These items represent physical assets used in the course of normal business operations, such as land and buildings, improvements other than buildings, Machinery and Equipment, Furniture and Office Equipment, and Construction in Progress. As these assets are used, they must be depreciated to reflect the normal wear and tear that fixed assets incur over their lifetime. Refer to the *Alaska Administrative Manual (AAM) 55.010 - .060 - Property, Plant and Equipment* for more information.

- A. At the end of the year, evaluate capital purchases (account 75000 and lower levels) and determine which items must be transferred through an agency journal entry to the asset accounts for fixed assets. Also, determine the related depreciation expense for the year.

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1. Prepare a fixed asset schedule and calculate depreciation expense and the related accumulated depreciation expense for each fixed asset.
2. To record additions to fixed assets, process a 430-11: Agency Journal Entry or 410-96: Agency Finance Journal Entry according to the procedures in *Section 9: Journal Entries* and the following criteria:
 - a. Use a fund-only CC to adjust account 75000 and LLs.
3. To record the depreciation expense, process a 430-11: Agency Journal Entry or 410-96: Agency Finance Journal Entry according to the procedures in *Section 9: Journal Entries* and the following criteria:
 - a. **Debit Financial Line** - In the ACCT field, enter expenditure account **76200** (Depreciation Expense).
 - b. **Credit Financial Line** - In the ACCT field, enter one of the following asset accounts:
 - 10664** A/D - Buildings
 - 10674** A/D - Improvements Other Than Buildings
 - 10684** A/D - Machinery & Equipment
 - 10694** A/D - Furniture/Office Equipment.

IX. Accounts Payable.

Refer to *Section 7: Expenditure Open Items, Accounts Payable* for procedures to record accounts payable open item transactions.