

PLANT ACCOUNTING: HOUSING PROJECT UNITS
FOR SALE TO FACULTY

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PLANT ACCOUNTING: HOUSING PROJECT UNITS FOR SALE TO FACULTY

". . . a man's house is his castle."

--Sir Edward Coke

I. INTRODUCTION

This chapter establishes the accounting procedures for recording University housing project units (units) to be sold to University faculty. Ordinarily, a unit is sold at noncommercial prices, and the land, which is owned by the University, is leased to the purchaser for a nominal amount. Accordingly, monthly housing costs for these units can be expected to be lower than those for commercial housing projects. The University makes such housing units available as part of its program for recruiting outstanding faculty.

II. FINANCING

Financing for the construction of a housing project is usually obtained from banks or other financial institutions. The Treasurer's Office negotiates the terms of the loan and files the application. General Accounting in the Office of the President transfers the loan receipts to the campus using the campus financial control account. The campus records the receipt of such funds, as follows:

Dr. Campus Financial Control	X-1195X0
Cr. Borrowed Funds for Housing	X-101XXX-01XXX-1550

If the campus receives the loan funds directly from the lender, receipt of the funds is recorded as follows:

Dr. Cash	X-1000XX
Cr. Borrowed Funds for Housing	X-101XXX-01XXX-1550

III. HOMEOWNERS ASSOCIATION

Most housing projects are governed by a Homeowners Association which is a legal entity whose by-laws are filed with the State of California. (General Counsel can assist with filing the incorporation with the State and drafting the bylaws for University housing projects.) An Association

III. HOMEOWNERS ASSOCIATION (Cont.)

is officially established as soon as the first unit is sold. At that time, the Association's cash accounts and all other accounting activities become operational, separate from the University's accounting system. The University may be required to pay the association fee for unsold units when beneficial occupancy occurs. This fee may be funded from Plant Fund proceeds. As soon as more than 50% of the units are sold, the University turns the project over to the Association to run.

IV. PROCEDURES FOR NEW HOUSING UNITS

A. CONSTRUCTION COSTS

All construction costs for the housing project are accounted for within the Unexpended Plant Funds group in a manner similar to the accounting for construction costs on other projects. (Refer to Accounting Manual chapter P-415-8, Plant Accounting: Unexpended Plant Funds.) A cost figure for each unit should be computed for the purpose of recording the property sale. One method of determining the unit cost is to allocate the total construction costs for all the units (including costs for common area expenditures such as those for landscaping, pools, and club houses) to each unit, based on a square footage ratio. If all the units are approximately the same size, the total project costs can be divided by the number of units built.

B. COMPLETED UNITS

One of the methods presented under the options listed below can be used to record the value of completed units.

- 1) Under option one, historical cost data is maintained in the plant asset register. The accounting office records the total cost of the units in Investment in Plant using normal capitalization procedures. When a unit is sold, the asset in Investment in Plant should be decreased as follows:

Dr. Investment in Plant	X-101999-01990
Cr. Buildings and Structures	X-101801-XXXXX
Cr. General Improvements	X-101802-XXXXX

- 2) Under option two, the project is not capitalized, based on the rationale that the University does not intend to own the units. The fund balance and expenditure are decreased only when a unit is sold. When a unit is sold, both the construction fund source and the construction expenditure account (9XXXXX) are decreased by the value of the unit cost sold, as follows:

Dr. Unexpended Plant Funds	X-10XXXX-0XXXX-1400
Cr. Project Name	X-9XXXXX-0XXXX

The total cost of any unsold units remains in Construction in Progress at fiscal year-end and is carried forward to the new year. However, any unsold units which will be used as rental property are capitalized. After all the units have been sold, the construction expenditure account must have a zero balance. Thus, this method nets the project's revenue and expenditures.

C. SALE OF HOUSING UNITS

The proceeds from the sale of a unit are not recorded as Current Funds income. Since the University is not ordinarily in the business of selling homes, all sales revenue and related costs are reported in the Unexpended Plant Funds group. For consistency and control purposes, proceeds from the sale of a unit are recorded in plant reserve, account-fund number 101259-01259, Proceeds from Housing Sales, as follows:

Dr. Cash	X-1000XX
Cr. Proceeds from Housing Sales	X-101259-01259-1400

If a campus is using borrowed funds to finance a project, STIP income should be earned on the borrowed funds and used to fund part of the interest expense.

D. REPAYMENT OF BORROWED FUNDS

Principal and interest payments on bank loans used to finance a project can be made from construction project proceeds or fund 01259, Proceeds from Housing Sales. These payments are recorded as follows:

IV. PROCEDURES FOR NEW HOUSING UNITS (Cont.)

D. REPAYMENT OF BORROWED FUNDS (Cont.)

Dr. Construction Project Proceeds	X-101XXX-01XXX-3200
or	
Dr. Proceeds from Housing Sales	X-101259-01259-3200
Cr. Campus Financial Control	X-1195X0
Dr. Retirement of Indebtedness	X-1017XX-017XX-21XX
Dr. Retirement of Indebtedness	X-1017XX-017XX-22XX
Cr. Retirement of Indebtedness	X-1017XX-017XX-3200

E. USE OF SURPLUS FUNDS

In addition to reimbursing borrowed funds, the proceeds of a sale may be used to cover related administrative and sales costs. Any balance remaining in fund 01259 may be used by the campus for other University purposes. When transferring funds from Unexpended Plant Funds to Current Funds, use transaction codes 3099 and 0599, as follows:

Dr. Proceeds from Housing Sales	X-101259-01259-3099
Cr. Unexpended Balances	X-119850-7XXXX-0599

V. PROCEDURES FOR RESALE OF HOUSING UNITS

There may be some differences between a new housing unit sale and a housing unit purchase and resale. The campus should maintain detailed records to ensure that all appropriate costs are allocated to each unit. The purchase and resale of a unit may be recorded in either Current or Plant Funds. When using Unexpended Plant Funds, the activity is recorded in account-fund 101259-01259. For fiscal year-end reporting purposes, purchases capitalized with transaction code 2000 are offset by the proceeds received and recorded with transaction code 1400.

Also, at fiscal year-end, the campus must transfer the total cost associated with the unsold units held for resale to Unexpended Plant Funds account Real Estate Investments (100060). If, however, a unit is being rented, it should be capitalized and recorded in Investment in Plant.

VI. RESPONSIBILITIES

It is the responsibility of the accounting officer to account for housing project units in accordance with the procedures presented in this chapter.

VII. REFERENCES

Director Donald L. Alter, Memorandum to Accounting Officers on Accounting for Housing Project Units to be Sold to Faculty, June 29, 1987.

Accounting Manual chapters

P-415-3 Plant Accounting: Investment in Plant
P-415-8 Plant Accounting: Unexpended Plant Funds

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