Telecom Accounting 101
Unique Challenges and How to Face Them

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Telecom Accounting 101
Presenters

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Telecom Accounting 101

Agenda

01

What Makes Telecom Accounting Unique?

- Part 32 chart of accounts
- Payroll spreading & cost allocation
- Regulated fixed asset accounting

02

Part 32 System of Accounts

- Overview of Part 32 requirements
- How to map operations to Part 32
- Common pitfalls

03

Accounting for Different Types of Investments

- Overview of the different types of investments found in Telecommunications
- Accounting and accounting elections

04

Cost Allocation

- Guidelines on how to properly spread payroll expenses and overhead costs across operating expenses

05

Accounting for Regulated Fixed Assets

- Recording retirements
- Mass asset depreciation
- Continuing property records

01

What Makes Telecom Accounting Unique?

What Makes Telecom Accounting Unique?

Telecom vs. Other Industries

Other Industries	Telecommunications
Freedom to develop a unique system of accounts	Regulated operations follow the Part 32 system of accounts
Dedicated payroll and overhead expense accounts	Payroll and overhead costs are allocated across operations
All fixed asset disposals fall under GAAP accounting	Regulated asset disposals follow different accounting guidelines

02

Part 32 System of Accounts

Part 32 System of Accounts
What & Why

- To provide a consistent reporting format to aid in:
  - Reporting requirements
  - Rate and support calculations
  - Monitoring of the industry’s financial performance
- Accounts are designed to capture a functional and technological view of the industry
- Required for regulated entities (47 CFR Part 32.11)
  - Useful to also use for nonregulated subsidiaries, even if not required

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Part 32 System of Accounts
System Overview

Balance Sheet

- 1xxx - Assets (non-fixed asset)
- 2xxx - Fixed assets
  - 21xx – general support
  - 22xx – central office
  - 23xx – information origination/termination
  - 24xx – cable and wire facilities
  - 26xx – amortizable assets
- 3xxx - Accumulated depreciation & amortization
  - 4xxx-44xx – Liabilities
  - 45xx - Equity

Income Statement

- 5xxx
  - Represents revenue accounts
- 6xxx
  - Represents expense accounts
- 7xxx
  - Represents other income/expense accounts

Resources:

- 47 CFR Part 32
- Balance Sheet Accounts
- Income Statement Accounts
- Note:
  - 8xxx - Represents clearing accounts
    - While not mandated by Part 32, many companies find these accounts useful for aggregating payroll and overhead costs that need to be allocated

Part 32 System of Accounts
Balance Sheet Example

	2025	2024
ASSETS		
Current Assets		
Cash and cash equivalents	$ 15,000,000	$ 11,600,000
Certificates of deposit	800,000	800,000
Debt securities held-to-maturity	1,100,000	1,300,000
Accounts receivable:		
Due from customers	180,000	290,000
Network access	2,500,000	2,100,000
Other	460,000	12,000,000
Prepaid income taxes	1,300,000	-
Materials and supplies	2,000,000	2,100,000
Prepayments	400,000	200,000
	23,740,000	30,390,000
Other Noncurrent Assets		
Debt securities held-to-maturity	180,000	1,200,000
Equity method investments	2,000,000	2,100,000
Other investments	6,000,000	6,000,000
Right-of-use asset	1,000,000	1,400,000
	9,180,000	10,700,000
Property, Plant and Equipment		
Telephone plant in service	300,000,000	290,000,000
Video plant in service	4,500,000	4,700,000
Other	5,000	5,000
	304,505,000	294,705,000
Less accumulated depreciation	158,615,000	145,730,000
	145,890,000	148,975,000
Plant under construction	200,000	285,000
	146,090,000	149,260,000
Total Assets	$ 179,010,000	$ 190,350,000

Part 32 Accounts

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Part 32 System of Accounts
Balance Sheet Example (continued)

	2025	2024
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 4,000,000	$ 14,500,000
Current portion of operating lease liability	600,000	600,000
Accounts payable	1,500,000	2,300,000
Deferred income	700,000	700,000
Accrued taxes	270,000	265,000
Accrued income taxes	-	2,000,000
Other	3,500,000	3,300,000
	10,570,000	23,665,000
Long-Term Debt	4,000,000	8,000,000
Other Noncurrent Liabilities		
Deferred income taxes	10,800,000	11,000,000
Deferred income	10,800,000	11,500,000
Regulatory liability	200,000	315,000
Operating lease liability, less current portion	640,000	870,000
	22,440,000	23,685,000
Members' Equity		
Patronage capital assigned	69,000,000	69,000,000
Patronage capital assignable	8,000,000	21,000,000
Reserves	65,000,000	45,000,000
	142,000,000	135,000,000
Total Liabilities and Members' Equity	$ 179,010,000	$ 190,350,000

Part 32 Accounts

- 4xxx – Short-term Liabilities
- 42xx – Long-term Debt
- 43xx-44xx – Long-term Liabilities
- 45xx – Equity

Part 32 System of Accounts
Income Statement Example

	2025	2024
Operating Revenues		
Local network services	$ 2,600,000	$ 2,800,000
Network access services	27,000,000	27,000,000
Long-distance services	600,000	700,000
Video services	7,000,000	7,000,000
Internet services	15,000,000	14,000,000
Miscellaneous	3,000,000	2,500,000
	55,200,000	54,000,000
Operating Expenses		
Plant specific operations	9,100,000	7,500,000
Plant nonspecific operations	4,700,000	4,600,000
Cost of services	10,000,000	10,000,000
Depreciation and amortization	13,700,000	13,000,000
Customer operations	2,700,000	2,800,000
Corporate operations	4,000,000	4,000,000
General taxes	1,300,000	1,200,000
	45,500,000	43,100,000
Operating Income	9,700,000	10,900,000
Other Income (Expense)		
Interest and dividend income	700,000	800,000
Interest during construction	55,000	900,000
Equity earnings	150,000	210,000
Gain on sale of investment	60,000	700,000
Interest expense	(500,000)	(1,000,000)
Other, net	(50,000)	(200,000)
	415,000	1,410,000
Income Before Income Taxes	10,115,000	12,310,000
Income Tax Expense	730,000	900,000
Net Income	$ 9,385,000	$ 11,410,000

Part 32 Accounts

- 5xxx - Revenues
  - 508x – network access
  - 5100 – long distance
  - 5200 – miscellaneous
  - 5280 – nonregulated
  - 5300 – uncollectibles
- 6xxx - Expenses
  - 6100-6400 – plant specific
  - 6500 – plant nonspecific
  - 6560 – depreciation & amortization
  - 6600 – customer operations
  - 6700 – corporate operations
- 7xxx – Other Income & Expense
  - 7100 – other operating income & expense
  - 7200 – operating taxes
  - 7300 – nonoperating income & expense
  - 7400 – nonoperating taxes
  - 7500 – interest and related items
  - 7600 – extraordinary items

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Part 32 System of Accounts
Common Pitfalls

Where can things go wrong?

- Improper plant classification
  - Impacts depreciation expense and the net book value of plant assets
  - i.e. ONTs coded to fiber would be depreciated over 20 years instead of 10!
- Improper expensing
  - Prepaid expenses not being capitalized
  - Expensing fixed assets
    - Knowing CAPEX threshold & applying properly
- Investment classification
  - Cost-method vs equity method investments
  - Equity vs. debt securities
    - Balance sheet considerations:
      - Debt securities: trading vs. available-for-sale vs. held-to-maturity
    - Income statement considerations for unrealized gains and losses
      - Equity – income statement
      - Debt – other comprehensive income

Tips:

- Develop, distribute, and follow a CAPEX policy
- Use the features available in your software to track work order cost categories as they are incurred
- Monthly review of expensed invoices to ensure proper classification

03

Accounting for Different Types of Investments

Accounting for Different Types of Investments
Common Types of Investments

Equity Securities

- Represents an ownership in a corporation
- Common Examples:
  - Stocks
  - Mutual Funds
  - ETF's

Debt Securities

- Represents a loan made by an investor to a borrower
- Common Examples:
  - Bonds
  - Broker Certificates of Deposit (CD's) not including CD's through local bank

Equity Method Investments

- Represents an ownership in a company where investor has significant influence over investee
  - Generally, 20% - 50% ownership
  - Could have board member influence

Cost Method Investments

- Represents an ownership in a company where investor does ***not*** have significant influence
  - Ownership below 20%
  - No board member influence

Accounting for Different Types of Investments

Accounting Elections for Debt Securities

Held-to-Maturity (HTM)

- Management has the intent and ability to hold to maturity
- Recorded at amortized cost
- Classified as short or long term based on maturity date

Trading

- Securities bought and sold for the purpose of selling in the near term
- Recorded at fair value
- Classified as short term

Available-for-Sale (AFS)

- Securities not classified as HTM or Trading
- Recorded at fair value
- Classified as short or long term, depending on management's intent

Accounting for Different Types of Investments

Equity Method vs. Cost Method Investments

Equity Method

- Used when investor has significant influence
- Initially recorded at cost and adjusted for investor's share of earnings/losses
- Dividends reduce carrying value rather than being recognized as income

Cost Method

- Used when investor does ***not*** have significant influence
- Initially recorded at cost and remains at historical cost until observable transaction
- Dividends recognized as income when received

04

Cost Allocation

Cost Allocation
Overview

- Common costs
  - Costs that cannot be directly assigned to either regulated or nonregulated activities
  - Must be grouped into categories to aid in the proper allocation between regulated and nonregulated activities
- Methods for spreading common costs:
  - Driver-based
    - Costs spread based on a proportion of certain drivers
      - Direct labor hours (most common)
  - Time study
    - Time is observed for a set period. The breakdown of the observed time is used to assign the labor costs of staff and to allocate other common costs.

Cost Allocation
Clearing Accounts

Motor Vehicles – 6112

- Expenses related to the maintenance of plant vehicles
  - Salaries & wages – change oil, washing
  - Fuel, repairs, insurance
- Cleared to construction & other plant specific expense accounts

Other Work Equipment – 6116

- Expenses related to the maintenance of other work equipment
- Salaries & wages – change oil, washing
- Fuel, repairs, insurance
- Cleared to outside plant construction & outside plant specific expense accounts

Provisioning – 6512

- Expenses relating to the provisioning of materials & supplies
- Salaries & wages for loading & unloading supplies
- Taking physical inventory
- Cleared to construction & plant specific expense accounts based on material used

Engineering – 6535

- Includes cost relating to general engineering not related to a specific project
- Cleared to construction accounts

05

Accounting for Regulated Fixed Assets

Accounting for Regulated Fixed Assets
Accounting for Retirements

Depending on the company holding an asset, retirements for fixed assets with a remaining net book value are handled differently:

Regulated Fixed Assets

- Gains and losses on retirements (from sale, disposal, normal retirement) are put to accumulated depreciation
- Income statement impact is recognized over the life of the asset class

Nonregulated Fixed Assets

- Gains and losses on retirements (from sale, disposal, normal retirement) are put to the income statement
- Income statement impact is recognized immediately

Example: ABC Telcom has separate companies for their ILEC and CLEC operations. Each entity purchased a truck 3 years ago for $50,000 and has a remaining NBV of $20,000. Both trucks were totaled in a hailstorm and are being retired. ABC Telcom will record these entries as follows:

ABC ILEC

Account	Debit	Credit
2112 Vehicles		50,000
3112 A/D Vehicles	50,000	

ABC CLEC

Account	Debit	Credit
2112 Vehicles		50,000
3112 A/D Vehicles	30,000	
7150 Loss on disposal	20,000	

Accounting for Regulated Fixed Assets
Depreciation Methods

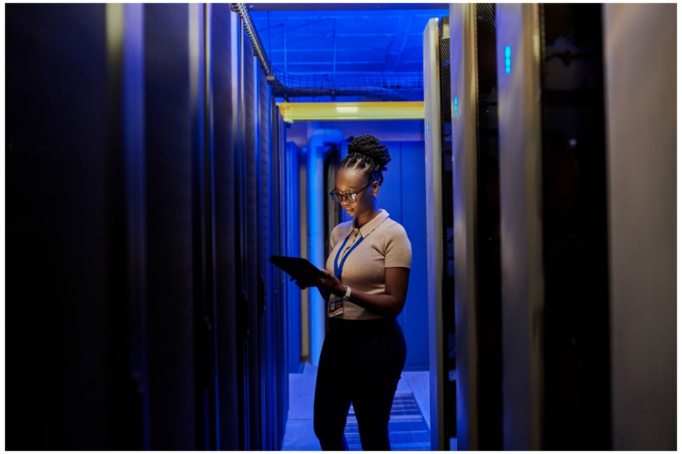
Part 32 and Part 64 mandate certain depreciation requirements for regulated entities (47 CFR § 32.2000(g)(1)(i)):

Regulated Entities – Mass Asset

- Mass asset depreciation method is required
- Classes of similar assets are grouped, and a useful life is assigned. The entire group balance must be depreciated straight-line.
  - Legacy or vintage groupings are allowed (i.e. fiber installed in 2023, 2024, etc.)

Nonregulated Entities – Standard GAAP Methods

- Entities may use acceptable depreciation methods under GAAP
  - Straight-line
    - Mass asset or by unit
  - Declining balance or accelerated methods
  - Units of production



Accounting for Regulated Fixed Assets
Continuing Property Records (CPRs)

CPRs list the assets a company has in service. They should be subject to internal controls, auditable, and reconcilable to the trial balance.

Requirements of CPRs

- CPRs should cover telephone plant in service, property held for future use, and non operating plant
- Recorded on original cost (or other appropriate book) basis
- CPRs as of year-end should be completed within 2 years
  - I.e. December 31, 2025's fixed assets should all be entered into CPRs by December 31, 2027
- See 47 CFR 32.2000(f) for additional information and requirements

Up-to-date CPRs assist with:

- Depreciation calculations – Book and Tax
- Providing detail to relevant third parties
  - Auditors
  - Regulators
  - Reporting requirements
- Fixed asset management
  - Reviewing for potential retirements or obsolete assets

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