

UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Utilities Service

BULLETIN 1767B-3

SUBJECT: Preparation and Use of the RUS Form 254, Construction Inventory

TO: All Electric Borrowers
RUS Electric Staff
Borrower Accounting Division

EFFECTIVE DATE: Date of Approval

EXPIRATION DATE: Four years from effective date

OFFICE OF PRIMARY INTEREST: Borrower Accounting Division

PREVIOUS INSTRUCTIONS: This Bulletin, together with RUS Bulletin 1767B-2 replaces RUS Bulletin 184-2, Suggested Work Order Procedure for Electric Borrowers of the Rural Utilities Service.

FILING INSTRUCTIONS: This is a new bulletin that should be filed with 7 CFR Part 1767. This bulletin is available on REANET.

PURPOSE: To provide a uniform system of accounting for amounts due contractors and for additions to and retirements of electric plant resulting from labor and material contracts.

Wally Beyer

12-21-94

Administrator

Date

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EXHIBITS TO TEXT:

- A: RUS Form 254, Construction Inventory
- B: RUS Form 254a, Construction Inventory
- C: RUS Form 254b, Construction Inventory
- D: RUS Form 254c, Construction Inventory
- E: Schedule of Special Equipment Reused
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- G: Retirement Work Order
- H: Unitization and Distribution to Plant Accounts
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ABBREVIATIONS

RUS Rural Utilities Service

1. GENERAL: The function of plant accounting is to record the various elements of construction and retirement costs in a manner that satisfies the requirements of 7 CFR Part 1767, Accounting Requirements for Rural Utilities Service (RUS) Electric Borrowers, Subpart B, Uniform System of Accounts (Part 1767), and to form the basis for recording plant additions and retirements.

1.1 The objective of this bulletin is to provide guidance on the preparation and use of the RUS Form 254, Construction Inventory, and the RUS Form 830, Electric System Construction Contract. The Form 830 contract is illustrated in this bulletin because it utilizes the RUS Forms 254a, 254b, and 254c, in their entirety. The RUS Form 254 is, however, also used to close out the cost of completed construction for the following contracts:

1.1.1 Transmission System Right of Way Clearing Contract, RUS Form 203;

1.1.2 Substation and Switching Station Erection Contract, RUS Form 764;

1.1.3 Electric Transmission Construction Contract, RUS Form 831.

2. ENGINEERING: The borrower's engineer monitors construction progress and recommends the amount of the contractor's monthly invoice to be paid in accordance with Article III, Section 1, of the RUS Form 830.

2.1 When construction is completed, as defined in the RUS Form 830, the engineer prepares five copies of the RUS Forms 254, Construction Inventory (Exhibit A) and 254a (Exhibit B). If applicable, the engineer also prepares five copies of the RUS Forms 254b (Exhibit C) and 254c (Exhibit D).

2.2 The engineer also performs the duties set forth in RUS Bulletin 81-6, Closeout Procedures and Documents for Contract Construction of Distribution and Transmission Facilities.

3. CONSTRUCTION INVENTORIES: The total amount to which the contractor is entitled is calculated on the RUS Form 254.

3.1 Item A, "Total Cost of Standard, New and Conversion Assembly Units Installed," of the RUS Form 254 includes the labor and material costs of the units installed. These costs are calculated in Column 1 and Columns 3 through 6 of the RUS Form 254a. The total of Column 6, Cost of Construction, is the total cost reported as Item A.

3.2 Item B, "Cost to Remove "I" Units," on the RUS Form 254 includes the labor costs incurred in removing "I" units in accordance with the contract. Removal costs are tabulated in Column 7, Due Contractor for Units Installed, Converted and Removed - Cost to Remove "I" Units, of the RUS Form 254a and the total is reported as Item B.

3.3 The cost of installing special equipment items furnished by the borrower and the cost of reinstalling special equipment items previously removed are included in Item A. The cost to remove special equipment is included in Item B. These amounts should be charged to expense when the monthly invoices are recorded. (See Section 10.1 of RUS Bulletin 1767B-2, Work Order Procedure (Electric), for a definition of special equipment items.)

3.4 Item C, "Amount to be Credited to Contractor for Materials Removed from Existing Facilities and Returned," includes the cost of material, at contract prices, removed from service and returned to the borrower. This amount is tabulated in Column 14, Total Credit to Contractor, of the RUS Form 254b and the total is reported as Item C. The RUS Form 254b is used only when the contract contains "I" removal units (See Section I of the RUS Form 830).

3.5 Item D, "Amount Chargeable to Contractor for Materials in Assembly Units Removed," includes the cost of material, at contract prices, removed from service and retained by the contractor. This amount is tabulated in Column 9, Amount Chargeable to Contractor for Materials in Assemblies Removed - Total, of the RUS Form 254a and the total is reported as Item D. Each line item in Column 9 is calculated by multiplying the number of units removed by the unit material values from Table C of the RUS Form 830.

3.6 Item E, "Net Amount of Owner-Furnished Materials," includes material furnished by the borrower. This amount is tabulated in Columns 20 through 24 of the RUS Form 254c and the total of Column 24 is reported as Item E.

3.7 Item F, "Net Amount Due Contractor," is the net amount of items A through E. When making the final payment to the contractor, this amount is reduced by all prior payments made on the contract to date and any amounts, such as liquidated damages, due the borrower.

4. ACCOUNTING FOR CONTRACT CONSTRUCTION COSTS : When the terms of the contract are met over an extended period of time, all or a part of the contract amount is recorded prior to the preparation of the RUS Form 254.

4.1 Borrower furnished material is charged out of inventory to the contractor using Material Charge Tickets. The contractor now becomes accountable for this material and, as such, the borrower records a receivable from the contractor. Material is charged to the contractor using Account 143, Other Accounts Receivable, and is credited to Account 154, Plant Materials and Operating Supplies, at its average cost. No material cost is charged to construction at this time. The monthly invoices submitted by the contractor include the cost of borrower furnished material and material provided by the contractor and the contractor's labor costs. Therefore, borrower furnished material is charged to construction when the monthly contractor invoices are recorded. (See Section 4.2.)

4.1.1 The RUS Form 830 contains a sample materials receipt form for material furnished to the contractor at contract price. The receipt should be signed by both the contractor and the borrower or their agents.

4.2 The total cost reported on the monthly invoices (material and labor) that are certified to and submitted by the contractor, recommended by the borrower's engineer, and approved by the borrower is charged to Account 107.1, Construction Work in Progress - Contract. Either Account 232.1, Accounts Payable - General, or Account 232.2, Accounts Payable - RUS Construction, is credited, as appropriate.

4.3 Payments to the contractor (the invoice amount less the amount retained) are debited to the appropriate subaccount of Account 232. A portion of each invoice is retained pending completion of the contract and the approval of the Certificate of Completion - Contract Construction, RUS Form 187, by the borrower and the Administrator of RUS.

4.3.1 The amount of borrower furnished material included in the invoice is credited to Account 143 at the unit prices shown in the List of Borrower's Materials on Hand in the RUS Form 830. Because the contractor has installed the portion of the borrower furnished material in the units included in the invoice, the contractor is no longer accountable for that portion of the material. Account 143 is credited to relieve the contractor of that responsibility.

4.3.2 As provided for in Article I, Section 3, of the RUS Form 830, the monthly invoice payable to the contractor is reduced by the cost of material furnished by the borrower and installed by the contractor during the month. The difference between the amount of the invoice, the amount retained, and the credit for owner furnished material (Account 143) is credited to Account 131.1, Cash - General.

4.4 Because borrower furnished material is charged to construction at contract prices rather than actual costs, it is

necessary to adjust Account 107.1 to reflect the actual cost of the material.

4.4.1 If the unit price stated in the contract is higher than the average cost of the material recorded in Account 143, Account 107.1 must be credited to reflect the lower cost.

4.4.2 If the unit price stated in the contract is lower than the average cost of the material recorded in Account 143, Account 107.1 must be debited to reflect the higher cost.

4.5 Special equipment items are capitalized to the appropriate plant account upon purchase. Therefore, for purposes of tracking special equipment items furnished to the contractor, they are charged to Account 143 at the unit prices shown in the List of Borrower's Materials on Hand in the RUS Form 830. Their cost is charged to construction when the monthly contractor invoices are recorded. When the invoices are recorded, special equipment costs have been capitalized twice - once upon purchase to the appropriate plant account and a second time to construction. The offsetting entry to Account 143 is, therefore, a credit to Account 107.1. This eliminates the duplicate capitalization and retains the original cost of the special equipment items in the proper plant accounts.

4.5.1 The contractor's labor costs for installing and removing special equipment items are deducted from the costs charged to construction by crediting Account 107.1 and charging the appropriate expense account as follows:

4.5.1.1 Account 583, Overhead Line Expenses, or Account 584, Underground Line Expenses, for transformers, oil circuit reclosers, voltage regulators and sectionalizers; or

4.5.1.2 Account 586, Meter Expenses, for meters, meter sockets, current and potential transformers and other metering equipment.

4.6 The labor costs incurred in removing items from plant must be reclassified from construction to retirement by charging Account 108.8, Retirement Work in Progress, and crediting Account 107.1. Because the cost of the contractor's invoice initially charged to construction included both construction and retirement costs (See Section 4.2), the amount applicable to retirement must be reclassified to retirement work-in-progress.

4.7 Other direct and indirect construction costs incurred by the borrower that are required to complete the contract are detailed and defined in Part 1767, Section 1767.16 (c), Components of Construction Cost. These non-contract costs are charged to Account 107.1.

4.7.1 These costs should be accumulated on a separate work order; however, they should be submitted to RUS for financing on

the same RUS Form 219, Inventory of Work Orders (Exhibit I), that includes the associated contract.

4.8 Material furnished to the contractor that is not used and is returned to the borrower is returned to inventory by debiting Account 154. By returning the material, the contractor is no longer held accountable; therefore, Account 143 is credited. Material Credit Tickets (Exhibit C of RUS Bulletin 1767B-2) should be prepared for all material returned by the contractor.

4.9 Material removed from existing facilities is charged to the contractor by debiting Account 143 and crediting Account 108.8. If the contractor returns the material to the borrower, the contractor is relieved of his responsibility for the material by crediting Account 143 and debiting Account 108.8. If the material is returned to the borrower, Material Salvage Tickets (Exhibit E of RUS Bulletin 1767B-2) are prepared.

4.9.1 The Material Salvage Tickets are included in the Summary of Material Salvage Tickets (Exhibit F of RUS Bulletin 1767B-2) for the month and are entered in the Materials Register (Exhibit G of RUS Bulletin 1767B-2) as a debit to Account 154 and a credit to Account 108.8. If the material is reusable, it is priced as follows:

4.9.1.1 Large, individual items are priced at their original cost, estimated if not known. The cost of repairing these items is charged to the maintenance account appropriate for the previous use; or

4.9.1.2 Relatively small items, the identity of which cannot be ascertained without undue refinement in accounting, are priced at current prices new for such items. The cost of repairing these items is charged to the maintenance account appropriate for the previous use.

4.9.2 Salvage tickets should be signed by both the borrower and the contractor or their agents with a copy furnished to the contractor.

4.9.3 The RUS Form 254b provides space, in Columns 15, 16 and 17, for tracking reusable items salvaged although the amount payable to the contractor is not affected.

4.10 The cost of special equipment items removed from service and reused by the contractor have already been charged to retirement (See Section 4.9) and to construction when the contractor's invoice is recorded (See Section 4.2). Since these items are no longer retired, they must be debited to Account 108.8. As discussed in Section 4.5, special equipment items are capitalized upon purchase and any duplicate capitalization of their costs must be eliminated. When the contractor's invoices are recorded, special equipment that has

been reused is included in the invoice, as well, and is, therefore, capitalized to Account 107.1. Account 107.1 must be credited to avoid the duplicate capitalization.

4.11 When the contract is complete and the completed construction is placed in service, the costs remaining in Account 107.1 are closed to Account 106, Completed Construction not Classified - Electric. After completion of the Unitization and Distribution of Costs, the appropriate plant accounts are charged.

4.12 The original cost of all plant retired from service must be eliminated from the appropriate plant accounts and charged to Account 108.8. (See Section 5.)

5. RETIREMENTS:

5.1 The Section I - Removal Assembly Units, shown in Column 2 of the RUS Form 254a, are converted to retirement units using the conversion tables in Appendix I of RUS Bulletin 1767B-2. The retirement units are grouped into suitable record units, as shown in Appendix I to RUS Bulletin 1767B-2.

5.2 The engineer should provide the borrower with the number of grounds removed by the contractor. This enables the grounds to be included in the tabulation of retirement units and their value to be included in the original cost of plant retired.

5.3 The engineer should provide the borrower with the number of anchor-guy assemblies removed if it differs from the inventory tabulation in the contract.

5.4 The record units are then summarized (Exhibit S, Tabulation of Record Units - Overhead, and Exhibit T, Tabulation of Record Units for Underground Staking Sheets, of RUS Bulletin 1767B-2 may be used) and priced at the unit costs obtained from the continuing property records to derive the original cost of property retired.

5.4.1 The original cost of property retired is charged to Account 108.8 and credited to the plant accounts.

5.4.2 The cost of removal is charged to Account 108.8 and credited to Account 107.1.

5.4.3 The total amount of the material returned to stock and the amount reused by the contractor is considered salvage.

5.4.4 The "Net Loss Due to Retirement" (the original cost of property retired plus the cost of removal less salvage) is charged to the appropriate accumulated provision for depreciation and credited to Account 108.8.

6. UNITIZATION AND CLASSIFICATION BY RECORD UNITS AND PRIMARY PLANT ACCOUNTS:

6.1 The assembly unit for a conventional transformer also contains a lightning arrester and a cutout which are record units. These units are included in the Tabulation of Record Units and included on the Unitization and Distribution to Plant Accounts (See Section 6.6).

6.2 The "H" Conversion Assembly Units included in Column 2 of the RUS Form 254a have no counterpart in the work order procedure. They are described in Section H of the RUS Form 830. The cost of these units includes the labor and any additional material required to change an existing pole-top assembly unit to a different unit.

6.2.1 Conversion assembly units are identified by the prefix "H" with the new construction assembly unit shown first followed by the existing assembly unit. For example, an H B1:A1 requires the addition of a crossarm, crossarm pins, braces, machine bolt, carriage bolts, lag screw, and insulator; the existing insulator, single upset bolt, and neutral spool is used in the new unit and the contractor retains the pole top pin and two machine bolts. Appendix I of RUS Bulletin 1767B-2, indicates that an A1 construction assembly unit contains no retirement units while a B1 assembly unit includes the addition of a crossarm retirement unit.

6.2.2 These units, suitably grouped into record units are summarized on the Tabulation of Record Units and included on the Unitization and Distribution to Plant Accounts (See Section 6.6).

6.3 The conversion of standard new assembly units to record units is similar to the conversion of construction costs outlined in Section 9, Unitization and Classification of Work Order Costs by Record Units and Primary Plant Accounts, of RUS Bulletin 1767B-2. Appendix I of the RUS Bulletin 1767B-2 contains tables that convert construction units to retirement units. RUS Bulletin 181-2, Standard List of Retirement Units, defines a construction unit, retirement unit and record unit. RUS Bulletin 184-3, Guide for Establishing Continuing Property Records, discusses the organization of record units. Exhibits Q and R, Conversion to Record Units of Property, of RUS Bulletin 1767B-2 may be useful in the conversion. They provide for the direct conversion from construction units to record units without the intermediate retirement units.

6.4 Tabulation of Record Units. Exhibit S, Tabulation of Record Units - Overhead, and Exhibit T, Tabulation of Record Units for Underground Staking Sheets, of RUS Bulletin 1767B-2 may be useful in summarizing construction by record units. The cost of labor and minor items of property associated with special equipment

items furnished to the contractor by the borrower or removed and reused by the contractor are charged to expense. However, special equipment items furnished and installed by the contractor are capitalized. These items, shown as memorandum items on the conversion sheets, are brought forward and tabulated in the proper accounts. The total of all the record units, including the special equipment, are posted to Column 2 of the Unitization and Distribution to Plant Accounts (Exhibit V of RUS Bulletin 1767B-2).

6.5 Standard Record Unit Costs. Section 9.2.4 of RUS Bulletin 1767B-2 describes standard record unit costs and suggests two methods for establishing them. When the contract is for a type of construction with which the borrower has had no prior experience, such as a first contract for underground or transmission plant, information obtained from the contractor, the consulting engineer, or a similar utility may be helpful.

6.6 Unitization and Distribution to Plant Accounts. The Unitization and Distribution to Plant Accounts (Exhibit H) is used to distribute overhead and the other costs recorded in Account 107.1 to the appropriate record units and plant accounts. The description of the record unit is entered in Column 1 if it is not preprinted.

6.6.1 The totals from the tabulation sheets are posted to Column 2. These represent the record units converted from the new and conversion assembly units in Item A of the RUS Form 254 and include the "Special Equipment" furnished by the contractor.

6.6.2 The standard record unit costs and the total unit price of the assembly units containing special equipment, (See Section 6.1 concerning conventional transformers) from Column 5 of the RUS Form 254a, are entered in Column 3 and multiplied by Column 2 to determine the total standard costs.

6.6.3 The total amount of the contract remaining in Account 107.1 is entered in Column 5 opposite "B", Total Actual Cost, and divided by the total of Column 4, to calculate the ratio of actual to standard costs.

6.6.4 The standard cost of the individual record units in Column 4 is multiplied by this ratio to determine the total actual cost for Column 5.

6.6.5 The units and costs in Columns 2 and 5 are posted to the continuing property records.

6.6.6 Column 5 is summarized by plant account and a journal entry is made charging the classified plant accounts and crediting Account 106.

7. COMPLIANCE WITH 7 CFR Part 1721, POST-LOAN POLICIES AND PROCEDURES FOR INSURED ELECTRIC LOANS: 7 CFR Part 1721, Post-Loan Policies and Procedures for Insured Electric Loans, allows borrowers to request loan fund advances in an amount representing actual costs incurred but not to exceed 130 percent of the estimated project costs reported on the approved RUS Form 740c, Costs Estimates and Loan Budget for Electric Borrowers.

7.1 If several projects are constructed under one contract, compliance with the 130 percent requirement is determined by comparing the total actual costs incurred for all projects constructed under the contract with the total estimated costs of those projects as reported on the RUS Form 740c. The total estimated costs for all projects is used regardless of whether the different projects are included on a single work order or are assigned to separate work orders.

7.2 Contract costs are allocated to each project on a reasonable basis.

8. CASE STUDY - ACCOUNTING FOR CONTRACT CONSTRUCTION COSTS UNDER A FORM 830 CONTRACT:

8.1 The following case study illustrates the accounting for contract construction costs discussed in this bulletin. The case study includes:

8.1.1 The journal entries required to record the transactions associated with contract construction;

8.1.2 The general ledger account summaries of the principle accounts involved;

8.1.3 Completed examples of the RUS Forms 254, 254a, 254b, and 254c; and

8.1.4 All additional materials necessary to complete the case study.

8.2 For purposes of this case study, assume the following:

8.2.1 The contractor's invoice for all construction and retirement activities totalled \$448,184.96. A borrower typically receives several monthly invoices before the completion of the contract and the rendering of the final bill. However, to simplify the case study, we have included all of the monthly billings in one total;

8.2.2 The borrower retained 10% of the cash payments to the contractor pending completion of the contract;

8.2.3 The borrower's labor and overhead associated with the contract totalled \$36,720.88;

8.2.4 Material charged out to the contractor on Material Charge Tickets totalled \$135,244.84; and

8.2.5 Material returned by the contractor unused totalled \$10,278.75.

8.3 Journal entry discussed in Section 4.1:

Dr. 143, Other Accounts Receivable	\$135,244.84	
Cr. 154, Plant Materials and Operating Supplies		\$135,244.84

To record material taken from stock at average cost and furnished by the borrower to the contractor.

8.4 Journal entry discussed in Section 4.2:

Dr. 107.1, Construction Work in Progress - Contract	448,184.96	
Cr. 232.1, Accounts Payable - General		448,184.96
	or	
Cr. 232.2, Accounts Payable - RUS Construction		448,184.96

To record the contractor's monthly invoice.

8.5 Journal entry discussed in Section 4.3:

Dr. 232.1, Accounts Payable - General	419,997.33	
	or	
Dr. 232.2, Accounts Payable - RUS Construction	419,997.33	
Cr. 143, Other Accounts Receivable		166,308.58
Cr. 131.1, Cash - General		253,688.75

To record payment of the contractor's monthly invoice net of the retained amount and the charge to the contractor for material furnished by the borrower and installed by the contractor during the month. In the case study, the borrower furnished material is calculated as follows:

Materials furnished to the contractor	\$135,244.84
Material adjustment	(5,274.38)
Special equipment furnished to the contractor	12,179.26
Material unused and returned	(10,278.75)
Material removed from existing assembly units	101,040.35
Material removed and returned Borrower furnished materials	(66,602.74)
	<u>\$166,308.58</u>

The cash payment is calculated by deducting borrower furnished material and 10% of the remaining invoice amount. In the case study, the cash payment is calculated as follows:

Total contractor's invoice	\$448,184.96
Less: Borrower furnished material	<u>166,308.58</u>
Cash required to satisfy contractor's invoice	<u>\$281,876.38</u>
Total contractor's invoice	\$448,184.96
Less: Amount retained (10% of the cash required to satisfy the contractor's invoice in full)	<u>28,187.63</u>
Cash payment	<u>\$419,997.33</u>

Dr. 232.1, Accounts Payable - General	\$ 28,187.63	
or		
Dr. 232.2, Accounts Payable - RUS Construction	28,187.63	
Cr. 131.1, Cash - General		\$ 28,187.63

To record payment to the contractor of the amount retained. Final payment was made after completion of the contract and the approval of the Certificate of Completion - Contract Construction, RUS Form 187, by the borrower and the Administrator of RUS.

8.6 Journal entries discussed in Section 4.4:

Dr. 107.1, Construction Work in Progress - Contract	5,274.38	
Cr. 143, Other Accounts Receivable		5,274.38

To adjust for the difference in the price of the material furnished to the contractor at average cost and the unit prices shown in the contract (the unit prices stated in the contract were lower than the average cost). The difference between the borrower's average cost and the contract price is calculated in Column 25 of the RUS Form 254c.

Note: If the unit prices stated in the contract had been higher than the average cost, Account 143 would have been debited and Account 107.1, credited.

8.7 Journal entries discussed in Section 4.5:

Dr. 143, Other Accounts Receivable	12,179.26	
Cr. 107.1, Construction Work in Progress - Contract		12,179.26

To record special equipment items furnished by the borrower to the contractor. The cost of borrower furnished material is calculated in Column 22 of the RUS Form 254c. In the case study, the costs of special equipment items are reported in the shaded areas of the RUS Form 254c.

Dr. 583, Overhead Line Expenses	22,673.68	
Cr. 107.1, Construction Work in Progress - Contract		22,673.68

To record the labor cost incurred in removing and installing special equipment items. The cost of removing special equipment items is calculated in Column 7 of the RUS Form 254a. The cost of installing special equipment items is calculated by multiplying the labor unit price (Column 3 of the RUS Form 254a) by the quantity of units installed (Column 1 of the RUS Form 254a) and adding the products. In the case study, the cost of installing and removing special equipment items is calculated as follows:

Total cost of installing special equipment items	\$ 14,852.49
Plus: Total cost of removing special equipment items	7,821.19
Total cost of installing and removing special equipment items	\$ 22,673.68

Note: Special equipment items installed and removed are reported in the shaded areas of the RUS Form 254a.

8.8 Journal entry discussed in Sections 4.6 and 5.4.2:

Dr. 108.8, Retirement Work in Progress	\$ 48,561.02	
Cr. 107.1, Construction Work in Progress - Contract		\$ 48,561.02

To reclassify labor costs incurred in removing plant from the system under the terms of the contract. The cost of removal is calculated by deducting the cost incurred in removing the special equipment items from the total cost of removal reported in Column 7 of the RUS Form 254a. In the case study, the cost of removal is calculated as follows:

Total Cost to remove "I" units (Column 7 of the RUS Form 254a)	\$ 56,382.21
Less: The cost to remove special equipment items	7,821.19
Cost of removal	\$ 48,561.02

Note: Special equipment items installed and removed are reported in the shaded areas of the RUS Form 254a.

8.9 Journal entry discussed in Section 4.7:

Dr. 107.1, Construction Work in		
Progress - Contract	36,720.88	
Cr. 131.1, Cash - General		36,720.88

To charge the borrower's labor and overhead. This consists of direct and indirect labor; administrative and general expenses; engineering; social security taxes; property loss, property damage, and workmen's compensation insurance; stores expense; transportation expense; employee pensions and benefits; and employee holidays and vacations.

8.10 Journal entry discussed in Section 4.8:

Dr. 154, Plant Materials and		
Operating Supplies	\$ 10,278.75	
Cr. 143, Other Accounts Receivable		\$ 10,278.75

To credit the contractor for material that was not used and was returned to stock.

8.11 Journal entries discussed in Section 4.9:

Dr. 143, Other Accounts Receivable	101,040.35	
Cr. 108.8, Retirement Work in		
Progress		101,040.35

To charge the contractor for the material removed from existing assembly units. The value of the material removed from existing assembly units is calculated in Column 9 of the RUS Form 254a.

Dr. 108.8, Retirement Work in Progress	66,602.74	
Cr. 143, Other Accounts Receivable		66,602.74

To credit the contractor for the material returned to the borrower. The value of the material returned to the borrower is calculated in Column 14 of the RUS Form 254b.

Dr. 154, Plant Materials and		
Operating Supplies	7,650.78	
Cr. 108.8, Retirement Work in		
Progress		7,650.78

To record the salvage value of material returned to inventory. The total salvage value of material returned to the borrower is calculated in Column 17 of the RUS Form 254a. The salvage value of the special equipment items returned must be deducted from the total to determine the value of the material returned to inventory. In the case study, the salvage value is calculated as follows:

Total salvage value (Column 17 of the RUS Form 254b)	\$ 16,364.34
Less: The salvage value of special equipment items	8,713.56
Salvage value	<u>\$ 7,650.78</u>

Note: Special equipment items salvaged are reported in the shaded areas of the RUS Form 254b.

8.12 Journal entry discussed in Section 4.10:

Dr. 108.8, Retirement Work in Progress	\$ 28,440.27
Cr. 107.1, Construction Work in Progress - Contract	\$ 28,440.27

To record the cost of special equipment items removed from service and reused by the contractor. Special equipment reused is calculated in the Schedule of Special Equipment Reused (Exhibit E). The unit prices used to calculate the value of special equipment reused are taken from Table D "Value of Material Items Creditable to Bidder" (Exhibit F).

Note: The case study is based upon the assumption that all special equipment units removed and not returned were reused by the contractor. If the borrower furnished additional units, those not required for construction were returned to the borrower unused.

8.13 Journal entry discussed in Section 4.11:

Dr. 106, Completed Construction not Classified - Electric	378,325.99
Cr. 107.1, Construction Work in Progress - Contract	378,325.99

To record completion of the construction and energization of the line.

8.14 Journal entry discussed in Sections 4.12 and 5.4.1:

Dr. 108.8, Retirement Work in Progress	68,948.63
Cr. 364, Poles, Towers and Fixtures	23,270.02
Cr. 365, Overhead Conductors and Devices	39,234.82
Cr. 368, Line Transformers	3,593.28
Cr. 369, Services	1,003.47
Cr. 371, Installations on Customers' Premises	1,847.04

To record the original cost of the property retired under the contract. The assembly units removed were converted into record units and summarized on the Retirement Work Order (Exhibit G). Each unit is priced at its continuing property record value to determine the original cost of the property retired.

8.15 Journal entry discussed in Section 5.4.4:

Dr. 108.6, Accumulated Provision for		
Depreciation of		
Distribution Plant	103,861.53	
Cr. 108.8, Retirement Work in		
Progress		103,861.53

To record the net loss on plant retired from service. The net loss on plant retired from service is calculated by adding the original cost of the property retired plus the cost of removal and deducting salvage. In the case study, the net loss on retirement is calculated as follows:

Original cost of property retired	\$ 68,948.63
Plus: Cost of removal (See Section 8.7)	<u>48,561.02</u>
	117,509.65
Less: Salvage	<u>13,648.12</u>
Net loss due to retirement	<u>\$103,861.53</u>

Salvage is calculated as follows:

Total value of material removed by contractor	\$101,040.35
Less: Material returned by contractor	<u>66,602.74</u>
Salvage value of material reused by contractor	34,437.61
Plus: Salvage value of material returned by contractor	<u>7,650.78</u>
Total salvage value of all material removed	42,088.39
Less: Salvage value of special equipment items reused by contractor	<u>28,440.27</u>
Salvage value of all material removed other than special equipment items	<u>\$ 13,648.12</u>

8.16 Journal entry discussed in Section 6.6.6:

Dr. 364, Poles, Towers and Fixtures	\$129,504.58	
Dr. 365, Overhead Conductors and Devices	237,609.12	
Dr. 367, Underground Conductor and Devices	2,281.54	
Dr. 368, Line Transformers	896.85	
Dr. 369, Services	7,111.89	
Dr. 371, Installations on Customers' Premises	922.01	
Cr. 106, Completed Construction not Classified		\$378,325.99

To reclassify electric plant in service to the primary plant accounts based upon the "Unitization and Distribution to Plant Accounts" (Exhibit H).

8.17 General Ledger Summaries:

8.18 The following exhibits provide the basis upon which the preceding journal entries were based:

- 8.18.1** Exhibit A RUS Form 254, Construction Inventory
- 8.18.2** Exhibit B RUS Form 254a, Construction Inventory
- 8.18.3** Exhibit C RUS Form 254b, Construction Inventory
- 8.18.4** Exhibit D RUS Form 254c, Construction Inventory
- 8.18.5** Exhibit E Schedule of Special Equipment Reused
- 8.18.6** Exhibit F Table D - Value of Material Items Creditable to Bidder
- 8.18.7** Exhibit G Retirement Work Order
- 8.18.8** Exhibit H Unitization and Distribution to Plant Accounts
- 8.18.9** Exhibit I RUS Form 219, Inventory of Work Orders