**Ch 5 Smithville - Recording Capital Asset Transactions**

**Street Improvement Capital Projects Fund and Governmental Activities at the Government-wide Level**

During late 2016, the voters of the City of Smithville authorized tax-supported bond issues totaling $8,000,000 as partial financing for a series of projects to construct streets, curbs, culverts, and storm sewers in various parts of the city. The estimated total cost of the series of projects, which are expected to extend over the next three years, was $10,200,000. In addition to the bond financing, **voters also approved a special ½ cent sales tax** to assist in financing the projects. The sales tax begins January 1, 2017 and will continue for five years. The sales tax is projected to generate $500,000 each year.

If you need assistance with accounting for bond transactions, please email me so I can send you a video.

**Required**

1. Prepare general journal entries as necessary to record the transactions described below in the Street Improvement Fund general journal and, if applicable, in the governmental activities general journal.

Do not record entries at this time in other affected funds; those entries will be made in the later chapters of this cumulative problem that cover the affected funds.

Be sure the year **2017** is selected and the appropriate paragraph number shown in bold-face font below is in the **[Transaction Description]** box.

1. **[Para. 5-a-1]** In early 2017, design plans and specifications for the first project, the **Elm Street Project**, were submitted by a construction engineering firm. The firm billed the Street Improvement Fund for $125,000.

**Required:** Record this billing and the related Vouchers Payable liability in the Street Improvement Fund and governmental activities journals. (Note: this transaction was not encumbered.)

2. **[Para. 5-a-2]** On April 15, 2017, construction bids were opened and analyzed. A bid of $2,100,000 was accepted, and the estimated contract was awarded for the **Elm Street Project.** The contract provided for a retained percentage of 5 percent **from each progress payment**, and from the final payment, until final inspection and acceptance by the city’s public works inspectors.

**Required:** Record the signing of the contract in the Street Improvement Fund general journal. This transaction has no effect at the government-wide level.

1. **[Para. 5-a-3]** On May 6, 2017, 4% deferred serial bonds with a face value of $2,000,000 were sold for a total amount of $2,070,000, of which $28,000 was for prepaid interest from the January 1, 2017 date of the bonds and $42,000 was a premium on the bonds sold. Cash in the amount of the accrued interest and premium was deposited directly in the Street Improvement Bond Debt Service Fund. **Cash in the amount of $2,000,000 was deposited and recorded in the Street Improvement Fund.**

For now you should not make the entry in the Street Improvement Bond Debt Service Fund to record the accrued interest and premium. That entry will be made in Chapter 6 of this cumulative problem.

**Required:** Record this transaction in the Street Improvement Fund and governmental activities journals.

**Govt Wide Hint:** In addition to recording the liability for bonds payable in the governmental activities journal, you should record the premium on the bonds payable [credit Premium on Deferred Serial Bonds] and accrued interest on bonds sold [credit Expenses—Interest on Long-term Debt] in the governmental activities general journal for the $28,000 of prepaid interest.



4. **[Para. 5-a-4]** Vouchers payable (see Transaction 1) were paid on April 20, 2017.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities general journals.

1. **[Para. 5-a-5]** In July 2017, the contractor for the Elm Street Project reported that the project was one-half completed and requested a progress payment of $1,050,000.

**Required:**  Record the liability for the progress billing in both the Street Improvement Fund and governmental activities general journals. Don’t forget to record the encumbrances portion in the Street Improvement Fund.

1. **[Para. 5-a-6]** The billing for the partially completed Elm Street Project (see Transaction 5-a-5) was paid in late July, less the contractual retention of 5 percent.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities general journals.

1. **[Para. 5-a-7]** In late November 2017 the Elm Street Project was completed and the contractor for the project requested a final payment of $1,070,000. This amount was recorded as a liability. Don’t forget to record the encumbrances portion in the Street Improvement Fund.

**Required:**  Record the liability for the final billing in both the Street Improvement Fund and governmental activities journals.

1. **[Para. 5-a-8]** During the year sales taxes were collected in the amount of $450,000. Be sure to read about how taxes raised for a specific capital projects should be recorded in the Bingham instructions for Chapter 5.

**Required:** Make the summary journal entries in both the Street Improvement Fund and governmental activities journals to record the collection of sales taxes.

1. **[Para. 5-a-9]** Payment was made for the final billing on the Elm Street Project, less the retained percentage, on December 1, 2017.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities journals.

1. **[Para. 5-a-10]** Upon final inspection of the Elm Street Project, the city inspector determined that all work conformed to specifications. Retained percentages (Transactions 6 and 8) were paid to the contractor. Look at the Street fund pre-closing balance to obtain amount. It should be $106,000.

**Required:** Record this transaction in both the Street Improvement Fund and governmental activities journals. Since the work is completed--**total construction expenditures for the Elm Street Project should be capitalized and recorded in the Infrastructure account in governmental activities and removed from Construction in Progress. Confirm the amount in the pre closing trial balance for Govt Wide is $2,245,000.**

1. For the Street Improvement Fund only, prepare year-end closing entries for 2017 and post them to the fund’s general ledger. **Accounts should be closed to Fund Balance—Restricted.**



Refer to the Street Fund pre-closing trial balance to see the genesis of these amounts.

(Note: You must click on the box for **[Closing Entry]** to check mark it;“Closing Entry” will appear in the **[Transaction Description]** box for the account being closed. Be sure the check mark is present for each account being closed.) Click **[Post Entries]** to post the closing entry.

Cash remaining in the Street Improvement Fund at year-end is not transferred to the debt service fund since other street improvement projects will be undertaken during the next two years. Closing entries will be made in the governmental activities general journal in Chapter 9 of this cumulative problem. Ignore those entries for now.

**Refer to list of documents to be graded.** Using the Bingham instructions, prepare a Statement of Revenues, Expenditures and Changes in Fund Balances

For your information, there are still permanent account balances in this fund. The balance sheet would look like this:



**Before closing the *City of Smithville,* click on [File], and [Save/Save As] to save your work.** If you close the file by clicking on the [**X**] box you will be asked if you want to save your changes before closing.