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INTEREST INCOME

LOANS RECEIVABLE

Interest on Loans

MODIFIED CASH BASIS OF ACCOUNTING

For credit unions following the modified cash basis of accounting, this account should reflect the interest received on loans to members, i.e., only that interest which is actually collected. This account should be credited as "Interest Received" in the Journal and Cash Record with the

interest collected on loans as shown in the daily summary cash received vouchers.

The credit union may wish to establish separate interest income accounts for the different loan account types to facilitate the computation of yields on the various types of loans.

Posting to the General Ledger

The total of the respective "Interest Received" accounts in the Journal and Cash Record should be posted to the General Ledger at the close of each month.

Illustrative Entries

- a) When an installment on a loan is repaid and interest and late charges are collected:

Dr.- Cash	\$11.10	
Cr.- Loans		\$10.00
Cr.- Interest on Loans		1.00
Cr.- Other Fees & Charges		0.10

- b) When a member authorizes the credit union to transfer shares to loans and interest:

Dr.- Shares	\$25.25	
Cr.- Loans		\$24.00
Cr.- Interest on Loans		1.25

Detailed Transactions Modified Cash BasisCredit:

- a) At the end of each month with interest collected on loans outstanding.

Debit:

- a) With the balance of the account when the income accounts are closed and transferred to the Net Income (Loss).

ACCRUAL BASIS OF ACCOUNTING

For a credit union following the accrual basis, this account should include the amount of interest earned and uncollected on the various types of loans. Interest should not be accrued on any loans which are 3-months or more delinquent. At the end of each month, the credit union should credit this account with the total uncollected interest earned during the month, with offsetting charges to *Accrued Interest on Loans*. Refer to "Accrued Interest on Loans" in Assets – Section 300 of this manual for further guidance and illustrative entries.

This account should also include periodic yield adjustments to net loan origination and commitment fee accounts. Refer to *Net Origination Fees and Costs* for further explanation and illustrative entries.

Detailed Transactions Accrual BasisCredit:

- a) At the end of each month with the uncollected interest earned on loans outstanding.

- b) With adjustments, subject to the approval of the board of directors, when interest collections exceed the balance of the accrued interest account(s).

- c) At the end of each month with periodic yield adjustments from loan origination and/or commitment fee accounts.

Debit:

- a) With adjustments required to charge off accrued interest when loans are charged off with the approval of the board of directors.

- b) With adjustments, subject to the approval of the board of directors, when interest collections are less than accruals or balance of that account.

- c) On the first day of each month with an adjustment to reverse the accrual set up at the end of the previous month, or actual interest payments received.

- d) With the balance of the account when the income accounts are closed and transferred to the Net Income (Loss).

Interest Refunds

This account reflects the amount of interest refunds for the accounting period based upon action by the board of directors or entries made on a monthly basis to estimate an interest refund which will be made in a dividend period. The entry recording the interest refunds is made as of the last day of the dividend period. When the

board of directors defers action to declare interest refunds until the first month following the dividend period, this entry should be made retroactively as of the close of the affected dividend period. The offsetting entry for interest refunds declared and recorded in this account is made to *Interest Refunds Payable*. Refer to *Interest Refunds Payable* in the Liabilities Section of this Manual.

At the option of the board of directors, the estimated interest refunds anticipated to be paid for any dividend period may be recorded by entries to spread the cost over the dividend period. Under this optional procedure the appropriate portion of the next anticipated interest refund will be recorded each month by charging this account and crediting *Other Accrued Expenses*; e.g., for a 6-month period, one-sixth of the anticipated amount of the next interest refund would be recorded each month, or if a 10 percent refund is planned for the dividend period, an entry for 10 percent of interest on loans for the month could be recorded as a debit to *Interest Refunds* and credit to *Other Accrued Expenses*. When the actual amount of the interest refund is determined at the end of the accounting period, the estimated amounts must be adjusted by an appropriate debit or credit to this account for the difference between the estimate and the actual amount. The adjustment and the actual amount of the refund as of the end of the accounting period would be recorded as described below.

Entries in this Journal and Cash Record

The amount declared for payment by the board of directors is recorded by entry in the Miscellaneous Credit column of the Journal and Cash Record by a debit to this account, with an offsetting credit to *Interest Refunds Payable*. When the board of directors defers action to declare the interest refund payable until the first month following the dividend period affected, this entry is made retroactively as of the close of the affected dividend period.

Posting to the General Ledger

The charge to this account as Miscellaneous in the Journal and Cash Record should be recorded as of the close of the accounting period to which applicable.

Illustrative Entries

- a) When a refund of interest to borrowers is authorized by the board:

Dr.- Interest Refunds	\$2,000	
Cr.- Interest Refunds Payable		\$2,000

- b) When the interest refund is paid in cash or credited to share accounts:

Dr.- Interest Refunds Payable	\$2000	
Cr. Cash		\$2000

OR

Cr.- Shares		\$2000
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- c) To record a monthly estimated interest refund, where the board estimates that a 5% interest refund will be paid at the end of some future dividend period, and gross interest on loans for the month is \$5,000:

Dr.- Interest Refunds	\$250	
Cr. Other Accrued Expenses		\$250

An entry based on the above sample computation would be made each month. The credit union may have certain categories of loans where the board has determined that an interest refund will not be given (such as delinquent loans, or on certain interest-rate categories). In this case, adjusted estimates of the above entry would be made.

Detailed Transactions

Debit:

a) With total interest refunds authorized by the board of directors (contra entry to *Interest Refunds Payable*).

Credit:

a) With the balance of the account to close it to *Net Income (Loss)* at the end of the accounting period.

Note: The above debit entry may be recorded based on an estimate (see illustrative entry c.). This requires an adjustment based on actual interest refunds distributed by an appropriate debit or credit to this account in the next accounting period for the difference between the estimate and actual amounts, with an offsetting entry to *Other Accrued Expenses*.

INVESTMENTS

MODIFIED CASH BASIS OF ACCOUNTING

For credit unions following the modified cash basis of accounting, these accounts should reflect the amount of interest income received (actually collected) from investments in the credit union's portfolio. Interest income account should be separated according to investment account types as described in the Investment section of this manual. Separation of income to compare with investment balances facilitates yield computations on the various types of investments.

Detailed Transactions Modified Cash Basis

Credit:

a) With interest earned on the respective investment asset as the transactions occur.

b) With the accretion of discount applicable to the period covered by each interest collection on the related securities. Contra debit should be to applicable securities asset account.

Debit:

a) With the amortization of premium applicable to the period covered by each collection of interest on the related securities. Contra credit should be to the securities asset account.

b) With the balance of the account to close it to *Net Income (Loss)* at the end of the accounting period.

ACCRUAL BASIS OF ACCOUNTING

The income account should be credited with the amount of income earned on the asset but not yet collected.

Illustrative Entries

To accrue one month's interest on \$12,000 of 5% U.S. Government Obligations; semi-annual interest of \$300.00 divided by 6 to compute amount applicable to each month:

Dr.- Accrued Income from	\$50.00
Investments	
Cr.- Income from U.S. Gov-	
ernment Obligations	\$50.00

Interest on Trading Securities

This account is used to record interest earned from trading securities. The income is generally received in the form of cash and should be recorded separately from trading profits and losses that result from adjustments to the fair value of the trading securities. Refer to "Investments" in Assets – Section 300 of this manual for illustrative entries and further guidance in accounting for trading securities.

Interest on Securities Available for Sale

This account is used to record the interest earned on securities classified as available for sale. Interest income, including amortization of any premium and/or discount should be included in the income statement. Refer to "Investments" in As-

sets – Section 300 of this manual for illustrative entries and further guidance in accounting for securities available for sale.

Interest on Securities Held to Maturity

This account is used to record the interest earned on investments classified as held-to-maturity. Interest income, including amortization of any premium and/or discount should be included in the income statement. Refer to “Investments” in Assets – Section 300 of this manual for illustrative entries and further guidance in accounting for securities classified as held-to-maturity.

OTHER INTEREST INCOME

Interest on Cash and Cash Equivalents

This account is used to record the interest earned on cash and cash equivalents. Cash and cash equivalents are short-term, highly liquid investments with maturities of 3 months or less. Examples include overnight accounts at a bank or corporate credit union, Fed Funds sold, and checking accounts.

Interest on Deposits in Commercial Banks, S&Ls, Savings Banks

This account is used to record dividends and interest earned/received from deposits in Commercial Banks, S&Ls and Savings Banks.

Illustrative Entries

Dr. -Deposits in Commercial Banks, S&Ls & Savings Banks	\$100.00	
Cr. Income from Commercial Banks, S&Ls, & Savings Banks		\$100.00

Detailed Transactions

Credit:

With dividends and interest credited to the credit union's investment in commercial banks, S&Ls, and savings banks.

Interest on Deposits & Certificates of Corporate Credit Unions

This account is used to record dividends and interest earned/received from deposits and certificates of corporate credit unions.

Illustrative Entries

Dr. - Corporate Credit Union	\$50.00	
Cr. Income from Corporate Credit Unions		\$50.00

Detailed Transactions

Credit:

With dividends and interest credited to the credit union's investment in corporate credit unions.

Income from CUSO

This account is used to record income earned or received on a loan or investment in a credit union service corporation accounted for under either the Equity Method or the Cost Method of accounting. The recorded income is based on the transactions recorded in *Investments in Credit Union Service Corporation*. The Equity Method of accounting will result in a change in the investment balance of the Asset Account (asset balance increases or decreases depending on whether the service corporation's operations result in a net income or net loss, respectively, during an accounting period). May need to consult an independent accountant for an understanding of Equity Accounting or Consolidation.

Income from Other Investments

This account is used to record income from investments that are not identified in any other investment account.

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NON-INTEREST INCOME

GAINS (LOSSES) ON INTEREST EARNING ASSETS

Gains (Losses) on Investments

This non-operating income (expense) classification reflects primarily the gain or loss during the accounting period on the sale of AFS securities. (Note: Gains or Losses on the disposition of Trading

account investments are recorded in "Trading Profits and Losses".)

Upon sale or other disposition of all AFS securities, the difference between amortized cost of the securities disposed of and the proceeds received by the credit union should be credited to this account if a gain, or charged to this account if a loss. The portion of this gain (loss) included in *Other Comprehensive Income (Accumulated Unrealized*

Gains/Losses on AFS Securities) must be reversed. The AFS security account is credited to reflect the removal of the security from the books.

This account also includes estimated losses resulting from other-than-temporary material declines (impairment) in fair values of AFS or HTM securities. When recognition of such losses is imminent, a schedule of investments needs to be furnished to the board of directors listing each investment as to the:

- (a) Identification of the investment,
- (b) The credit union's dollar carrying value,
- (c) The estimated current market value, and
- (d) The estimated loss that will be sustained.

The amount of the loss to be recorded needs to be approved by the board and is incorporated into the minutes based on the above schedule. It should be recorded by debiting "*Gains (Losses) on Investments*," and crediting the respective security account. Impairment losses should be rare. Most declines in the value of securities are temporary.

Entries in the Journal and Cash Record

All entries to this account should be made as a "Miscellaneous Debit" or "Miscellaneous Credit" in the Journal and Cash Record based upon Cash Received Vouchers or Journal Vouchers prepared for each individual transaction.

Illustrative Entries

- a) To record a net gain on the sale of AFS securities for the excess of proceeds received over the credit union's carrying value:

Dr.- Cash	\$1,000	
Dr.- Unrealized		
Gain/Loss on AFS	20	
Cr.- AFS Securities		\$980
Cr.- Gain (Loss) on Investments		40

- b) To record an estimated potential loss of a other-than-temporary nature on AFS securities due to

a decline in the expected realizable value as authorized by the board of directors:

Dr.- Gain (Loss) on Investments	\$2,000	
Cr.- AFS Securities		\$2,000

Detailed Transactions

Credit:

- a) With amounts of gains on sales or other dispositions of AFS securities, representing the excess of proceeds received over net carrying value.

- b) With balance of account, if a debit, when books are closed (transfer to the Net Income (Loss) account).

Debit:

- a) With net losses on sales or other disposition of AFS securities, representing the excess of credit union's carrying value of the investments disposed of over the proceeds received.

- b) With balance of account, if a credit, when books are closed (transfer to the *Net Income (Loss)* account).

- c) With the amount of an other-than-temporary decrease in the value of AFS or HTM securities.

TRADING SECURITIES PROFIT (LOSSES)

This account is used to record periodic changes in the fair value of trading securities and gains and losses resulting from the disposition of trading investments. Trading account securities should be marked to fair value monthly.

Illustrative Entries

- a) To record the write-down of trading securities to fair value. Assume that trading securities are

presently carried at \$15,000 and current fair value is \$14,000:

Dr.- Trading Profits and Losses	\$1,000	
Cr.- Trading Securities		\$1,000

b) To record the increase in the fair value of trading securities. Assume the current fair value of the securities has risen to \$17,000:

Dr.- Trading Securities	\$3,000	
Cr.- Trading Profits and Losses		\$3,000

Detailed Transactions

Debit:

a) With a decrease in fair value of trading securities.

Credit:

a) With an increase in fair value of trading securities.

MEMBER SERVICE FEES

Loan Origination Fees

Income resulting from nominal, nonrefundable loan origination fees on loans to members, i.e., commercial, agricultural and consumer loans, should be credited to this account in full, as collected when the following criteria are met:

- The fees are nominal.
- The direct costs incurred are nominal.
- The maturity of the lending transaction is short term in nature.

For term loans, the net origination fee (costs) if material, should be deferred and amortized over the life of the loan by the interest method as an adjustment to yield. Refer to "Loans" – Section 300

of this manual for further explanation and illustrative entries.

Other Fees and Charges

Other fees and charges include income collected from membership fees and late charges on credit union loans to members.

Miscellaneous Fee Income

These accounts are used to record operating income of the credit union for which no specific account is provided. Such items include un-presented check fees and reimbursement fees (for costs of selling checks, cashing checks, and handling insurance), etc.

Unpresented Checks

When the statutory period prescribed for the presentation of checks has expired, such items may be credited to this account with an offsetting debit to "Accounts Payable". See discussion of unpresented checks under *Accounts Payable*. Before the accounts of any unpresented checks are credited to this account, it needs to be determined whether an abandoned property law is in force in the state.

Interest on Insurance Premiums Receivable

Interest collected on reimbursable insurance premiums which have been advanced on behalf of member-borrowers is credited to this account.

Reimbursement Fees

Fees collected from members are credited to this account.

Entries in the Journal and Cash Record

This account is credited as a "Miscellaneous Credit" with fees collected for the sale of checks or money orders, for the cashing of checks, for the sale of insurance to members and any other miscellaneous operating income. If credits to this account are numerous, you might choose to record the credits to the special Cash account.

Illustrative Entries

a) When a credit union receives payment for the printing of share drafts and charges a fee for this service:

Dr.- Cash	\$21.00	
Cr.- Accounts Payable		\$20.00
Cr. - Misc. Fee Income		1.00

Note: The actual cost of printing the share drafts is set up as an accounts payable as shown and is remitted to the printer upon receipt of the finished order.

b) When a check is cashed for a member for a fee or a reimbursement fee is collected for the purchase of insurance:

Dr.- Cash	\$5.00	
Cr. - Misc. Fee Income		\$5.00

c) When income is received for which no other income account is provided:

Dr.- Cash	\$2.00	
Cr. - Other Misc. Operating Income		\$2.00

LOAN SERVICING FEES

This account is used to record fees earned in conjunction with servicing loans, credit cards or other financial assets. Further discussion of this topic is outside the scope of this manual. Credit unions involved in servicing loans or other assets should seek the guidance of an independent accountant.

INSURANCE COMMISSIONS

This account is used to record income earned on insurance commissions. Section 721.2 of the NCUA's Rules & Regulations sets forth the reimbursement and compensation limitations a FCU may receive from third party vendors of insurance.

The NCUA does not limit the compensation a FCU may receive in connection with the sale of insurance that is directly related to an extension of credit. FCUs are subject to state laws applicable to the sale of insurance, including any limits the state may place on insurance commissions.

OTHER**Income from NCUSIF Investment Refund**

This account is used to record redistributions (dividends) of NCUSIF equity to insured credit unions when the NCUA Board makes an annual, proportionate adjustment of the amount necessary to reduce the NCUSIF to its normal operating level.

Illustrative Entries

Dr.- Cash or Accrued Income on NCUSIF	\$450.00	
Cr.- Income from Investment in NCUSIF		\$450.00

Note: Accruals should be recorded only after the NCUA Board declares a redistribution from the NCUSIF, not in anticipation of a declaration of dividends.

Detailed Transactions

Credit:

a) With redistributions of NCUSIF equity that have been declared by the NCUA Board of Directors.

Gain (Loss) On Disposition/Impairment Of Assets

This non-interest income (loss) account is used to record a gain or loss realized during the accounting period as a result of:

- the sale or other disposition of credit union owned fixed assets (e.g., land, building, furniture, equipment)
- a significant decrease in the market value (impairment) of credit union owned long-lived assets (e.g., building)
- writing down assets acquired in liquidation of loans to the lower of (a) fair value minus estimated costs to sell or (b) cost at the time of foreclosure

Refer to “Assets Acquired in Liquidation of Loans” and “Property and Equipment” in Assets - Section 300 of this manual for further explanation and illustrative entries.

OTHER NONOPERATING INCOME (EXPENSES)

This non-operating income (expense) account reflects all non-operating income received or expenses or losses incurred for which no specific account is provided. This account should include such items as the value of donations and gifts received except in the case of a donated fixed asset of material value which may be recorded as Donated Equity.

Entries in the Journal and Cash Record

Entries to this account should be made as a "Miscellaneous Credit" or "Miscellaneous Debit" in the Journal and Cash Record based on Cash Received Vouchers or Journal Vouchers prepared for each individual transaction.

Detailed Transactions

Credit:

- a) With the amount of gifts and donations received except tangible fixed assets of substantial value for which the credit entry should be to "*Donated Equity*."

- b) With the amount of miscellaneous non-operating income received by the credit union for which no other account is specifically prescribed.

- c) With amounts equivalent to depreciation charged to expense during the period on donated tangible fixed assets; offsetting debit should be to "*Donated Equity*."

- d) With balance of account, if a debit, when books are closed (transfer to the *Net Income (Loss)* account).

Debit:

- a) With the amount of any miscellaneous non-operating expenses of the credit union not specifically chargeable to other accounts.

- b) With balance of account, if a credit, when books are closed (transfer to the *Net Income (Loss)* account).

EXTRAORDINARY GAINS AND LOSSES

This account is used to record gains and losses resulting from events or transactions that are of an unusual nature and are infrequent in occurrence. Both of the following criteria must be met to classify an event or transaction as an extraordinary item:

- a) *Unusual nature* - the event or transaction possesses a high degree of abnormality and is of a type clearly unrelated to, or only incidentally related to the ordinary and typical activities of the credit union, taking into account the environment in which the credit union operates.

- b) *Infrequency of occurrence* - the event or transaction is a type that would not reasonably be expected to recur in the foreseeable future.

Examples of extraordinary losses might be a loss resulting from a major casualty such as a flood, earthquake, or hailstorm in a locality where the event would be extremely rare.

Entries in Journal and Cash Record

All entries to this account should be made to the "Miscellaneous Debit" or "Miscellaneous Credit" columns of the Journal and Cash Record based upon Cash Received or Journal Vouchers prepared for each individual transaction.

Illustrative Entries

a) To record the net loss sustained from a flood that destroyed the credit union's office furniture and equipment (inclusive of computers) that occurred in a locale where a flood has never been experienced.

Dr.- Extraordinary Gains and Losses	\$40,000	
Dr.- Allowance for De- preciation of Furni- ture and Equipment	500	
Cr.- Furniture and Equip- ment		\$40,500

Detailed TransactionsCredit:

a) With extraordinary gains resulting from an unusual event or transaction of an infrequent nature.

Debit:

a) With extraordinary losses resulting from an unusual event or transaction of an infrequent nature.