Chapter 16 Accounting for State and Local Governments (Part 1)

Answer Key

Multiple Choice Questions

1. Which standard issued by the Governmental Accounting Standards Board in 1999 required two distinct sets of financial statements for state and local governments?

   A. GASB Statement No. 32.
   B. GASB Statement No. 33.
   C. GASB Statement No. 34.
   D. GASB Statement No. 35.
   E. GASB Statement No. 36.

   AACSB: Reflective thinking
   AICPA BB: Industry
   AICPA FN: Reporting
   Accessibility: Keyboard Navigation
   Blooms: Remember
   Difficulty: 1 Easy

   Learning Objective: 16-02 Differentiate between the two sets of financial statements produced by state and local governments.

2. Which group of governmental financial statements reports all revenues and all costs of providing services each year?

   A. GAAP-Based Financial Statements.
   B. Fund Financial Statements.
   C. Cost-Based Financial Statements.
   E. General Fund Financial Statements.

   AACSB: Reflective thinking
   AICPA BB: Industry
   AICPA FN: Reporting
   Accessibility: Keyboard Navigation
   Blooms: Remember
Learning Objective: 16-02 Differentiate between the two sets of financial statements produced by state and local governments.

3. Proprietary funds are

A. Funds used to account for the activities of a government that are carried out primarily to provide services to citizens.
B. Funds used to account for a government's ongoing organizations and activities that are similar to those operated by for-profit organizations.
C. Funds used to account for monies held by the government in a trustee capacity.
D. Funds used to account for all financial resources except those required to be accounted for in another fund.
E. Funds used to account for revenues that have been legally restricted as to expenditure.

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.

4. Fiduciary funds are

A. Funds used to account for the activities of a government that are carried out primarily to provide services to citizens.
B. Funds used to account for a government's ongoing organizations and activities that are similar to those operated by for-profit organizations.
C. Funds used to account for monies held by the government in a trustee capacity.
D. Funds used to account for all financial resources except those required to be accounted for in another fund.
E. Funds used to account for revenues that have been legally restricted as to expenditure.
5. **Governmental funds are**

A. Funds used to account for the activities of a government that are carried out primarily to provide services to citizens.

B. Funds used to account for a government's ongoing organizations and activities that are similar to those operated by for-profit organizations.

C. Funds used to account for monies held by the government in a trustee capacity.

D. Funds used to account for all financial resources except those required to be accounted for in another fund.

E. Funds used to account for revenues that have been legally restricted as to expenditure.

6. **Special Revenue funds are**

A. Funds used to account for the activities of a government that are carried out primarily to provide services to citizens.

B. Funds used to account for a government's ongoing organizations and activities that are similar to those operated by for-profit organizations.

C. Funds used to account for monies held by the government in a trustee capacity.

D. Funds used to account for all financial resources except those required to be accounted for in another fund.

E. Funds used to account for revenues that have been legally restricted as to expenditure.
7. The term "current financial resources" refers to

A. Those assets that can quickly be converted into cash.
B. Monetary assets available to meet the government's needs.
C. The government's current assets and current liabilities.
D. The current value of all net assets owned by the governmental unit.
E. Financial resources used to provide electricity to local citizens.

Learning Objective: 16-02 Differentiate between the two sets of financial statements produced by state and local governments.

8. What are the broad types or classifications of funds for a governmental entity such as a city?

A. general, governmental, and trust funds.
B. governmental, proprietary, and fiduciary funds.
C. revenue, trust, and governmental funds.
D. enterprise, revenue, and fiduciary funds.
E. governmental, agency, and enterprise funds.

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
9. Which group of financial statements is prepared using the "modified accrual accounting" approach?

A. GAAP-Based Financial Statements.
B. Fund Financial Statements.
C. Cost-Based Financial Statements.
E. General Purpose Financial Statements.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 16-02 Differentiate between the two sets of financial statements produced by state and local governments.

10. Under modified accrual accounting, revenues should be recognized when they are

A. collected.
B. realizable.
C. reasonably estimable.
D. measurable and available.
E. earned.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 16-02 Differentiate between the two sets of financial statements produced by state and local governments.
11. Under modified accrual accounting, when should an expenditure be recorded to recognize interest on long-term debt?

A. at the end of each accounting period.
B. when payment is due within one fiscal year.
C. when payment is due.
D. when cash is available to pay the interest.
E. when the interest is incurred.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.

12. Which of the following funds is most likely created with an endowed gift?

A. Enterprise Fund.
B. Internal Service Fund.
C. Debt Service Fund.
D. Capital Projects Fund.
E. Permanent Fund.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
13. Revenue from property taxes should be recorded in the General Fund

A. when received.
B. when there is an enforceable legal claim.
C. when they are available for recognition.
D. in the period for which they are required or permitted to be used.
E. in the period in which the tax bills are mailed.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 16-08 Determine the proper timing for the recognition of revenues from nonexchange transactions.

14. Which type of fund is not included in the Government-Wide Financial Statements?

A. Governmental Funds
B. Proprietary Funds
C. Fiduciary Funds
D. Debt Service Funds
E. Special Revenue Funds

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
15. A city received a grant of $5,000,000 from a private agency. The money was to be used to build a new city library. In which fund should the money be recorded for the Fund Financial Statements?

A. the General Fund.
B. an Expendable Trust Fund.
C. a Capital Projects Fund.
D. an Agency Fund.
E. a Permanent Fund.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.

16. When a city received a federal grant for providing food and other assistance to the homeless, the money should have been recorded in

A. the General Fund.
B. an Expendable Trust Fund.
C. a Capital Projects Fund.
D. an Agency Fund.
E. a Special Revenue Fund.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
17. Bay City received a federal grant to provide health care services to low income mothers and children. When should the revenues be recognized?

A. as health care services are provided.
B. when the awarding of the grant is announced.
C. when the grant money is received.
D. at the end of Bay City's fiscal year.
E. when the grant money is receivable.

Learning Objective: 16-08 Determine the proper timing for the recognition of revenues from nonexchange transactions.

18. Trapper City issued 30-year bonds for the purpose of building a new City Hall. The proceeds of the bonds are deposited in the General Fund. For the Fund Financial Statements, in what fund will Bonds Payable appear?

A. General Fund.
B. Capital Projects Fund.
C. Permanent Fund.
D. Debt Service Fund.
E. Bonds Payable do not appear in Fund Financial Statements.

Learning Objective: 16-09 Accounts for the issuance of long-term bonds and the reporting of special assessment projects.
19. Which of the following is a governmental fund?

A. Enterprise fund.  
B. Internal service fund.  
C. Permanent fund.  
D. Investment trust fund.  
E. Agency fund.

20. Which of the following is a fiduciary fund?

A. Pension trust fund.  
B. Debt service fund.  
C. Permanent fund.  
D. Enterprise fund.  
E. Capital projects fund.
21. According to GASB Concepts Statement No. 1, what are the three groups of primary users of external state and local governmental financial reports?

A. The Securities Exchange Commission, the citizenry, and legislative and oversight bodies.
B. The Securities Exchange Commission, legislative and oversight bodies, and investors and creditors.
C. The Securities Exchange Commission, the citizenry, and investors and creditors.
D. The citizenry, legislative and oversight bodies, and investors and creditors.
E. The citizenry, management, and the Governmental Accounting Office.

Learning Objective: 16-01 Explain the history of and the reasons for the unique characteristics of the financial statements produced by state and local governments.

22. Which of the following statements is true regarding fund financial statements?

A. Fund financial statements report a government’s activities and financial position as a whole.
B. Fund financial statements should tell the amount spent this year on such services as public safety, education, health and sanitation, and the construction of a new road.
C. Fund financial statements utilize the accrual basis of accounting much like any for-profit entity.
D. Fund financial statements help to determine whether the government’s overall financial position improved or deteriorated.
E. Fund financial statements report all assets and liabilities in a way comparable to business-type accounting.

Learning Objective: 16-02 Differentiate between the two sets of financial statements produced by state and local governments.
23. Which of the following statements is false regarding government-wide financial statements?

A. Government-wide financial statements report a government's activities and financial position as a whole.
B. The government-wide financial statement approach helps users make long-term evaluations of the financial decisions and stability of the government.
C. Government-wide financial statements focus on the short-term instead of the long-term.
D. Government-wide financial statements assess the finances of the government in its entirety, including the year's operating results.
E. The measurement focus of government-wide financial statements is on all economic resources and utilizes accrual accounting.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 16-02 Differentiate between the two sets of financial statements produced by state and local governments.
24. How do the balance sheet and statement of revenues, expenditures, and changes in fund balances of governmental funds differ from the financial statement presentation for the governmental activities in the government-wide statement of net assets and statement of activities?

(1) Internal service funds are not included in the fund financial statements of governmental funds but could be reported in the governmental activities of government-wide financial statements.

(2) The economic resources measurement basis is used for fund financial statements of governmental funds and the current financial resources measurement basis is used for governmental activities in the government-wide financial statements.

(3) Modified accrual accounting is used for fund financial statements of governmental funds to time revenues and expenditures and accrual accounting is used for governmental activities of government-wide financial statements.

(4) The financial statements of governmental funds for fund financial statements are the same as governmental activities in government-wide financial statements but with different titles of the financial statements.

A. 1 and 2.
B. 2, 3, and 4.
C. 1, 2, and 3.
D. 1 and 3.
E. 1, 2, 3, and 4.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium

Learning Objective: 16-02 Differentiate between the two sets of financial statements produced by state and local governments.
Learning Objective: 16-05 Understand the basic structure of government-wide financial statements and fund financial statements (as produced for the government funds).
25. Which of the following is not a classification of non-exchange transactions?

A. Derived tax expenditures.
B. Voluntary non-exchange transactions.
C. Government-mandated non-exchange transactions.
D. Derived tax revenues.
E. Imposed non-exchange revenues.

Learning Objective: 16-08 Determine the proper timing for the recognition of revenues from nonexchange transactions.

26. GASB Codification Section N50.104 divides all eligibility requirements into four general classifications including all of the following except:

A. Required characteristics of the recipients.
B. Time requirements.
C. Reimbursement.
D. Contingencies.
E. Refunding.

Learning Objective: 16-08 Determine the proper timing for the recognition of revenues from nonexchange transactions.
27. Which statement is not correct?

A. Governmental funds account for expenditures of financial resources rather than matching revenues and expenses.
B. The Fund Balance Reserved for Encumbrances account is not closed at the end of a fiscal year.
C. Revenues from licenses and permit fees are recognized when received in cash if using the modified accrual basis of accounting for governmental funds.
D. A fund is an independent accounting entity composed of cash and other financial resources, segregated for the purpose of carrying on specific activities and objectives.
E. Commitments for purchase orders are recorded as expenses.

AASCB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.

28. For governmental entities, the accrual basis of accounting is used for:

A. Special revenue funds.
B. Internal service funds.
C. Debt service funds.
D. General Fund.
E. Capital Projects Fund.

AASCB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 16-02 Differentiate between the two sets of financial statements produced by state and local governments.
Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
Learning Objective: 16-07 Understand the reporting of capital assets; supplies; and prepaid expenses by a state or local government.
29. What account is debited in the general fund when equipment is received by a governmental entity?

A. Expenditures.
B. Encumbrances.
C. Plant assets.
D. Accounts Payable.
E. Fund Balance-Reserve for Encumbrances.

Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.

30. Generally, annual budgets are recorded within the following funds:

A. General fund and special revenue funds.
B. Capital projects funds and debt service fund.
C. Enterprise funds and internal service funds.
D. General Fund and Pension Trust Fund.
E. Agency Funds and General Fund.

Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.
31. When a city received a federal grant for books to be purchased for a library, the money should have been recorded in

A. the Permanent Fund.
B. an Expendable Trust Fund.
C. a Capital Projects Fund.
D. an Agency Fund.
E. a Special Revenue Fund.

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.

32. When a city holds pension monies for city employees, the monies should be recorded in

A. the General Fund.
B. an Expendable Trust Fund.
C. a Fiduciary Fund.
D. an Agency Fund.
E. a Special Revenue Fund.

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
33. When a city received a private donation of $1,000,000 stipulating that the principal donation would be preserved but allowing the interest income to be spent on building a city park with access for disabled children, which fund should the money be recorded in?

A. the General Fund.
B. an Expendable Trust Fund.
C. a Permanent Fund.
D. an Agency Fund.
E. a Special Revenue Fund.

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.

34. When a city collects fees from citizens who use the public swimming pool, the money should be recorded in

A. the General Fund.
B. an Enterprise Fund.
C. a Capital Projects Fund.
D. an Agency Fund.
E. an Internal Service Fund.

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
35. A city operates a central data processing facility. The expenses of this facility would be accounted for using

A. the General Fund.
B. an Enterprise Fund.
C. a Capital Projects Fund.
D. an Agency Fund.
E. an Internal Service Fund.

36. What are the two proprietary fund types?

(1) Internal service funds.
(2) Investment trust funds.
(3) Enterprise funds.
(4) Agency funds.

A. 1 and 2.
B. 2 and 3.
C. 1 and 3.
D. 2 and 4.
E. 1 and 4.
37. Salaries and wages that have been earned by governmental employees that have not yet been paid are recorded in the general fund as:

A. An expenditure.
B. An encumbrance.
C. An appropriation.
D. An expense.
E. An investment.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium

Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.

38. The reporting of the fund balance of governmental funds will result in a maximum of __________ categories:

A. One
B. Two
C. Three
D. Four
E. Five

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.
39. Which classifications may be \textit{not} used for the Fund Balance of governmental funds?

A. Spendable  
B. Non-Spendable  
C. Assigned  
D. Unassigned  
E. Restricted

\textit{Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.}

40. Which of the following statements is true about Fund Balance classifications for the governmental funds?

A. A restricted fund balance is for monies the governing board has appropriated.  
B. An assigned fund balance has been designated for a specific purpose and is restricted to use for only that purpose.  
C. An unassigned fund balance has no restriction for use of the money and is only applicable to the General Fund.  
D. A committed fund balance has been designated by an outside party for a particular use.  
E. A non-spendable fund balance is designated only for Permanent Fund balances.

\textit{Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.}

\textbf{Essay Questions}
41. For each of the following transactions, select the area of accounting records in which an entry will be recorded.

(A) General Fund only.
(B) Governmental Activities only.
(C) General Fund and Governmental Activities.
(D) General Fund and Debt Service Fund.
(E) Capital Projects Fund and Governmental Activities.
(F) Debt Service Fund and Governmental Activities.
(G) Special Revenue Fund and Governmental Activities.

___ (1.) The city council adopts an annual budget for the General Fund.
___ (2.) Property taxes are levied.
___ (3.) Computers are ordered for the fire department.
___ (4.) A transfer of funds is made from the General Fund to the Debt Service Fund.
___ (5.) The principal and interest of a bond are paid.
___ (6.) A building is acquired for the police department, and renovations begin immediately.
___ (7.) Depreciation on fire trucks is recorded.
___ (8.) Citizens are assessed for a street lighting project that has been legally restricted for those citizens.
___ (9.) A grant is received to landscape tree-lined areas beside city-owned streets.
___ (10.) The city spends grant money received in (9.) above and landscapes the tree-lined areas beside the streets for which the grant money was received.

(1) A; (2) C; (3) A; (4) D; (5) F; (6) E; (7) B; (8) G; (9) G; (10) G

AICPA BB: Industry
AICPA FN: Reporting

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.
Learning Objective: 16-07 Understand the reporting of capital assets; supplies; and prepaid expenses by a state or local government.
Learning Objective: 16-08 Determine the proper timing for the recognition of revenues from nonexchange transactions.
Learning Objective: 16-10 Record the various types of monetary transfers that occur within the funds of a state or local government.
42. What organization is responsible for establishing accounting principles for governmental entities? By whom was this organization established?

The organization that is responsible for establishing accounting principles for governmental entities is the GASB (Governmental Accounting Standards Board). The Financial Accounting Foundation has oversight responsibility for the GASB, as it does for the FASB.

AASCB: Reflective thinking  
AICPA BB: Research  
AICPA FN: Reporting  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 16-01 Explain the history of and the reasons for the unique characteristics of the financial statements produced by state and local governments.

43. What is a special revenue fund used to account for?

A special revenue fund is used to account for revenues that are legally restricted as to how they can be spent.

AASCB: Reflective thinking  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.

44. What is the definition of the term fund?

The term fund is defined as a self-balancing set of accounts used to record data generated by an identifiable government function.

AASCB: Reflective thinking  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Remember  
Difficulty: 1 Easy

Learning Objective: 16-03 Understand the reason that fund accounting has traditionally been such a prominent factor in the
45. For a government, what kinds of operations are accounted for using a proprietary fund? Give three examples.

A proprietary fund is used to account for governmental operations similar to those found in the private sector. They usually involve user charges. Three examples are (1) a toll road, (2) a municipal swimming pool, and (3) a city maintenance garage.

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.

46. What are the five types of governmental funds?

The five types of governmental funds are:

(B.) Special Revenue Funds.
(C.) Capital Projects Funds.
(D.) Debt Service Funds.
(E.) Permanent Funds.

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
47. A city enacted a special tax levy and the money must be used to provide medical services at the municipal hospital. What kind of fund should be used to record the revenues generated by the tax?

A special revenue fund should be used.

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.

48. In governmental accounting, what term is used for a decrease in financial resources?

The appropriate term is expenditure.

Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.

49. Under modified accrual accounting, when are expenditures recorded?

Under modified accrual accounting, expenditures are usually recorded when the claim against financial resources is created.

Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.
50. What assets would be included in the accounting records of a city's general fund?

The assets in the accounting records of a city's general fund would typically include financial resources such as (1) cash, (2) receivables, and (3) investments, but no capital assets.

51. Under modified accrual accounting, when should revenues be reported by a governmental-type fund?

Under modified accrual accounting, revenues should be reported by a governmental-type fund when they are both measurable and available. Revenues are measurable when they are subject to reasonable estimation. They are available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

52. When should property taxes be recognized under modified accrual accounting?

Property taxes should be recognized under modified accrual accounting when they become both measurable and available.
53. What are the two groups of financial statements mandated by GASB Statement No. 34? For each group, what are the names of the individual statements that must be produced?


54. What is the primary difference between monies accounted for in the general fund and monies accounted for in the special revenue fund?

Monies in the special revenue fund are legally restricted as to expenditure and monies in the general fund are used for general public benefit.

55. What are the two proprietary fund types?

Internal service funds and enterprise funds.
56. What are the four fiduciary fund types?

Investment trust funds, private-purpose trust funds, pension trust funds, and agency funds.

57. What is the purpose of fund financial statements?

To show restrictions on the planned use of resources or to measure, in the short term, the revenues and expenditures arising from certain activities.

58. What is the purpose of government-wide financial statements?

To show longer-term focus because they will report all revenues and all costs of providing services each year, not just those received or paid in the current year or soon after year-end.
Learning Objective: 16-02 Differentiate between the two sets of financial statements produced by state and local governments.

59. The board of commissioners of the city of Jarmaine adopted a General Fund budget for the year ending June 30, 2013, which indicated revenues of $1,300,000, bond proceeds of $520,000, appropriations of $1,170,000, and operating transfers out of $390,000.

Required:

If this budget was formally integrated into the accounting records used to produce the Fund Financial Statements, what was the required journal entry at the beginning of the year?

<table>
<thead>
<tr>
<th>Fund Statements – General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Revenues Control</td>
</tr>
<tr>
<td>Estimated Other Financing Sources – Bond Proceeds</td>
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<tr>
<td>Appropriations Control</td>
</tr>
<tr>
<td>Appropriations – Other Financing Uses – Operating Transfers Out</td>
</tr>
<tr>
<td>Budgetary Fund Balance</td>
</tr>
</tbody>
</table>

Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.
60. On July 1, 2013, Fred City ordered $1,500 of office supplies. They were to be paid for out of the General Fund.

Required:

(A.) What journal entry was required for the Fund Financial Statements?
(B.) What journal entry was required for the Government-Wide Statements?

(A.) For the Fund Statements, an encumbrance must be recorded in the General Fund.

<table>
<thead>
<tr>
<th>Encumbrance Control</th>
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<tbody>
<tr>
<td>Fund Balance – Reserve for Encumbrances</td>
<td>1,500</td>
</tr>
</tbody>
</table>

(B.) For the Government-Wide Statements no entry is required, because under accrual accounting, no entry is made until a transaction occurs.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.
61. On July 12, 2013, Fred City ordered a new computer at an anticipated cost of $114,400. The computer was received on July 16 with an actual cost of $116,220. Payment was subsequently made on August 15, 2013.

Required:

(A.) Prepare all the required journal entries and identify the type of fund in which each entry was recorded for the Fund Financial Statements.

(B.) Prepare all the required journal entries and identify the type of fund in which each entry was recorded for the Government-Wide Financial Statements.

(A.) Fund Financial Statements-General Fund

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<th>Debit</th>
<th>Credit</th>
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<td>Fund Balance-Reserve for Encumbrances</td>
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<td>7/16</td>
<td>Expenditures – Computer Vouchers Payable</td>
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<td>8/15</td>
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(B.) Government-Wide Financial Statements-Governmental Activities

<table>
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<th>Date</th>
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<td>7/12</td>
<td>No entry at this time.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7/16</td>
<td>Computer Vouchers Payable</td>
<td>116,220</td>
<td>116,220</td>
</tr>
<tr>
<td>8/15</td>
<td>Vouchers Payable</td>
<td>116,220</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>116,220</td>
<td></td>
</tr>
</tbody>
</table>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.

Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.
62. A new truck was ordered for the sanitation department at a cost of $122,200 on September 3, 2013.

Required:

(A.) Prepare the required journal entry in the General Fund for the Fund Financial Statements.
(B.) Prepare the required journal entry for the Government-Wide Financial Statements.

<table>
<thead>
<tr>
<th>(A.) Fund Financial Statements-General Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9/3</td>
<td>Encumbrances Control</td>
</tr>
<tr>
<td></td>
<td>Fund Balance-Reserve for Encumbrances</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(B.) Government-Wide Financial Statements-Governmental Activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9/3</td>
<td>No entry</td>
</tr>
</tbody>
</table>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.

63. The school system had some booklets printed by a local print shop on September 22, 2013. The school system was charged $1,560 for the printing, but the bill is not due until October.

Required:

(A.) Prepare the required journal entry in the General Fund for the Fund Financial Statements.
(B.) Prepare the required journal entry for the Government-Wide Financial Statements.

<table>
<thead>
<tr>
<th>(A.) Fund Financial Statements-General Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9/22</td>
<td>Expenditures – Printing</td>
</tr>
<tr>
<td></td>
<td>Vouchers Payable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(B.) Government-Wide Financial Statements-Governmental Activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9/22</td>
<td>Printing Expense</td>
</tr>
<tr>
<td></td>
<td>Vouchers Payable</td>
</tr>
</tbody>
</table>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Learning Objective: 16-06 Record the passage of a budget as well as subsequent encumbrances and expenditures.

64. A $910,000 bond was issued on October 1, 2013 to build a new road. The bonds carried a 6% interest rate and are due in 10 years.

Required:

(A.) Prepare the required journal entry in the Capital Projects Fund on October 1 for the Fund Financial Statements.

(B.) Prepare the required journal entry for the Government-Wide Financial Statements.

<table>
<thead>
<tr>
<th>(A.) Fund Financial Statements-Capital Projects Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10/1 Cash</td>
<td>910,000</td>
</tr>
<tr>
<td>Other Financing Sources-Bonds Proceeds</td>
<td>910,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(B.) Government-Wide Financial Statements-Governmental Activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10/1 Cash</td>
<td>910,000</td>
</tr>
<tr>
<td>Bonds Payable</td>
<td>910,000</td>
</tr>
</tbody>
</table>

Learning Objective: 16-09 Accounts for the issuance of long-term bonds and the reporting of special assessment projects.
65. On June 14, 2013, Fred City agreed to transfer cash of $52,000 from the General Fund to provide permanent financing for a municipal swimming pool that will be viewed as an Enterprise Fund. The cash was transferred on June 30.

**Required:**

(A.) Prepare all the required journal entries and identify the fund in which each entry was recorded for the Fund Financial Statements.

(B.) Prepare all the required journal entries and identify the type of activity for the Government-Wide Financial Statements.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>General Fund</th>
<th>Enterprise Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/14</td>
<td>Other Financing Use - Transfers out to</td>
<td>6/14</td>
<td>6/14</td>
</tr>
<tr>
<td></td>
<td>Enterprise Fund (Swimming Pool)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Due to Enterprise Fund</td>
<td>52,000</td>
<td>52,000</td>
</tr>
<tr>
<td>6/30</td>
<td>Due to Enterprise Fund</td>
<td>52,000</td>
<td>52,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Fund Financial Statements - Enterprise Fund**

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>General Fund</th>
<th>Enterprise Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/14</td>
<td>Due from General Fund</td>
<td>6/14</td>
<td>6/14</td>
</tr>
<tr>
<td></td>
<td>Other Financing Source- Transfers in from General Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>52,000</td>
<td>52,000</td>
</tr>
<tr>
<td></td>
<td>Due from General Fund</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Government-Wide Financial Statements - Governmental Activities**

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>General Fund</th>
<th>Enterprise Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/14</td>
<td>No Entry.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6/30</td>
<td>Transfers out (Swimming Pool)</td>
<td></td>
<td>52,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>52,000</td>
<td></td>
</tr>
</tbody>
</table>

**Government-Wide Financial Statements - Business Type Activities**

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>General Fund</th>
<th>Enterprise Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/14</td>
<td>No Entry.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6/30</td>
<td>Cash</td>
<td>52,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transfers in (Swimming Pool)</td>
<td></td>
<td>52,000</td>
</tr>
</tbody>
</table>

**AACSB: Analytic**

**AICPA BB: Industry**

**AICPA FN: Measurement**

**Blooms: Apply**

**Difficulty: 2 Medium**

**Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.**

**Learning Objective: 16-05 Understand the basic structure of government-wide financial statements and fund financial statements (as produced for the government funds).**

**Learning Objective: 16-10 Record the various types of monetary transfers that occur within the funds of a state or local government.**
66. On August 21, 2013, Fred City transferred $100,000 to the School System to cover repairs to a school building.

**Required:**

Prepare all the required journal entries and identify the fund in which each entry was recorded for the Fund Financial Statements.

<table>
<thead>
<tr>
<th>Fund Financial Statements-General Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8/21</td>
<td>Other Financing Use – Transfers out to Capital Projects Fund (School Repair)</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fund Financial Statements – Capital Projects Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8/21</td>
<td>Cash</td>
</tr>
<tr>
<td></td>
<td>Other Financing Source- Transfers in from General Fund (School Repair)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**AACSB:** Analytic  
**AICPA BB:** Industry  
**AICPA FN:** Measurement  
**Blooms:** Apply  
**Difficulty:** 2 Medium

**Learning Objective:** 16-04 Identify the three fund types and the individual fund categories within each.  
**Learning Objective:** 16-10 Record the various types of monetary transfers that occur within the funds of a state or local government.
67. On January 1, 2013, Wakefield City purchased $40,000 office supplies. During the year $35,000 of these supplies were used.

Required:

Record the journal entries for these transactions using the purchases method. (Disregard the encumbrance entries.)

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures – Supplies</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Vouchers Payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To record the purchase of supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory of Supplies</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Fund Balance-Reserve for inventory of supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To record supplies remaining at year end</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Apply  
Difficulty: 2 Medium  
Learning Objective: 16-07 Understand the reporting of capital assets; supplies; and prepaid expenses by a state or local government.

68. On January 1, 2013, Wakefield City purchased $40,000 office supplies. During the year $35,000 of these supplies were used.

Required:

Record the journal entries for these transactions using the consumption method. (Disregard the encumbrance entries.)

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory of Supplies</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Vouchers Payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To record the purchase of supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditures-Control</td>
<td>35,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Inventory of Supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To record consumption of supplies during the period</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

AACSB: Analytic  
AICPA BB: Industry
69. The town council adopted an annual budget estimating general revenues of $2,000,000, approved expenditures of $1,700,000 and other financing for other funds of $130,000.

Required:

Record the journal entry to record the budget and identify the fund in which it is recorded.

<table>
<thead>
<tr>
<th>In General Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Revenues Control</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Appropriations Control</td>
<td>$1,700,000</td>
</tr>
<tr>
<td>Estimated Other Financing Uses</td>
<td>$130,000</td>
</tr>
<tr>
<td>Budgetary Fund Balance</td>
<td>$170,000</td>
</tr>
</tbody>
</table>

70. Property taxes of 1,500,000 are levied for Miner County. The county expects that 5% will be uncollectible.

Required:

Prepare the required journal entry and identify the fund in which it is recorded.

<table>
<thead>
<tr>
<th>In General Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property tax receivable</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Allowance for uncollectible taxes</td>
<td>$75,000</td>
</tr>
<tr>
<td>Revenues-Property taxes</td>
<td>$1,425,000</td>
</tr>
</tbody>
</table>
Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
Learning Objective: 16-08 Determine the proper timing for the recognition of revenues from nonexchange transactions.

71. Shell City transfers $100,000 from the General Fund to the Debt Service fund.

Required:

Prepare the required journal entries and identify the funds in which they are recorded.

<table>
<thead>
<tr>
<th>In General Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Financing Uses-transfers out</td>
<td>100,000</td>
</tr>
<tr>
<td>Cash</td>
<td>100,000</td>
</tr>
<tr>
<td>In Debt Service Fund</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>100,000</td>
</tr>
<tr>
<td>Other Financing sources-transfer in</td>
<td>100,000</td>
</tr>
</tbody>
</table>

72. Prepare the journal entry and identify the fund to record the purchase order of two trucks owned by Simple City for $100,000. Identify the fund in which the entry is recorded.

<table>
<thead>
<tr>
<th>In General Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Encumbrances Control</td>
<td>100,000</td>
</tr>
<tr>
<td>Fund Balance –Reserve for encumbrance</td>
<td>100,000</td>
</tr>
</tbody>
</table>
73. Simple City has recorded the purchase order of two trucks for a total of $100,000. Prepare the journal entries to reflect that the two trucks have been received with a voucher price of $105,000. This amount has been approved but not yet paid. Identify the fund in which the entries are recorded.

In General Fund

<table>
<thead>
<tr>
<th>Fund Balance</th>
<th>Reserve for encumbrance</th>
<th>100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encumbrances Control</td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td>Expenditures Control</td>
<td></td>
<td>105,000</td>
</tr>
<tr>
<td>Vouchers Payable</td>
<td></td>
<td>105,000</td>
</tr>
</tbody>
</table>

74. A $5,000,000 bond is issued by Northern City to build a new hospital.

Required:

Prepare the journal entry and identify the fund in which it is recorded to reflect the bond issue.

In Capital Projects Fund

<table>
<thead>
<tr>
<th>Cash</th>
<th>5,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Financing Sources-Bond Proceeds</td>
<td>5,000,000</td>
</tr>
</tbody>
</table>
75. The Town of Anthrop receives a $10,000 grant to make the Town Hall handicapped-accessible.

Required:

Prepare the journal entry, and identify the fund in which it is recorded, to record the receipt of the grant.

In Special Revenue Fund

<table>
<thead>
<tr>
<th>Cash</th>
<th>10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Revenue</td>
<td>10,000</td>
</tr>
</tbody>
</table>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Bloom: Apply
Difficulty: 2 Medium

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
Learning Objective: 16-08 Determine the proper timing for the recognition of revenues from nonexchange transactions.

76. The Town of Anthrop has recorded the receipt of a $10,000 grant to make its Town Hall handicapped-accessible. The town now spends $10,000 to make the Town Hall handicapped-accessible.

Required:

Prepare the journal entry (or entries), and identify the fund for recording, to record that the town spends $10,000 of a grant it received to make the Town Hall handicapped-accessible.

In Special Revenue Fund

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>10,000</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>10,000</td>
</tr>
</tbody>
</table>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Bloom: Apply
Difficulty: 2 Medium

Learning Objective: 16-04 Identify the three fund types and the individual fund categories within each.
Learning Objective: 16-08 Determine the proper timing for the recognition of revenues from nonexchange transactions.

77. The City of Kamen collected $17,000 from parking meters that must be transferred to the county government.

Required:

For fund financial statements, prepare the journal entry for this transaction including the fund type in which the entry would have been recorded.

General Fund

<table>
<thead>
<tr>
<th>Cash</th>
<th>17,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to County Government</td>
<td>17,000</td>
</tr>
</tbody>
</table>

AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Apply  
Difficulty: 1 Easy

Learning Objective: 16-10 Record the various types of monetary transfers that occur within the funds of a state or local government.

78. The City of Kamen transferred $27,000 into a Pension Trust Fund. Of this amount, $19,000 was contributed by the city with the remainder coming from the employees.

Required:

For fund financial statements, prepare the journal entry for this transaction including the fund type in which the entry would have been recorded.

Pension Trust Fund

<table>
<thead>
<tr>
<th>Pension Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
</tr>
<tr>
<td>Operating Revenues – Employer Contribution</td>
</tr>
<tr>
<td>Operating Revenues – Employee Contribution</td>
</tr>
</tbody>
</table>

AACSB: Analytic  
AICPA BB: Industry
Learning Objective: 16-03 Understand the reason that fund accounting has traditionally been such a prominent factor in the internal recording of state and local governments.
Chapter 17 Accounting for State and Local Governments (Part 2)

Answer Key

Multiple Choice Questions

1. For government-wide financial statements, what account is credited when a piece of equipment is leased on a capital lease?

   A. Equipment-Capital Lease
   B. Encumbrances-Long Term
   C. Encumbrances-Lease Obligations
   D. Capital Lease Obligation
   E. The lease is not recorded.

   Learning Objective: 17-01 Account for lease contracts where the state or local government finds itself as either lessor or lessee.

2. For fund financial statements, what account is credited when a piece of equipment is leased on a capital lease?

   A. Equipment-Capital Lease.
   B. Encumbrances-Long Term.
   C. Encumbrances-Lease Obligations.
   D. Capital Lease Obligation.
   E. Other Financing Sources-Capital Lease.

   Learning Objective: 17-01 Account for lease contracts where the state or local government finds itself as either lessor or lessee.
Learning Objective: 17-01 Account for lease contracts where the state or local government finds itself as either lessor or lessee.

3. Jones College, a public institution of higher education, must prepare financial statements

   A. As if the college was an enterprise fund.
   B. Following the same rules as state and local governments.
   C. According to GAAP.
   D. As if the college was a fiduciary fund.
   E. In the same manner as private colleges and universities.

Learning Objective: 17-09 Understand the presentation of financial statements for a public college or university.

4. For the purpose of government-wide financial statements, the cost of cleaning up a government-owned landfill and closing the landfill

   A. Is not recognized until the costs are actually incurred.
   B. Is accrued and amortized over the expected useful life of the landfill.
   C. Is accrued on a pro-rated basis each period based on how full the landfill is.
   D. Is accrued in full at the time the costs become estimable.
   E. Is treated as an encumbrance at the time it become estimable, and then as an expenditure when it is actually paid.

Learning Objective: 17-02 Recognize the liability caused by the eventual closure and post closure costs of operating a solid waste landfill as well as for the compensated absences earned by government employees.
5. A method of depreciation for infrastructure assets that allows the expensing of all maintenance costs each year instead of computing depreciation is called

A. Government-wide depreciation.
B. Proprietary depreciation.
C. GASB depreciation.
D. Modified approach.
E. Alternative depreciation.

Learning Objective: 17-05 Explain the reporting and possible depreciation of infrastructure assets.

6. Drye Township has received a donation of a rare painting worth $1,000,000. For Drye’s government-wide financial statements, three criteria must be met before Drye can opt not to recognize the painting as an asset. Which of the following is not one of the three criteria?

(1.) The painting is held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
(2.) The painting is scheduled to be sold immediately at auction.
(3.) The painting is protected, kept unencumbered, cared for, and preserved.

A. Item 1 is not one of the three criteria.
B. Item 2 is not one of the three criteria.
C. Item 3 is not one of the three criteria.
D. All three items are required criteria.
E. None of the three items are required criteria.

Learning Objective: 17-04 Record the donation and acquisition of works of art and historical treasures.
7. GASB Codification Section 2200.106-107 makes which of the following statements regarding Management's Discussion and Analysis?

A. MD&A is required only for Proprietary Fund Financial Statements.
B. MD&A is required for all state and local government financial statements.
C. MD&A is only required for comprehensive annual financial reports.
D. MD&A for state and local government financial statements must include an analysis of potential, untapped revenue sources.
E. MD&A is an optional inclusion for state and local government financial statements.

Learning Objective: 17-06 Understand the composition of a state or local government’s comprehensive annual financial report (CAFR).

8. Which one of the following is a criterion for identifying a primary government?

A. it has an appointed board of directors.
B. it is fiscally dependent.
C. it is a local government.
D. it has a separately elected governing body.
E. it must prepare financial statements.

Learning Objective: 17-07 Explain the makeup of a primary government and its relationship to component units.
9. A local government's basic financial statements would include a statement of cash flows for all

A. proprietary fund types.
B. governmental fund types.
C. fund types.
D. fiduciary fund types.
E. A statement of cash flows is not required for any fund types.

Learning Objective: 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.

10. According to the GASB (Governmental Accounting Standards Board), which one of the following is not a criterion for determining whether a government is legally separate?

A. The government can determine its own budget.
B. The government can issue debt.
C. The government has corporate powers including the right to sue and be sued.
D. The government has the power to levy taxes.
E. The government can issue preferred stock.

Learning Objective: 17-07 Explain the makeup of a primary government and its relationship to component units.
11. Which of the following is not a criterion of a capital lease?

   A. The lease transfers ownership of the property to the lessee by the end of the lease term.
   B. The present value of the minimum lease payments equals or exceeds 90 percent of the fair value of the leased property, net of lessor's investment tax credit.
   C. The lease contains an option to purchase the leased property at a bargain price.
   D. The lease contains an option to renew.
   E. The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.

   AACSB: Reflective thinking
   AICPA BB: Industry
   AICPA FN: Measurement
   Accessibility: Keyboard Navigation
   Blooms: Remember
   Difficulty: 1 Easy

   Learning Objective: 17-01 Account for lease contracts where the state or local government finds itself as either lessor or lessee.
12. A five-year lease is signed by the City of Wachovia for equipment with a seven-year life. The asset will be returned to the lessor at the end of the lease. The present value of the lease is $20,000, and annual payments of $5,411.41 are payable beginning on the date the lease is signed. The interest portion of the second payment is $1,604.75. The equipment is to be used in City Hall and was purchased from appropriated funds of the General Fund. What should be recorded in the General Fund on the date the lease is signed?

<table>
<thead>
<tr>
<th></th>
<th>Expenditures – Leased Asset</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A)</td>
<td>Cash</td>
<td>20,000.00</td>
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<tr>
<td>B)</td>
<td>Cash</td>
<td>20,000.00</td>
</tr>
<tr>
<td></td>
<td>Other Financing Sources – Capital Lease</td>
<td>14,588.59</td>
</tr>
<tr>
<td>C)</td>
<td>Cash</td>
<td>20,000.00</td>
</tr>
<tr>
<td>D)</td>
<td>Cash</td>
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<tr>
<td></td>
<td>Other Financing Sources – Capital Lease</td>
<td>20,000.00</td>
</tr>
<tr>
<td></td>
<td>Expenditures – Lease Principal</td>
<td>5,411.41</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
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<td>E)</td>
<td>Other Financing Sources – Capital Lease</td>
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</tr>
<tr>
<td></td>
<td>Cash</td>
<td>5,411.41</td>
</tr>
</tbody>
</table>

A. Option A  
B. Option B  
C. Option C  
D. Option D  
E. Option E

AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Analyze  
Difficulty: 2 Medium

Learning Objective: 17-01 Account for lease contracts where the state or local government finds itself as either lessor or lessee.
13. A five-year lease is signed by the City of Wachovia for equipment with a seven-year life. The asset will be returned to the lessor at the end of the lease. The present value of the lease is $20,000, and annual payments of $5,411.41 are payable beginning on the date the lease is signed. The interest portion of the second payment is $1,604.75. The equipment is to be used in City Hall and was purchased from appropriated funds of the General Fund. What should be recorded in the General Fund one year from the date the lease is signed?

<table>
<thead>
<tr>
<th></th>
<th>Expenditures – Leased Asset</th>
<th>5,411.41</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash</td>
<td>5,411.41</td>
</tr>
<tr>
<td>B</td>
<td>Expenditures – Interest</td>
<td>1,604.75</td>
</tr>
<tr>
<td></td>
<td>Expenditures – Lease Principal</td>
<td>3,806.66</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>5,411.41</td>
</tr>
<tr>
<td>C</td>
<td>Lease Principal</td>
<td>5,411.41</td>
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<td>Expenditures – Leased Asset</td>
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<td>Cash</td>
<td>5,411.41</td>
</tr>
<tr>
<td>E</td>
<td>Other Financing Sources – Capital Lease</td>
<td>5,411.41</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>5,411.41</td>
</tr>
</tbody>
</table>

Payment $5,411.41 - Interest Expenditure $1,604.75 = Lease Principle $3,806.66

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 17-01 Account for lease contracts where the state or local government finds itself as either lessor or lessee.
14. A five-year lease is signed by the City of Wachovia for equipment with a seven-year life. The asset will be returned to the lessor at the end of the lease. The present value of the lease is $20,000, and annual payments of $5,411.41 are payable beginning on the date the lease is signed. The interest portion of the second payment is $1,604.75. The equipment is to be used in City Hall and was purchased from appropriated funds of the General Fund. What entry should be made for the government-wide financial statements on the date the lease is signed?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A)</td>
<td>Equipment 20,000.00</td>
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<tr>
<td></td>
<td>Cash 20,000.00</td>
</tr>
<tr>
<td>B)</td>
<td>Equipment 20,000.00</td>
</tr>
<tr>
<td></td>
<td>Capital Lease Obligation 20,000.00</td>
</tr>
<tr>
<td>C)</td>
<td>Lease 20,000.00</td>
</tr>
<tr>
<td></td>
<td>Cash 20,000.00</td>
</tr>
<tr>
<td>D)</td>
<td>Equipment 20,000.00</td>
</tr>
<tr>
<td></td>
<td>Cash 5,411.41</td>
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<tr>
<td></td>
<td>Capital Lease Obligation 14,588.59</td>
</tr>
<tr>
<td>E)</td>
<td>Expenditures – Leased Asset 20,000.00</td>
</tr>
<tr>
<td></td>
<td>Cash 5,411.41</td>
</tr>
<tr>
<td></td>
<td>Other Financing Sources – Capital Lease 14,588.49</td>
</tr>
</tbody>
</table>

A. Option A  
B. Option B  
C. Option C  
**D.** Option D  
E. Option E

Equipment Cost $20,000 - Cash Payment $5,411.41 = Capital Lease Obligation $14,588.59

AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Apply  
Difficulty: 2 Medium  

Learning Objective: 17-01 Account for lease contracts where the state or local government finds itself as either lessor or lessee.
A five-year lease is signed by the City of Wachovia for equipment with a seven-year life. The asset will be returned to the lessor at the end of the lease. The present value of the lease is $20,000, and annual payments of $5,411.41 are payable beginning on the date the lease is signed. The interest portion of the second payment is $1,604.75. The equipment is to be used in City Hall and was purchased from appropriated funds of the General Fund.

What entry should be made for the government-wide financial statements one year from the date the lease is signed?

<table>
<thead>
<tr>
<th></th>
<th>Capital Lease Obligation</th>
<th>5,411.41</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Cash</td>
<td>5,411.41</td>
</tr>
<tr>
<td>B</td>
<td>Interest Expense</td>
<td>1,604.75</td>
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<td></td>
<td>Capital Lease Obligation</td>
<td>3,806.66</td>
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<tr>
<td></td>
<td>Cash</td>
<td>5,411.41</td>
</tr>
<tr>
<td>C</td>
<td>Expenditures – Interest</td>
<td>1,604.75</td>
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</tbody>
</table>

A. Option A  
B. Option B  
C. Option C  
D. Option D  
E. Option E

Payment $5,411.41 - Interest Expense $1,604.75 = Capital Lease Obligation $3,806.66
16. Which of the following is a section of the general purpose external financial statements of a state or local government?

(1) Management's discussion and analysis (MD&A).
(2) Required supplementary information (other than MD&A).
(3) Basic financial statements and notes to financial statements.

A. 1 and 2.
B. 2 and 3.
C. 1 and 3.
D. 3 only.
E. 1, 2, and 3.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 17-06 Understand the composition of a state or local government's comprehensive annual financial report (CAFR).

17. Which of the following must be presented in the MD&A of a government?

A. A brief discussion of the basic financial statements.
B. Total assets.
C. Total liabilities.
D. Net assets.
E. An organization chart of government officials.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 17-06 Understand the composition of a state or local government's comprehensive annual financial report (CAFR).
18. What are the three broad sections of a state or local government's CAFR?

A. Introductory, financial, and statistical.
B. Financial statements, notes to the financial statements, and component units.
C. Introductory, statistical, and component units.
D. Component units, financial, and statistical.
E. Financial statements, notes to the financial statements, and statistical.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 17-06 Understand the composition of a state or local government's comprehensive annual financial report (CAFR).

19. Which of the following is a financial statement of a proprietary fund?

A. Balance sheet.
B. Statement of Operations.
D. Statement of Net Assets.
E. Statement of Revenues, Expenditures, and Changes in Fund Balance.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.
20. Which criteria must be met to be considered a special purpose government?

(1.) Have a separately elected governing body
(2.) Be legally independent
(3.) Be fiscally independent

A. 1 only.
B. 1 and 2.
C. 2 and 3.
D. 1 and 3.
E. 1, 2, and 3.

Learning Objective: 17-07 Explain the makeup of a primary government and its relationship to component units.

21. Which statement is false regarding the government-wide Statement of Net Assets?

A. the purpose of the Statement of Net Assets is to report the economic resources of the government as a whole.
B. assets are reported excluding capital assets.
C. capital assets are reported net of depreciation.
D. investments are reported at fair value rather than historical cost.
E. Business-type activities include Enterprise Funds.

Learning Objective: 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.
22. Which item is not included on the government-wide Statement of Activities?

A. revenues.
B. expenses.
C. assets.
D. operating grants.
E. capital contributions.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.

23. Which statement is false regarding the Balance Sheet for Fund Financial Statements?

A. The Balance Sheet for Fund Financial Statements measures only current financial resources of the governmental entity.
B. The Balance Sheet for Fund Financial Statements uses the modified accrual method for timing purposes.
C. Capital Assets are not reported on the Balance Sheet for Fund Financial Statements.
D. The Balance Sheet for Fund Financial Statements measures only long-term financial resources of the governmental entity.
E. Long-term debts are not reported on the Balance Sheet for Fund Financial Statements.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.
24. The city operates a public pool where each person is assessed a $2 entrance fee. Which fund is most appropriate to record these revenues?

A. General Fund.

B. Enterprise Fund.

C. Special Revenue Fund.

D. Internal Service Fund.

E. Capital Projects Fund.

Learning Objective: 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.

25. Which statement is false regarding the Statement of Revenues, Expenditures, and Changes in Fund Balance when it is included with government-wide financial statements?

A. The Statement of Revenues, Expenditures, and Changes in Fund Balance uses the modified accrual method for timing purposes.

B. The Statement of Revenues, Expenditures, and Changes in Fund Balance presents revenues as either program revenues or general revenues.

C. A presentation reconciles the change in governmental fund balance to the change in net assets for governmental activities.

D. Other financing sources are presented on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

E. All non-major funds are combined and reported together.

Learning Objective: 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.
26. A city starts a solid waste landfill during 2012. When the landfill was opened the city estimated that it would fill to capacity within 5 years and that the cost to cover the facility would be $1.5 million which will not be paid until the facility is closed. At the end of 2012, the facility was 20% full, and at the end of 2013 the facility was 45% full. On government-wide financial statements, which of the following are the appropriate amounts to present in the financial statements for 2013?

A. Both expense and liability will be zero.
B. Expense will be $300,000 and liability will be $600,000.
C. Expense will be $600,000 and liability will be $600,000.
D. Expense will be $675,000 and liability will be $600,000.
E. Expense will be $375,000 and liability will be $675,000.

\[\begin{align*}
\text{Expense} & \text{ for 2012} = \$1,500,000 \times 20\% = \$300,000 \\
\text{Liability at Year End of 2013} & \text{ for 2013} = \$1,500,000 \times 45\% = \$675,000 \\
\text{Expense for 2013} & = \$675,000 - \$300,000 = \$375,000
\end{align*}\]

Learning Objective: 17-02 Recognize the liability caused by the eventual closure and postclosure costs of operating a solid waste landfill as well as for the compensated absences earned by government employees.
27. A city starts a solid waste landfill during 2012. When the landfill was opened the city estimated that it would fill to capacity within 5 years and that the cost to cover the facility would be $1.5 million which will not be paid until the facility is closed. At the end of 2012, the facility was 20% full, and at the end of 2013 the facility was 45% full. If the landfill is judged to be a governmental fund, what liability is reported on the fund financial statements at the end of 2013?

A. $0.  
B. $300,000.  
C. $375,000.  
D. $600,000.  
E. $675,000.

As a Governmental Fund, No Liability is Recorded, Only Expenditures.

AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Accessibility: Keyboard Navigation  
Blooms: Apply  
Difficulty: 2 Medium  

Learning Objective: 17-02 Recognize the liability caused by the eventual closure and postclosure costs of operating a solid waste landfill as well as for the compensated absences earned by government employees.
28. The employees of the City of Raymond earn vacation compensation that totals $1,500 per week. During 2013, $30,000 in vacation time was taken and the remainder is expected to be used during the latter part of next year. In the government-wide financial statements, assuming there was no beginning balance, what liability should be reported at the end of 2013?

A. $0.
B. $1,500.
C. $30,000.
D. $48,000.
E. $78,000.

Beginning Balance $0 + Accrued Liability $78,000 - Vacation Used $30,000 = Ending Liability Balance $48,000

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 17-02 Recognize the liability caused by the eventual closure and postclosure costs of operating a solid waste landfill as well as for the compensated absences earned by government employees.

29. The employees of the City of Raymond earn vacation compensation that totals $1,500 per week. During 2013, $30,000 in vacation time was taken and $48,000 is expected to be used during the latter part of next year. On fund financial statements, what liability should be reported at the end of 2013?

A. $0.
B. $1,500.
C. $30,000.
D. $48,000.
E. $78,000.

As a Governmental Fund, No Liability is Recorded in 2013, Expenditures are Recorded as Vacation Time is Taken.

AACSB: Analytic
AICPA BB: Industry
30. The Town of Conway opened a solid waste landfill in 2001 that is now filled to capacity. The city initially anticipated closure costs of $2 million. These costs were not expected to be incurred until the landfill is closed. What is the final journal entry to record these costs assuming the estimated $2 million closure costs were properly recorded and the landfill is accounted for in an enterprise fund?

<table>
<thead>
<tr>
<th></th>
<th>Expense—Landfill Closure</th>
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</tr>
</thead>
<tbody>
<tr>
<td>A)</td>
<td>Landfill Closure Liability</td>
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</tr>
<tr>
<td>B)</td>
<td>Landfill Closure Liability</td>
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</tr>
<tr>
<td></td>
<td>Expense—Landfill Closure</td>
<td>2,000,000</td>
</tr>
<tr>
<td>C)</td>
<td>Expense—Landfill Closure</td>
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<td></td>
<td>Cash</td>
<td>2,000,000</td>
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<tr>
<td>D)</td>
<td>Landfill Closure Liability</td>
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<tr>
<td></td>
<td>Cash</td>
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<tr>
<td>E)</td>
<td>Expenditure- Landfill Closure</td>
<td>2,000,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>2,000,000</td>
</tr>
</tbody>
</table>

A. Option A  
B. Option B  
C. Option C  
**D.** Option D  
E. Option E

Previously Accrued Closure Liability Balance of $2,000,000 is satisfied by $2,000,000 Cash Payment at Closure of Facility.
Essay Questions

31. What three criteria must be met to identify a governmental unit as a primary government?

To be considered a primary government, the unit must meet the following 3 criteria:

(1.) It must have a separately elected governing body.
(2.) It must be legally independent which can be demonstrated by having corporate powers such as the right to sue and be sued in its own name as well as the right to buy, sell, and lease property in its own name.
(3.) It must be fiscally independent of other state and local governments.

32. What three criteria must be met before a governmental unit can elect to not capitalize and therefore report a work of art or historical treasure as an asset?

Before a governmental unit can elect to not record a work of art or a historical treasure as an asset, three criteria must be met:

(1.) It must be held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
(2.) It must be protected, kept unencumbered, cared for, and preserved.
(3.) It must be subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.
33. What are the three broad sections of a state or local government's CAFR?

The introductory section, the financial section, and the statistical section.

Learning Objective: 17-06 Understand the composition of a state or local government's comprehensive annual financial report (CAFR).

34. What information is required in the introductory section of a state or local government's CAFR?

A letter of transmittal from appropriate government officials, an organization chart, and a list of principal officers.

Learning Objective: 17-06 Understand the composition of a state or local government's comprehensive annual financial report (CAFR).

35. What information is required in the financial section of a state or local government's CAFR?

The financial section of a CAFR must include the auditor's report, Management's Discussion and Analysis (MD&A), the basic financial statements, and Required Supplementary Information other than MD&A (RSI).

Learning Objective: 17-06 Understand the composition of a state or local government's comprehensive annual financial report (CAFR).
36. What is meant by the term fiscally independent?

Fiscally independent means that the leadership of a governing body is able to determine the activity's budget, levy taxes, set rates or issue debt without having to seek the approval of an outside party.

AACSB: Reflective thinking  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 17-07 Explain the makeup of a primary government and its relationship to component units.

37. What is meant by the term legally independent?

Legal independence is demonstrated by having corporate powers such as the right to sue and be sued, the right to buy, sell and lease property in its own name.

AACSB: Reflective thinking  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Remember  
Difficulty: 1 Easy  
Learning Objective: 17-07 Explain the makeup of a primary government and its relationship to component units.
38. How is the Statement of Cash Flows for Proprietary Funds similar and dissimilar to a Statement of Cash Flows for a for-profit business?

The statement of cash flows for a proprietary fund is very similar to the statement of cash flows for a for-profit business. Two sections are similar including the cash flows from operating activities and cash flows from investing activities. The cash flows from financing activities are reported differently than for profit businesses and are split into two sections when reporting for a Proprietary Fund. These two sections specify the cash flows from noncapital financing and cash flows from capital and related financing activities. The statement of cash flows for a proprietary fund is different from the cash flow statement for a for-profit business in that GASB requires the direct method of presenting cash flows from operating activities, with a reconciliation to net operating income. At this time, GAAP for the cash flow statement for a for-profit business gives the option of presenting cash flows from operating activities using either the direct or the indirect method.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Bloom's: Analyze
Difficulty: 3 Hard

Learning Objective: 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.
39. The City of Wetteville has a fiscal year ending June 30. Examine the following transactions for Wetteville:

(A.) On 6/1/13, Wetteville enters into a 5-year lease on a copying machine. The lease meets the criteria of a capital lease and carries an implied interest rate of 10%. The copier has a present value of $2,300. Wetteville has to put a $300 down payment on the lease at the beginning of the lease with monthly payments thereafter of $42.49.
(B.) On 6/5/13, Wetteville opens a new landfill. The engineers estimate that at the end of 10 years the landfill will be full. Estimated costs to close the landfill are currently at $3,500,000.
(C.) On 6/18/13, Wetteville receives a donation of a vintage railroad steam engine. The engine will be put on display at the local town park. A fee will be charged to actually climb up into the engine. The engine has been valued at $500,000.
(D.) On 6/30/13, Wetteville makes its first payment on the leased copier. The $42.49 payment includes $16.68 interest.
(E.) On 6/30/13, Wetteville estimates that the landfill is 2% filled.

Required:

Prepare the journal entries for the above transactions in the general fund, on the dates mentioned for each lettered item, for the purposes of preparing the fund financial statements.

Entries for Fund Financial Statements

<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) 6/1</td>
<td>Expenditures – Leased Asset</td>
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<tr>
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<td>Other Financing Sources – Capital Lease</td>
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<tr>
<td></td>
<td>Expenditures – Lease Principal</td>
<td>300.00</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>300.00</td>
</tr>
<tr>
<td>B) 6/5</td>
<td>No entry at date of opening</td>
<td></td>
</tr>
<tr>
<td>C) 6/18</td>
<td>No entry, because there is no change in current financial resources</td>
<td></td>
</tr>
<tr>
<td>D) 6/30</td>
<td>Expenditure – Interest</td>
<td>16.68</td>
</tr>
<tr>
<td></td>
<td>Expenditure – Principal</td>
<td>25.81</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>42.49</td>
</tr>
<tr>
<td>E) 6/30</td>
<td>No entry unless cash is being set aside for future use</td>
<td></td>
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<tr>
<td></td>
<td>to cover the future expected cost.</td>
<td></td>
</tr>
</tbody>
</table>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 17-01 Account for lease contracts where the state or local government finds itself as either lessor or lessee.

Learning Objective: 17-02 Recognize the liability caused by the eventual closure and postclosure costs of operating a solid waste landfill as well as for the compensated absences earned by government employees.

Learning Objective: 17-04 Record the donation and acquisition of works of art and historical treasures.

40. The City of Wetteville has a fiscal year ending June 30. Examine the following transactions for Wetteville:

(A.) On 6/1/13, Wetteville enters into a 5-year lease on a copying machine. The lease meets the criteria of a capital lease and carries an implied interest rate of 10%. The copier has a present value of $2,300. Wetteville has to put a $300 down payment on the lease at the beginning of the lease with monthly payments thereafter of $42.49.

(B.) On 6/5/13, Wetteville opens a new landfill. The engineers estimate that at the end of 10 years the landfill will be full. Estimated costs to close the landfill are currently at $3,500,000.

(C.) On 6/18/13, Wetteville receives a donation of a vintage railroad steam engine. The engine will be put on display at the local town park. A fee will be charged to actually climb up into the engine. The engine has been valued at $500,000.

(D.) On 6/30/13, Wetteville makes its first payment on the leased copier. The $42.49 payment includes $16.68 interest.

(E.) On 6/30/13, Wetteville estimates that the landfill is 2% filled.

Required:

Prepare the journal entries for the above transactions, on the dates mentioned for each lettered item, for the purposes of preparing the government-wide financial statements.

A) 6/1
   Copy Machine – Capital Lease
   Capital Lease Obligation 2,300.00
   Cash 2,000.00
   300.00

B) 6/5
   No entry at time of opening

C) 6/18
   Vintage Steam Engine
   Revenue - Donation 500,000.00
   500,000.00

D) 6/30
   Interest Expense 16.68
   Capital Lease Obligation 25.81
   Cash 42.49

E) 6/30
   Expense – Landfill Closure 70,000.00
   Landfill Closure Liability 70,000.00

AACSB: Analytic
AICPA BB: Industry
Learning Objective: 17-01 Account for lease contracts where the state or local government finds itself as either lessor or lessee.

Learning Objective: 17-02 Recognize the liability caused by the eventual closure and postclosure costs of operating a solid waste landfill as well as for the compensated absences earned by government employees.

Learning Objective: 17-04 Record the donation and acquisition of works of art and historical treasures.
41. The parking garage and parking lots owned by the City of Danton reported the following balances for 2013:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts from public users of the parking facilities</td>
<td>$190,000</td>
</tr>
<tr>
<td>Receipts from the city for parking of city-owned vehicles</td>
<td>8,000</td>
</tr>
<tr>
<td>Salaries paid to employees</td>
<td>75,000</td>
</tr>
<tr>
<td>Printing — paid to an <em>internal service fund</em></td>
<td>6,000</td>
</tr>
<tr>
<td>Interest on bonded indebtedness</td>
<td>10,000</td>
</tr>
<tr>
<td>Sculpture for entrance to parking lot (donated during 2013)</td>
<td>12,500</td>
</tr>
<tr>
<td>Depreciation on parking garage</td>
<td>30,000</td>
</tr>
<tr>
<td>Truck (purchased during 2013)</td>
<td>35,000</td>
</tr>
<tr>
<td>Maintenance — paid to an <em>internal service fund</em></td>
<td>17,000</td>
</tr>
</tbody>
</table>

**Required:**

What amount of net revenue (or expense) should be reported by the fund that was used to account for parking operations assuming the preparation of government-wide financial statements?

Danton's net revenue coming from the proprietary fund for parking garages and parking lots is determined as follows:

<table>
<thead>
<tr>
<th>Revenue:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts from public users of parking facilities</td>
<td>$190,000</td>
</tr>
<tr>
<td>Revenue — Donation</td>
<td>12,500</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$202,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries paid to employees</td>
<td>$75,000</td>
</tr>
<tr>
<td>Interest on bonded indebtedness</td>
<td>10,000</td>
</tr>
<tr>
<td>Depreciation on Parking Garage</td>
<td>30,000</td>
</tr>
<tr>
<td>Printing</td>
<td>6,000</td>
</tr>
<tr>
<td>Maintenance</td>
<td>17,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$138,000</td>
</tr>
<tr>
<td>Net Revenues</td>
<td>$ 64,500</td>
</tr>
</tbody>
</table>

*AACSB: Analytic*

*AICPA BB: Industry*

*AICPA FN: Measurement*

*Blooms: Apply*
42. The City of Nextville operates a motor pool serving all city-owned vehicles. The motor pool bought a new garage by paying $29,000 in cash and signing a note with the local bank for $280,000. Subsequently, the motor pool performed work for the police department at a cost of $17,000, which had not yet been collected. Depreciation on the garage amounted to $20,000. The first $12,000 payment made on the note included $4,800 in interest.

Required:

Prepare the journal entries for these transactions that are necessary to prepare government-wide financial statements.

Entries for government-wide financial statements

| A) | Assets – Garage | 309,000 |
|    | Notes Payable  | 280,000 |
|    | Cash           | 29,000  |
| B) | (The cash transfer for services performed for the police department is an internal transfer and is not recorded for government-wide financial statements.) |
| C) | Expense – Depreciation | 20,000 |
|    | Accumulated Depreciation | 20,000 |
| D) | Expense – Interest | 4,800 |
|    | Notes Payable  | 7,200  |
|    | Cash           | 12,000  |

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.
43. The City of Kamen maintains a collection of paintings of a former citizen in its City Hall building. During the year, one painting was purchased by the city for $2,000 at an auction using appropriated funds in the General Fund. Also during the year, a donation of a painting valued at $3,000 was made to the city.

**Required:**

Prepare the journal entry/entries for the two transactions for the purposes of preparing the fund financial statements.

**General Fund:**

<table>
<thead>
<tr>
<th>Expenditure – Painting</th>
<th>2,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>2,000</td>
</tr>
</tbody>
</table>

No entry in General Fund for second transaction - does not represent a change in current financial resources.

**AACSB: Analytic**

**AICPA BB: Industry**

**AICPA FN: Measurement**

**Blooms: Apply**

**Difficulty: 2 Medium**

*Learning Objective: 17-04 Record the donation and acquisition of works of art and historical treasures.*
44. The City of Kamen maintains a collection of paintings of a former citizen in its City Hall building. During the year, one painting was purchased by the city for $2,000 at an auction using appropriated funds in the General Fund. Also during the year, a donation of a painting valued at $3,000 was made to the city and the city has appropriately decided to record this painting as an asset.

Required:

Prepare the journal entry/entries for the two transactions for the purposes of preparing the government-wide financial statements.

Government-wide Financial Statements - Government Activities:

<table>
<thead>
<tr>
<th>Painting</th>
<th>2,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>2,000</td>
</tr>
<tr>
<td>Painting</td>
<td>3,000</td>
</tr>
<tr>
<td>Revenue – Donation</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Learning Objective: 17-04 Record the donation and acquisition of works of art and historical treasures.

45. The Town of Wakefield opened a solid waste landfill in 2012 that was at 20% capacity on December 31, 2012 and at 50% capacity on December 31, 2013. The city initially anticipated closure costs of $2.3 million but in 2013 revised the estimate of the closure costs to be $2.7 million. None of these costs will be incurred until the landfill is scheduled to be closed. What is the journal entry that should be recorded on December 31, 2013 for Government-wide Financial Statements?

Expense—Landfill Closure  890,000
Landfill Closure Liability  890,000

Learning Objective: 17-04 Record the donation and acquisition of works of art and historical treasures.
The Town of Wakefield opened a solid waste landfill in 2012 that was at 20% capacity on December 31, 2012 and at 50% capacity on December 31, 2013. The city initially anticipated closure costs of $2.3 million but in 2013 revised the estimate of the closure costs to be $2.7 million. None of these costs will be incurred until the landfill is scheduled to be closed. Assuming the landfill is recorded within the General fund, what is the journal entry that should be recorded in the Fund Financial Statements on December 31, 2013?

There is nothing recognized at the end of 2013 because there is not a claim to any current financial resources.
47. The Town of Portsmouth has at the beginning of the year a $213,000 Net Asset balance, and a $52,000 Fund Balance.

The following information relates to the activities within the Town of Portsmouth for the year of 2013.

<table>
<thead>
<tr>
<th>Receipts:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>$400,000</td>
</tr>
<tr>
<td>Franchise Taxes</td>
<td>100,000</td>
</tr>
<tr>
<td>Charges for Public Safety</td>
<td>7,000</td>
</tr>
<tr>
<td>Charges for Sanitation</td>
<td>5,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payments:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salaries</strong></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>$ 54,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>43,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>36,000</td>
</tr>
<tr>
<td><strong>Rent</strong></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>15,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>12,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>3,500</td>
</tr>
<tr>
<td><strong>Maintenance</strong></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>4,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>2,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>1,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>2,500</td>
</tr>
<tr>
<td>Sanitation</td>
<td>4,500</td>
</tr>
<tr>
<td><strong>Final Payment on Debt Principal</strong></td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Payment for Interest on Debt</strong></td>
<td>15,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Receivables at the end of the year:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes (80% estimated to be collectible)</td>
<td>$95,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payables at year-end: Salaries</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>$ 4,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>3,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>4,400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other items at year-end:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$130,900</td>
</tr>
<tr>
<td>Building</td>
<td>95,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>80,000</td>
</tr>
<tr>
<td>Supplies Inventory</td>
<td>9,500</td>
</tr>
<tr>
<td>Investments</td>
<td>160,000</td>
</tr>
<tr>
<td>Compensated absences balance, expected to be paid in 12 months</td>
<td>9,000</td>
</tr>
</tbody>
</table>

Prepare a Statement of Revenues, Expenditures and Changes in Fund Balances
PORTSMOUTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
For Year Ended December 31, 2013

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>$400,000</td>
</tr>
<tr>
<td>Franchise Taxes</td>
<td>100,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>7,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$512,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current:</td>
</tr>
<tr>
<td>General Government</td>
</tr>
<tr>
<td>Public Safety</td>
</tr>
<tr>
<td>Sanitation</td>
</tr>
<tr>
<td>Debt Service:</td>
</tr>
<tr>
<td>Principal Payment on Debt</td>
</tr>
<tr>
<td>Interest on Debt</td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
</tr>
<tr>
<td>Excess of Revenues over Expenditures</td>
</tr>
</tbody>
</table>

| Net Change in Fund Balance | $313,000 |
| Fund Balance (Beginning)   | 52,000    |
| Fund Balance (Ending)      | $365,000  |

**Learning Objective:** 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.
48. The Town of Portsmouth has at the beginning of the year a $213,000 Net Asset balance, and a $52,000 Fund Balance. The following information relates to the activities within the Town of Portsmouth for the year of 2013.

<table>
<thead>
<tr>
<th>Receipts:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>$400,000</td>
</tr>
<tr>
<td>Franchise Taxes</td>
<td>100,000</td>
</tr>
<tr>
<td>Charges for Public Safety</td>
<td>7,000</td>
</tr>
<tr>
<td>Charges for Sanitation</td>
<td>5,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payments:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salaries</strong></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>$ 54,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>43,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>36,000</td>
</tr>
<tr>
<td><strong>Rent</strong></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>15,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>12,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>3,500</td>
</tr>
<tr>
<td><strong>Maintenance</strong></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>4,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>2,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>1,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>2,500</td>
</tr>
<tr>
<td>Sanitation</td>
<td>4,500</td>
</tr>
<tr>
<td><strong>Final Payment on Debt Principal</strong></td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Payment for Interest on Debt</strong></td>
<td>15,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Receivables at the end of the year:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes (80% estimated to be collectible)</td>
<td>$95,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payables at year-end: Salaries</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>$ 4,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>3,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>4,400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other items at year-end:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$130,900</td>
</tr>
<tr>
<td>Building</td>
<td>95,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>80,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>9,500</td>
</tr>
<tr>
<td>Investments</td>
<td>160,000</td>
</tr>
<tr>
<td>Compensated absences balance, expected to be paid in 12 months</td>
<td>9,000</td>
</tr>
</tbody>
</table>

Prepare a Statement of Net Assets
## PORTSMOUTH STATEMENT OF NET ASSETS
December 31, 2013

<table>
<thead>
<tr>
<th></th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 130,900</td>
</tr>
<tr>
<td>Investments</td>
<td>160,000</td>
</tr>
<tr>
<td>Receivables (net of $19,000 allowance)</td>
<td>76,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>9,500</td>
</tr>
<tr>
<td>Capital assets (net)</td>
<td>175,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 551,400</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Salaries payable</td>
<td>$ 11,400</td>
</tr>
<tr>
<td>Compensated absences liability</td>
<td>9,000</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$ 20,400</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets</td>
<td>$ 175,000</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>356,000</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$ 531,000</td>
</tr>
</tbody>
</table>

Learning Objective: 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.
49. The Town of Portsmouth has at the beginning of the year a $213,000 Net Asset balance, and a $52,000 Fund Balance. The following information relates to the activities within the Town of Portsmouth for the year of 2013.

Prepare a Statement of Activities

<table>
<thead>
<tr>
<th>Receipts:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>$400,000</td>
</tr>
<tr>
<td>Franchise Taxes</td>
<td>100,000</td>
</tr>
<tr>
<td>Charges for Public Safety</td>
<td>7,000</td>
</tr>
<tr>
<td>Charges for Sanitation</td>
<td>5,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payments:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>$ 54,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>43,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>36,000</td>
</tr>
<tr>
<td>Rent</td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>15,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>12,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>3,500</td>
</tr>
<tr>
<td>Maintenance</td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>4,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>2,000</td>
</tr>
<tr>
<td>Sanitation</td>
<td>1,500</td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>1,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>2,500</td>
</tr>
<tr>
<td>Sanitation</td>
<td>4,500</td>
</tr>
<tr>
<td>Final Payment on Debt Principal</td>
<td>5,000</td>
</tr>
<tr>
<td>Payment for Interest on Debt</td>
<td>15,000</td>
</tr>
</tbody>
</table>

**Receivables at the end of the year:**
- Property Taxes (80% estimated to be collectible) $95,000

**Payables at year-end: Salaries**
- General Government $4,000
- Public Safety 3,000
- Sanitation 4,400

**Other items at year-end:**
- Cash $130,900
- Building 95,000
- Equipment 80,000
- Supplies Inventory 9,500
- Investments 160,000
- Compensated absences balance, expected to be paid in 12 months 9,000
### CITY OF PORTSMOUTH
#### STATEMENT OF ACTIVITIES
For Year Ended December 31, 2013

<table>
<thead>
<tr>
<th>Functions/Programs</th>
<th>Expenses</th>
<th>Services</th>
<th>Contributions</th>
<th>Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governmental activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Government</td>
<td>$74,000</td>
<td>$</td>
<td>$</td>
<td>(74,000)</td>
<td>(74,000)</td>
</tr>
<tr>
<td>Public Safety</td>
<td>59,500</td>
<td>7,000</td>
<td></td>
<td>(52,500)</td>
<td>(52,500)</td>
</tr>
<tr>
<td>Sanitation</td>
<td>45,500</td>
<td>5,000</td>
<td></td>
<td>(40,500)</td>
<td>(40,500)</td>
</tr>
<tr>
<td>Interest on Debt</td>
<td>15,000</td>
<td></td>
<td></td>
<td>(15,000)</td>
<td>(15,000)</td>
</tr>
<tr>
<td><strong>Total Governmental activities</strong></td>
<td>$194,000</td>
<td>$12,000</td>
<td>$0</td>
<td>(182,000)</td>
<td>(182,000)</td>
</tr>
<tr>
<td>General Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Taxes</td>
<td>$400,000</td>
<td></td>
<td>$400,000</td>
<td>$400,000</td>
<td></td>
</tr>
<tr>
<td>Franchise Taxes</td>
<td>100,000</td>
<td></td>
<td>100,000</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total general revenues</strong></td>
<td>$500,000</td>
<td></td>
<td>$500,000</td>
<td>$500,000</td>
<td></td>
</tr>
<tr>
<td>Change in net assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change During 2013</td>
<td>$318,000</td>
<td></td>
<td>$318,000</td>
<td>$318,000</td>
<td></td>
</tr>
<tr>
<td>Net assets—beginning</td>
<td>213,000</td>
<td></td>
<td>213,000</td>
<td>213,000</td>
<td></td>
</tr>
<tr>
<td>Net assets—ending</td>
<td>$531,000</td>
<td></td>
<td>$531,000</td>
<td>$531,000</td>
<td></td>
</tr>
</tbody>
</table>

Reconciliation of Ending Fund Balance to Ending Net Assets:

- Ending Fund Balance – Governmental Funds $365,000
- Plus Capital Assets which are not current financial resources
- And are therefore not reported in the governmental funds $175,000
- Less Compensated absences which are not due and payable
- In the current period and are therefore not reported in the Governmental funds $(9,000)
- Ending Net Assets – Governmental Activities $531,000

Reconciliation of Change in Fund Balance to Change in Net Assets:

- Change in Fund Balance – Governmental Funds $313,000
- Plus repayment of principal of long-term debt, which uses current financial resources but has no effect on net assets $5,000
- Change in Net Assets – Governmental Activities $318,000

Learning Objective: 17-08 Describe the physical structure of a complete set of government-wide financial statements and a complete set of fund financial statements.
Chapter 18 Accounting and Reporting for Private Not-for-Profit Entities

Answer Key

Multiple Choice Questions

1. Reciprocal transfers where both parties give and receive something of value are

A. contributed services.
B. unconditional promises to give.
C. endowment transactions.
D. exchange transactions.
E. required contributions.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.
2. Which of the following types of health care organizations follow FASB Accounting Standards Codification for GAAP?

<table>
<thead>
<tr>
<th></th>
<th>Investor - Owned</th>
<th>Governmental</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Health Care</td>
<td>Not-for-Profit</td>
</tr>
<tr>
<td></td>
<td>Enterprises</td>
<td>Organizations</td>
</tr>
<tr>
<td>A)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>B)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>C)</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>D)</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>E)</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

A. Option A  
B. Option B  
C. Option C  
D. Option D  
E. Option E

AACSB: Reflective thinking  
AICPA BB: Industry  
AICPA FN: Research  
Blooms: Remember  
Difficulty: 2 Medium  

Learning Objective: 18-01 Understand the basic composition of the financial statements produced for a private not-for-profit organization.
3. Which of the following types of health care organizations recognize depreciation expense?

<table>
<thead>
<tr>
<th>Investor - Owned</th>
<th>Governmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care</td>
<td>Not-for-Profit</td>
</tr>
<tr>
<td>Enterprises</td>
<td>Organizations</td>
</tr>
<tr>
<td>A) Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>B) Yes</td>
<td>No</td>
</tr>
<tr>
<td>C) No</td>
<td>No</td>
</tr>
<tr>
<td>D) Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>E) Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

A. Option A  
B. Option B  
C. Option C  
D. Option D  
E. Option E

AACSB: Reflective thinking  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Remember  
Difficulty: 2 Medium

Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.

4. In accruing patient charges for the current month, which one of the following accounts should a hospital credit?

A. Accounts Payable.  
B. Deferred Revenue.  
C. Unearned Revenue.  
D. Patient Service Revenues.  
E. Accounts Receivable.

AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Accessibility: Keyboard Navigation  
Blooms: Analyze  
Difficulty: 1 Easy

Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.
5. Which account would be credited in recording a gift of medicine to a nursing home from an outside party?

A. Non-Operating Gain-Special Revenues.
B. Contractual Adjustments.
C. Patient Service Revenues.
D. Drugs and Medicines.
E. Non-Operating Revenues- Contribution.

6. Which one of the following financial statements is not required by GAAP regarding a voluntary health and welfare organization?

A. Statement of Financial Position.
B. Statement of Functional Expense.
D. Statement of Cash Flows.
E. Statement of Operations.
7. Unconditional transfers of cash or other resources to an entity in a voluntary nonreciprocal transaction is the GAAP definition for

A. miscellaneous revenues.
B. contributions.
C. unconditional promises to give.
D. exchange transactions.
E. pledges.

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.

8. Which one of the following is a voluntary health and welfare organization?

A. Charity raising money for underprivileged children.
B. Nursing home.
C. Clinic.
D. Hospital.
E. Preschool.

Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.
9. On a statement of functional expenses for a voluntary health and welfare organization, how are expenses classified?

A. health services expenses and operating expenses.
B. program services expenses and administrative services expenses.
C. program services expenses and supporting services expenses.
D. operating expenses and supporting services expenses.
E. operating expenses and administrative expenses.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 18-03 Explain the purpose and the construction of a statement of functional expenses.

10. Which of the following is not a question individuals ask of not-for-profit organizations in considering whether to make a contribution?

A. Will donated funds be used effectively by the organization to accomplish its purpose?
B. Will the donated funds be wasted?
C. How much should this organization receive?
D. Is this organization profitable?
E. Is contributing to this charity a wise allocation of resources?

AACSB: Reflective thinking
AICPA BB: Legal
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.
11. Historically, what was the pattern of reporting of not-for-profit organizations?

(1) Patterned after for-profit accounting
(2) Emphasis on separate fund types
(3) Disregard for the entire entity

A. 1 only.
B. 2 only.
C. 1 and 2 only.
D. 1, 2 and 3.
E. 2 and 3 only.

Learning Objective: 18-01 Understand the basic composition of the financial statements produced for a private not-for-profit organization.

12. Which of the following statements is required for voluntary health and welfare organizations, but not for other not-for-profit organizations?

A. Statement of Activities and Changes in Net Assets.
B. Statement of Functional Expenses.
D. Statement of Cash Flows.
E. Statement of Budget to Actual.

Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.
13. What are the three categories of net assets required by GAAP in reporting a not-for-profit organization?

   A. Unrestricted, Temporarily Restricted, and Permanently Restricted.
   B. Unrestricted, Restricted, and Fund Balance.
   C. Restricted, Permanently Restricted, and Fund Balance.
   D. Unrestricted, Temporarily Restricted, and Fund Balance.
   E. None of these.

   AACSB: Reflective thinking  
   AICPA BB: Industry  
   AICPA FN: Reporting  
   Accessibility: Keyboard Navigation  
   Blooms: Remember  
   Difficulty: 1 Easy

   Learning Objective: 18-01 Understand the basic composition of the financial statements produced for a private not-for-profit organization.

14. What is the basis of accounting used in reporting the Statement of Activities and Changes in Net Assets?

   A. Cash basis.
   B. Modified accrual basis.
   C. Accrual basis.
   D. Either cash basis or accrual basis, depending on the type of revenue.
   E. Either modified accrual basis or accrual basis, depending on the type of revenue.

   AACSB: Reflective thinking  
   AICPA BB: Industry  
   AICPA FN: Measurement  
   Accessibility: Keyboard Navigation  
   Blooms: Remember  
   Difficulty: 1 Easy

   Learning Objective: 18-01 Understand the basic composition of the financial statements produced for a private not-for-profit organization.
15. When are unconditional promises to give recognized as revenues?

A. In the period the promise is received.
B. In the period the promise is collected.
C. In the period in which the conditions on which they depend are substantially met.
D. In the period in which the conditions on which they depend have begun to be met.
E. Unconditional promises from potential donors are not revenues.

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.

16. The following gifts are received in Year One by a not-for-profit organization:

I. $2,000 specified by the donor to be used to pay salaries.
II. $10,000 for new conference room furniture.
III. $5,000 to be held for one year before being expended.

The salaries are paid in Year Two and the conference room furniture is purchased in Year One.

How much should be shown as increases as Temporarily Restricted Net Assets in Year One?

A. $2,000
B. $7,000
C. $12,000
D. $15,000
E. $17,000

Restricted Funds [I. Salaries $2,000] + [III. Time Restricted Funds $5,000] = $7,000 Funds Restricted in Year One.
Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.

17. The following gifts are received in Year One by a not-for-profit organization:

I. $2,000 specified by the donor to be used to pay salaries.
II. $10,000 for new conference room furniture.
III. $5,000 to be held for one year before being expended.

The salaries are paid in Year Two and the conference room furniture is purchased in Year One.

How much should be reclassified on the Statement of Activities in Year Two from the Temporarily Restricted column to the Unrestricted column?

A. $2,000.
B. $5,000.
C. $7,000.
D. $10,000.
E. $12,000.

Restricted Funds [I. Salaries $2,000] + [III. Time Restricted Funds $5,000] = $7,000 Funds Restricted in Year One are Reclassified as **unrestricted** in Year Two.
18. How are investments in equity securities with readily determinable market values and their related unrealized gains and losses reported by a not-for-profit organization?

A. Lower of cost or market, with unrealized losses in the Statement of Activities.
B. Fair value, with unrealized gains and losses in the Statement of Activities.
C. Lower of cost or market, with unrealized losses in Temporarily Restricted Net Assets.
D. Cost, with unrealized gains and losses in the Statement of Activities.

Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.

19. Which statement below is not correct?

A. The accounting period in which pledged revenues are recognized is dependent on donor specifications.
B. The permanently restricted section of a nonprofit organization's net assets is set aside by donor restrictions.
C. A contributed asset is recognized as revenue by a nonprofit organization.
D. Depreciation expense is not recognized by nonprofit organizations.
E. Nonprofit organizations issue a statement of activities.

Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.
20. A gift to a not-for-profit school that is not restricted by the donor is credited to:

A. Fund Balance.
B. Deferred Revenues.
C. Contribution Revenues.
D. Non-Operating Revenues.
E. Encumbrances.

Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.

21. Which entry would be the correct entry on the donor’s books when the donor relinquishes control of an asset that it contributes to a not-for-profit organization?

<table>
<thead>
<tr>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Expense-charitable contribution</td>
<td>Cash</td>
</tr>
<tr>
<td>B) Refundable advance to charity</td>
<td>Cash</td>
</tr>
<tr>
<td>C) Charitable pledge</td>
<td>Cash</td>
</tr>
<tr>
<td>D) Cash</td>
<td>Liability to beneficiary</td>
</tr>
<tr>
<td>E) Cash</td>
<td>Refundable advance</td>
</tr>
</tbody>
</table>

A. Option A
B. Option B
C. Option C
D. Option D
E. Option E

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.
22. Which entry would be the correct entry on the donor's books when the donor retains control of an asset that it contributes to a not-for-profit organization?

<table>
<thead>
<tr>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Expense-charitable contribution</td>
<td>Cash</td>
</tr>
<tr>
<td>B) Refundable advance to charity</td>
<td>Cash</td>
</tr>
<tr>
<td>C) Charitable pledge</td>
<td>Cash</td>
</tr>
<tr>
<td>D) Cash</td>
<td>Liability to beneficiary</td>
</tr>
<tr>
<td>E) Cash</td>
<td>Refundable advance</td>
</tr>
</tbody>
</table>

A. Option A  
B. Option B  
C. Option C  
D. Option D  
E. Option E

AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Apply  
Difficulty: 2 Medium

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.

23. Which entry would be the correct entry on the not-for-profit organization's books to record a donor's gift when the money is simply passing through the not-for-profit organization and creates no direct benefit, and when control of the assets has been relinquished by the donor?

<table>
<thead>
<tr>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Expense-charitable contribution</td>
<td>Cash</td>
</tr>
<tr>
<td>B) Refundable advance to charity</td>
<td>Cash</td>
</tr>
<tr>
<td>C) Cash</td>
<td>Liability to beneficiary</td>
</tr>
<tr>
<td>D) Cash</td>
<td>Refundable advance</td>
</tr>
<tr>
<td>E) Cash</td>
<td>Contribution revenue</td>
</tr>
</tbody>
</table>

A. Option A  
B. Option B  
C. Option C  
D. Option D  
E. Option E

AACSB: Analytic  
AICPA BB: Industry
24. Which entry would be the correct entry on the not-for-profit organization’s books to record a donor’s gift when power over the assets has been retained by the donor?

<table>
<thead>
<tr>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Expense-charitable contribution</td>
<td>Cash</td>
</tr>
<tr>
<td>B) Refundable advance to charity</td>
<td>Cash</td>
</tr>
<tr>
<td>C) Cash</td>
<td>Liability to beneficiary</td>
</tr>
<tr>
<td>D) Cash</td>
<td>Refundable advance</td>
</tr>
<tr>
<td>E) Cash</td>
<td>Contribution revenue</td>
</tr>
</tbody>
</table>

A. Option A  
B. Option B  
C. Option C  
D. Option D  
E. Option E

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.
25. Which entry would be the correct entry to record pledges of $100,000 to a public television fundraiser? The public television organization estimates that 5% of the funds will be uncollectible.

<table>
<thead>
<tr>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Pledges Receivable $100,000</td>
<td>Unrestricted net assets-contributions $100,000</td>
</tr>
<tr>
<td>B) Cash $100,000</td>
<td>Unrestricted net assets-contributions $100,000</td>
</tr>
<tr>
<td>C) Pledges Receivable $100,000</td>
<td>Unrestricted net assets-contributions $95,000</td>
</tr>
<tr>
<td>D) Pledges Receivable $95,000</td>
<td>Allowance for uncollectible pledges $5,000</td>
</tr>
<tr>
<td>E) Cash $95,000</td>
<td>Unrestricted net assets-contributions $100,000</td>
</tr>
<tr>
<td>Allowance for uncollectible pledges $5,000</td>
<td></td>
</tr>
</tbody>
</table>

A. Option A  
B. Option B  
C. Option C  
D. Option D  
E. Option E

Pledges Made $100,000 - Estimated Uncollectable Pledges $5,000 = Net Receivables Recorded $95,000

AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Apply  
Difficulty: 2 Medium

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.
26. Which entry would be the correct entry to record that a not-for-profit organization collected $80,000 of the amounts pledged and wrote off $3,000 of the amounts pledged as amounts uncollectible?

**DEBIT**
- A) Pledges Receivable $80,000
- B) Cash $80,000
- C) Pledges Receivable $80,000

**CREDIT**
- Cash $80,000
- Pledges Receivable $80,000
- Allowance for uncollectible pledges $3,000
- Cash $83,000
- Pledges Receivable $83,000

**E) Cash $80,000**
- Allowance for uncollectible pledges $3,000

**Unrestricted net assets-contributions $83,000**

A. Option A
B. Option B
C. Option C
D. Option D
E. Option E

Cash $80,000 + Allowance for Uncollectable $3,000 = Pledges Receivable $83,000

**Learning Objective:** 18-04 Report the various types of contributions that a private not-for-profit organization can receive.

27. In not-for-profit accounting, an acquisition occurs when one not-for-profit organization obtains:

A. Significant influence over another not-for-profit organization.
B. The direct ability to determine the direction of management of another not-for-profit organization.
C. The indirect ability to direct the policies of management of another not-for-profit organization.

**D. Control over another not-for-profit organization.**
E. None of these. An acquisition can only occur for profit-oriented organizations.

**AACSB:** Reflective thinking
28. If the total acquisition value of an acquired not-for-profit organization is greater than the fair value of all identifiable net assets of the organization, and that organization's revenues are not earned by dues or other types of earned revenues, then the excess of acquisition value over identifiable net assets is immediately reported:

A. As goodwill on the consolidated balance sheet.
B. As a pro-rata increase to the identifiable assets and liabilities acquired.
C. As a direct reduction in unrestricted net assets on the balance sheet.
D. As a reduction in unrestricted net assets on the statement of activities.
E. As an increase in other assets on the balance sheet.

29. When an acquisition occurs in not-for-profit accounting, recognition of goodwill depends on:

A. Whether control has been achieved by the acquiring not-for-profit entity.
B. Whether the acquired not-for-profit entity has the ability to generate significant amounts of earned revenue or whether it generates mostly contribution and investment revenue in the future.
C. Whether the acquired not-for-profit entity has the ability to generate significant amounts of both earned revenues and contribution revenues in the future.
D. Whether the acquired not-for-profit entity has a history of generating significant revenues of any type.
E. None of these. Goodwill can only be recognized in an acquisition of a for-profit entity.
30. Which of the following is not true about a merger of two not-for-profit organizations?

A. The two organizations will continue to legally exist but there will be a new governing board.
B. Neither organization is considered to be acquired.
C. Identifiable assets and liabilities are not adjusted to their fair values at the date of the merger.
D. The two entities will together form an entirely new organization with a new governing board.
E. There will be no acquisition value or goodwill determination.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium
31. Which entry would be the correct entry to record that a hospital has provided patient services for $200,000, of which 25% will be billed to a third party?

<table>
<thead>
<tr>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Accounts Receivable–Patients $200,000</td>
<td>Patient Service Revenue $200,000</td>
</tr>
<tr>
<td>B) Accounts Receivable–Patients $150,000</td>
<td>Patient Service Revenue $200,000</td>
</tr>
<tr>
<td>Accounts Receivable–Third Party $50,000</td>
<td></td>
</tr>
<tr>
<td>C) Accounts Receivable–Patients $50,000</td>
<td>Accounts Receivable–Third Party $150,000</td>
</tr>
<tr>
<td>D) Accounts Receivable–Patients $200,000</td>
<td>Patient Service Revenue $50,000</td>
</tr>
<tr>
<td>Accounts Receivable–Third Party $150,000</td>
<td></td>
</tr>
<tr>
<td>E) Patient Service Revenue $200,000</td>
<td>Accounts Receivable–Patients $150,000</td>
</tr>
<tr>
<td>Accounts Receivable–Third Party $50,000</td>
<td></td>
</tr>
</tbody>
</table>

A. Option A  
B. Option B  
C. Option C  
D. Option D  
E. Option E

A/R Patients $150,000 + A/R Third Party Providers $50,000 = Patient Service Revenue  
Recognized $200,000

AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Apply  
Difficulty: 2 Medium

Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.

32. What is the appropriate account to debit when reducing net patient service revenue as a result of arrangements with third party payors?

A. Contractual Adjustments.  
B. Allowance for uncollectible and reduced accounts.  
C. Patient Service Revenues.  
D. Account Receivable-Patients.  
E. Accounts Receivable-Third Party.

AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Accessibility: Keyboard Navigation

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Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.

33. What is the appropriate account to credit when estimating a portion of health care organization receivables that will prove to be uncollectible?

A. Bad Debt Expense.
B. Allowance for Uncollectible Accounts.
C. Patient Service Revenues.
D. Accounts Receivable.
E. Contractual Adjustments.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium

Essay Questions

34. Give several examples of voluntary health and welfare organizations.

Examples of voluntary health and welfare organizations include: (1) Save the Children, (2) United Way, (3) March of Dimes, (4) Boy Scouts, (5) Girl Scouts, (6) YMCA, (7) YWCA, and (8) Greenpeace.
35. **What are the objectives of accounting for a not-for-profit organization?**

The objectives of accounting for a not-for-profit organization are: (1) to provide contributors and potential contributors with a means of evaluating the use of resources by the organization and (2) to disclose how resources were acquired and used to accomplish the objectives of the organization.

**AACSB: Reflective thinking**
**AICPA BB: Industry**
**AICPA FN: Measurement**
**Blooms: Remember**
**Difficulty: 2 Medium**

*Learning Objective: 18-01 Understand the basic composition of the financial statements produced for a private not-for-profit organization.*

36. **What term is used by voluntary health and welfare organizations for contributions?**

The term used by voluntary health and welfare organizations for contributions is public support (a nonrevenue source of assets).

**AACSB: Reflective thinking**
**AICPA BB: Industry**
**AICPA FN: Measurement**
**Blooms: Remember**
**Difficulty: 1 Easy**

*Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.*

37. **What two classifications are used for the expenses incurred by voluntary health and welfare organizations?**

The two classifications of expenses incurred by voluntary health and welfare organizations are (1) program service expenses and (2) supporting service expenses.

**AACSB: Reflective thinking**
**AICPA BB: Industry**
**AICPA FN: Measurement**
38. What is the main source of financial support for most voluntary health and welfare organizations?

Contributions (public support) represents the main source of financial support for most voluntary health and welfare organizations.

39. What criteria must be met before a voluntary health and welfare organization can recognize donated services as a means of support?

The criteria that must be met for a voluntary health and welfare organization to recognize donated services as a means of support are:

(A.) the services are a normal part of the voluntary health and welfare organization's program or supporting services and would otherwise be performed by salaried personnel.
(B.) the organization exercises control over the employment and duties of the individual.
(C.) there is a clearly measurable basis for determining the amount to be recognized as a donation.
40. For a voluntary health and welfare organization, what are supporting services expenses?

Supporting services expenses are the costs of running a charity that are not directly related to its stated goals. They are usually split into two subgroups: (1) management and general expenses and (2) fund raising expenses.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.

41. What financial statements would normally be prepared by a voluntary health and welfare organization?

A voluntary health and welfare organization would prepare the following financial statements:

(A.) Statement of Financial Position
(B.) Statement of Activities and Changes in Net Assets
(C.) Statement of Cash Flows
(D.) Statement of Functional Expenses

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.
42. What are third party payors? Why are their interests important in accounting for health care entities?

Third party payors include (1) insurance companies, (2) Medicare, (3) Medicaid, and (4) Blue Cross/Blue Shield. These organizations pay health care entities for a high percentage of the services provided to patients in this country. The large amount of payments from third-party payors for health care makes their interests important in the accounting done by health care entities. Third-party payors may be able to place restrictions on some of the assets of the health care entity and are allowed to audit a health care entity's costs before deciding the exact amount they should have paid to a hospital or other entity. Thus, third-party payors have a direct impact on the accounting done by health care entities.

Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.

43. How does a voluntary health and welfare organization account for donated goods and cash contributed for operating purposes? What types of revenues are recognized by voluntary health and welfare organizations?

Contributions are extremely important to most voluntary health and welfare organizations. They are increases in net assets and are accounted for as public support, not as earned revenues. Donated materials are also accounted for as public support. Revenues that may be recognized by a voluntary health and welfare organization include (1) membership dues, (2) interest and dividends earned on investments, and (3) gains on the sale of property and investments.

Learning Objective: 18-02 Determine the proper classification for assets that are unrestricted; temporarily restricted; or permanently restricted and explain the method of reporting these categories.

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.
44. For a not-for-profit organization, when is recognition of contributions of artworks and historical treasures not required?

GAAP exempts the recording of gifts of artworks and historical treasures if: (1) they are added to a collection for public exhibition, education, or research; (2) they are protected and preserved; and (3) if they are ever sold, any receipts will be used to acquire other collection items.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.

45. How does a recipient not-for-profit organization record the receipt of a gift that will be transferred without restriction to another charitable organization? What if the donor retains the right to revoke or redirect the gift?

If there are no restrictions, the recipient organization records the transaction as a liability. If the donor retains the right to revoke or redirect the gift, then the recipient organization records a refundable advance (also a liability), except in the case where the recipient organization is in control of the asset, in which case the receipt is recorded as Temporarily Restricted Net Assets - Contributions.

AACSB: Reflective thinking
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Remember
Difficulty: 3 Hard

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.
46. For not-for-profit organizations, what is the difference in identification of "control" between a merger and an acquisition?

In a merger, two or more not-for-profit organizations combine to form a new not-for-profit entity. Control is designated by a new governing board.

In an acquisition, one entity transfers consideration for value to obtain direct or indirect ability to determine the direction of management and policies of the other organization.

Learning Objective: 18-06 Account for both mergers and acquisitions of not-for-profit organizations.

47. For May 2013, Carlington Hospital's charges for patient services were $608,000, of which 80% was billed to third-party payors.

Required:

Prepare the journal entry to accrue patient charges for the month.

| Accounts Receivable – Third-Party Payors | $486,400 |
| Accounts Receivable – Patients          | 121,600  |
| Patient Service Revenues                | $608,000 |

Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.
48. For the month of December 2013, patient charges at Northfield Hospital (a not-for-profit hospital) were $2,720,000. Third-party payors were billed $1,800,000.

Prepare the necessary journal entry to record the revenue and receivables.

| Accounts Receivable – Third-Party Payors | $1,800,000 |
| Accounts Receivable – Patients            | 920,000    |
| Patient Service Revenues                  | $2,720,000 |

49. For the month of December 2013, patient charges at Northfield Hospital (a not-for-profit hospital) were $2,720,000. Third-party payors were billed $1,800,000.

$520,000 of the $2,720,000 was expected to be uncollectible.

Required:

Prepare the necessary journal entry to record the anticipated uncollectible amount.

| Bad Debt Expense                          | $520,000 |
| Allowance for Uncollectible and Reduced Accounts | $520,000 |

Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.
50. For the month of December 2013, patient charges at Northfield Hospital (a not-for-profit hospital) were $2,720,000. Third-party payors were billed $1,800,000.

In this month, there were several patients that had no health insurance and due to their low income level, the hospital decided that $85,000 of receivables would not be collectible.

**Required:**

Prepare the necessary journal entry to reflect the decision to consider the $85,000 as charity care.

<table>
<thead>
<tr>
<th>Patient Service Revenues</th>
<th>$85,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable – Patients</td>
<td>$85,000</td>
</tr>
</tbody>
</table>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.

51. For the month of December 2013, patient charges at Northfield Hospital (a not-for-profit hospital) were $2,720,000. Third-party payors were billed $1,800,000.

The hospital estimated that contractual adjustments would reduce the amount collected from third-party payors to $1,710,000.

**Required:**

Prepare the necessary journal entry to record the contractual adjustments.

<table>
<thead>
<tr>
<th>Contractual Adjustments</th>
<th>$90,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for Uncollectible and Reduced Accounts</td>
<td>$90,000</td>
</tr>
</tbody>
</table>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.
52. Dura Foundation, a voluntary health and welfare organization dedicated to finding medical cures and supported by contributions from the general public, included the following costs in its Statement of Functional Expenses for the year ended December 31, 2013:

<table>
<thead>
<tr>
<th>Expense Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund-raising</td>
<td>$650,000</td>
</tr>
<tr>
<td>Administrative (including $90,000 for data processing)</td>
<td>390,000</td>
</tr>
<tr>
<td>Research</td>
<td>130,000</td>
</tr>
</tbody>
</table>

What should Dura Foundation report as program service expenses?

Program service expenses
Research: $130,000

53. Dura Foundation, a voluntary health and welfare organization dedicated to finding medical cures and supported by contributions from the general public, included the following costs in its Statement of Functional Expenses for the year ended December 31, 2013:

<table>
<thead>
<tr>
<th>Expense Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund-raising</td>
<td>$650,000</td>
</tr>
<tr>
<td>Administrative (including $90,000 for data processing)</td>
<td>390,000</td>
</tr>
<tr>
<td>Research</td>
<td>130,000</td>
</tr>
</tbody>
</table>

What should Dura Foundation report as supporting service expenses?

<table>
<thead>
<tr>
<th>Supporting service expenses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund raising</td>
<td>$</td>
</tr>
<tr>
<td>Administrative</td>
<td>390,000</td>
</tr>
<tr>
<td></td>
<td>$1,040,000</td>
</tr>
</tbody>
</table>
During 2013, the Garfield Humane Society, a voluntary health and welfare organization, received cash donations of $892,000 and membership dues of $62,000. A member of the Humane Society donated services valued at $8,000 that would otherwise have been performed by a paid staff member. A pet food manufacturer donated dog food valued at $16,400. The Humane Society received a gift of $140,000, to be used in building a new animal shelter. Also during 2013, investments held by the Humane Society earned interest of $2,000.

Required:

Prepare a schedule showing the amount that the Garfield Humane Society should have recorded for public support for 2013.

<table>
<thead>
<tr>
<th>Garfield Humane Society</th>
<th>Schedule of Public Support</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>For the Year Ended December 31, 2013</td>
</tr>
<tr>
<td>Public support:</td>
<td></td>
</tr>
<tr>
<td>Unrestricted donations, cash</td>
<td>$ 892,000</td>
</tr>
<tr>
<td>Donated services</td>
<td>8,000</td>
</tr>
<tr>
<td>Donated materials</td>
<td>16,400</td>
</tr>
<tr>
<td>Gift for new animal shelter</td>
<td>140,000</td>
</tr>
<tr>
<td></td>
<td>$1,056,400</td>
</tr>
</tbody>
</table>

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.
The Yelton Center is a voluntary health and welfare organization. During 2012, unrestricted pledges of $780,000 were received by the center, sixty percent of which were payable in 2012, with the remainder payable in 2013 (for use in 2013). Officials estimated that fifteen percent of these pledges will be uncollectible.

**Required:**

How much should the Yelton Center report as revenue for 2012?

<table>
<thead>
<tr>
<th>Pledges</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Anticipated amount deemed to be uncollectible (15%)</td>
<td>(117,000)</td>
</tr>
<tr>
<td>Net pledge balance</td>
<td>$663,000</td>
</tr>
<tr>
<td>Increase in unrestricted net assets in 2012 – contributed support (60%)</td>
<td>$397,800</td>
</tr>
<tr>
<td>Increase in temporarily restricted net assets in 2012 – contributed support (40%)</td>
<td>$265,200</td>
</tr>
</tbody>
</table>

*AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Apply  
Difficulty: 2 Medium*

*Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.*
56. A local social worker, earning $12 per hour working for the state government, contributed 600 hours of time at no charge to the Yelton Center, a voluntary health and welfare organization. If not for these donated services, an additional staff person would have been hired by the organization.

Required:

How should the Yelton Center record the contributed services?

Donated services would be valued at $7,200 and recognized as an increase in Unrestricted Net Assets as contributed support. At the same time, a salary expense is also recognized for this same amount which serves as a decrease in Unrestricted Net Assets. Therefore, no overall impact would be created but the impact of the donation is reflected.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 2 Medium

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.

57. A not-for-profit organization receives a computer as a donation (valued at $2,000). Prepare the journal entry for the transaction.

<table>
<thead>
<tr>
<th>Furniture – Office</th>
<th>$2,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted Net Assets – Contributions</td>
<td>$2,000</td>
</tr>
</tbody>
</table>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.
A not-for-profit organization (Charity A) raises money for other charitable organizations. Charity A receives $10,000 to distribute to Charity B.

Assume there are no donor rights to revoke or redirect the gift. Prepare the journal entries for Charity A when the gift is received, and for Charity A and Charity B when the gift is distributed.

**Charity A, upon receipt:**

<table>
<thead>
<tr>
<th>Cash</th>
<th>Liability to Charity B</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

**Charity A, when gift is distributed:**

<table>
<thead>
<tr>
<th>Liability to Charity B</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

**Charity B**

<table>
<thead>
<tr>
<th>Cash</th>
<th>Contribution Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.
59. A not-for-profit organization (Charity A) raises money for other charitable organizations. Charity A receives $10,000 to distribute to Charity B.

Assume that the donor retains the right to revoke or redirect the gift. Prepare the journal entries for Charity A and Charity B. The entries should be for the gift when received by Charity A, and when the gift is distributed for Charity B.

<table>
<thead>
<tr>
<th>Charity A, upon receipt:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$10,000</td>
</tr>
<tr>
<td>Refundable Advance from Donor</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Charity B, upon receipt by Charity A:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution Receivable</td>
<td>10,000</td>
</tr>
<tr>
<td>Contribution Revenue</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Charity A, when gift is distributed:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Refundable Advance from Donor</td>
<td>10,000</td>
</tr>
<tr>
<td>Cash</td>
<td>10,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Charity B, when gift is received from Charity A:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>10,000</td>
</tr>
<tr>
<td>Contribution Receivable</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.
A not-for-profit organization provides the following information for the year:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted pledges received this year, due within 12 months</td>
<td>$125,000</td>
</tr>
<tr>
<td>Contributions to the endowment received</td>
<td>20,000</td>
</tr>
<tr>
<td>Percentage of unrestricted pledges expected to be received:</td>
<td>90%</td>
</tr>
<tr>
<td>Collections of pledges before the end of the year</td>
<td>75,000</td>
</tr>
<tr>
<td>Pledges written off at year-end</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Required: Prepare the journal entries for these transactions.

```
Cash                                            20,000
Pledges Receivable                              125,000
  Allowance for Uncollectible Pledges            12,500
  Unrestricted Net Assets – Contributions        112,500
  Permanently Restricted Net Assets – Contributions 20,000

Cash                                            75,000
Allowance for Uncollectible Pledges              3,000
Pledges Receivable                              78,000
```

**AACSB: Analytic**  
**AICPA BB: Industry**  
**AICPA FN: Measurement**  
**Blooms: Apply**  
**Difficulty: 2 Medium**  

*Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.*
61. Wakefield Home is a private not-for-profit healthcare organization offering services for a fee. In the first quarter of 2013, Wakefield Home rendered services of $300,000 to patients. Of this amount 75% will be paid by patients, and $25,000 will be adjusted based on estimated insurance agreements. The remaining amount is to be paid by third party insurance providers.

Record the journal entries that reflect all of this information.

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable-Patients</td>
<td></td>
<td>$225,000</td>
</tr>
<tr>
<td>Accounts Receivable-Third Party</td>
<td></td>
<td>$75,000</td>
</tr>
<tr>
<td>Patients Service Revenues</td>
<td>$300,000</td>
<td></td>
</tr>
<tr>
<td>Contractual Adjustments</td>
<td></td>
<td>$25,000</td>
</tr>
<tr>
<td>Allowance for Contractual Adjustments</td>
<td>$25,000</td>
<td></td>
</tr>
</tbody>
</table>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.

62. Wakefield Home is a private not-for-profit healthcare organization offering services for a fee. In the first quarter of 2013, Wakefield Home rendered services of $300,000 to patients. Of this amount 75% will be paid by patients, and $25,000 will be adjusted based on estimated insurance agreements. The remaining amount is to be paid by third party insurance providers.

A local business donated medical supplies to Wakefield with a value of $40,000. Prepare the journal entry for the receipt of these supplies.

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory of Medical Supplies</td>
<td></td>
<td>$40,000</td>
</tr>
<tr>
<td>Unrestricted Net Assets- Contribution of Material</td>
<td></td>
<td>$40,000</td>
</tr>
</tbody>
</table>

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 18-04 Report the various types of contributions that a private not-for-profit organization can receive.
Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.
Wakefield Home is a private not-for-profit healthcare organization offering services for a fee. In the first quarter of 2013, Wakefield Home rendered services of $300,000 to patients. Of this amount 75% will be paid by patients, and $25,000 will be adjusted based on estimated insurance agreements. The remaining amount is to be paid by third party insurance providers.

The Home incurred the following liabilities: $110,000 salaries, $30,000 medical equipment, $10,000 utilities expense.

Prepare the journal entries for these transactions.

<table>
<thead>
<tr>
<th>Salaries Expense</th>
<th>$110,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries Payable</td>
<td></td>
</tr>
<tr>
<td>Medical Equipment</td>
<td>30,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td></td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>10,000</td>
</tr>
<tr>
<td>Utilities Payable</td>
<td></td>
</tr>
</tbody>
</table>

Learning Objective: 18-03 Explain the purpose and the construction of a statement of functional expenses.

Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.
Wakefield Home is a private not-for-profit healthcare organization offering services for a fee. The home has an endowment and the income may be used to sponsor families that are unable to pay for services but the principal must be preserved. In addition, various fundraising activities take place during the year.

When the Home held its annual Holiday fund raiser, pledges of $50,000 were received. The administration expected 5% to be uncollectible. In addition, income of $10,000 was received from the endowment to sponsor families.

Prepare the journal entries for these transactions.

| Pledges Receivable             | $50,000       |
| Unrestricted Net Assets-Contributions | $47,500       |
| Allowance for Uncollectible Pledges  | 2,500         |
| Investments                    | 10,000        |
| Permanently Restricted Net Assets-Contributions | 10,000        |

AACSB: Analytic  
AICPA BB: Industry  
AICPA FN: Measurement  
Blooms: Apply  
Difficulty: 2 Medium  

Learning Objective: 18-07 Describe the unique aspects of accounting for health care organizations.