

Chapter 2

Fund Accounting

TRUE/FALSE (CHAPTER 2)

1. Fund accounting promotes control and accountability over restricted resources.
2. The basis of accounting determines when transactions and events are recognized.
3. If an entity adopts a full accrual basis of accounting, its measurement focus will automatically be on all economic resources.
4. A government may report some of its funds on a full accrual basis.
5. Funds divide a government into functional departments.
6. General funds are established to account for resources legally restricted for specified purposes.
7. Fiduciary activities only benefit parties other than the government itself.
8. The Financial Accounting Standards Board requires all nongovernmental not-for-profit entities to use fund accounting.
9. In addition to preparing fund financial statements, governments should also prepare consolidated financial statements to provide information on the financial position and operating results of the government as a single economic entity.
10. Fiduciary activities should be reported in fund statements, but should be excluded from the government-wide statements.
11. At first glance, the government-wide statement of activities bears little resemblance to the income statement of a business.
12. In accounting for costs incurred on a major construction project in a capital projects fund, the construction outlays are reported as expenditures, not capital assets.

MULTIPLE CHOICE (CHAPTER 2)

1. What is the primary reason that governmental entities use fund accounting?
 - a) Fund accounting is required by law.
 - b) Fund accounting is required by GAAP.
 - c) Fund accounting promotes control and accountability over restricted resources.
 - d) Fund accounting promotes better control over operating activities.
2. Basis of accounting determines which of the following?
 - a) When transactions and events are recognized.
 - b) What transactions and events will be reported.
 - c) Where transactions and events will be reported.
 - d) Why transactions and events will be reported.
3. A fund is
 - a) A separate legal entity.
 - b) A separate fiscal and accounting entity.
 - c) A separate self-balancing set of accounts for inventory purposes.
 - d) None of the above.
4. Which of the following funds is a fiduciary fund?
 - a) Permanent fund.
 - b) Agency fund.
 - c) Capital project fund.
 - d) Debt service fund.
5. When a governmental entity adopts a basis of accounting other than full accrual and a measurement focus that excludes long-lived assets and liabilities in its governmental fund types:
 - a) It is in violation of the law.
 - b) It is in violation of GAAP.
 - c) It has reported in accordance with GAAP standards for the governmental fund financial statements required by the new GASB reporting model.
 - d) It has the ability to better measure the results of operations.
6. A city receives a donation from a citizen who specifies that the principal must be invested and the earnings must be used to support operations of a city-owned recreational facility. The principal of this gift should be accounted for in which of the following funds?
 - a) Trust fund.
 - b) Special revenue fund.
 - c) Permanent fund.
 - d) Internal service fund.

7. Which of the following is NOT a governmental fund?
 - a) City Hall Debt Service Fund.
 - b) City Utilities Enterprise Fund.
 - c) Gasoline Tax Special Revenue Fund.
 - d) City Hall Capital Project Fund.
8. Which of the following accounts would you least expect to see in a debt service fund?
 - a) Principal payments.
 - b) Interest charges.
 - c) Interest earned.
 - d) Outstanding balance of the debt being serviced.
9. Which of the following funds is a proprietary fund?
 - a) Internal service fund.
 - b) Special revenue fund.
 - c) Capital project fund.
 - d) Permanent fund.
10. Which of the following funds is a governmental fund?
 - a) Enterprise fund.
 - b) Debt service fund.
 - c) Internal service fund.
 - d) Agency fund.
11. Which of the following activities conducted by a city-owned junior college should be accounted for in an agency fund?
 - a) Receipt of tuition payments.
 - b) Receipt of revenues belonging to the student accounting club.
 - c) Receipt of state monies appropriated for general operations.
 - d) Receipt of donations in support of the university's athletic program.
12. Which of the following transactions should the City of Highland account for in a trust fund?
 - a) General fund contributions received by the City pension plan.
 - b) Greens fees received from golfers at the City-owned golf course.
 - c) Grants received from the Federal government to purchase buses to be used for public transit.
 - d) Proceeds of bonds issued to construct a new city hall building.
13. The state collects a gasoline tax that must be used to support highway construction and maintenance. The gasoline tax revenue should be accounted for in which of the following funds?
 - a) General fund.
 - b) Special revenue fund.
 - c) Debt service fund.
 - d) Internal service fund.

14. The City of San Jose built a new city hall and financed construction by issuing bonds due in installments over the next 30 years. The bond principal and interest will be paid by a special tax levied on property in the City. The revenue received from this special tax should be accounted for in which of the following funds?
- a) General fund.
 - b) Internal service fund.
 - c) Capital project fund.
 - d) Debt service fund.
15. Riverside Golf Course is a City-owned golf course that collects greens fees in amounts sufficient to cover its expenses. Riverside Golf Course should be accounted for in which of the following funds?
- a) Internal service fund.
 - b) Enterprise fund.
 - c) General fund.
 - d) Special revenue fund.
16. To fulfill the printing needs of its various departments and agencies, the City has established a Central Print Shop, which bills the various departments and agencies of the city for printing services rendered. The Central Print Shop should be accounted for in which of the following funds.
- a) Internal service fund.
 - b) Enterprise fund.
 - c) General fund.
 - d) Special revenue fund.
17. Which of the following sections is NOT required in the Comprehensive Annual Financial Report of a City?
- a) Financial section.
 - b) Introductory section.
 - c) Statistical section.
 - d) Historical section.
18. The Basic Financial Statements of a city do not include which of the following?
- a) Government-wide Statement of Net Assets.
 - b) Government-wide Statement of Activities.
 - c) Government-wide Statement of Cash Flows.
 - d) Separate balance sheets for governmental and proprietary funds.
19. Which of the following funds is accounted for on the modified accrual basis of accounting?
- a) General fund.
 - b) Internal service fund.
 - c) Proprietary fund.
 - d) Pension trust fund.
20. Which of the following assets would NOT be found in the fund balance sheet of the General Fund of the City of Harrison?
- a) Cash.
 - b) Capital assets.
 - c) Due from Special Revenue Fund.
 - d) Due from State.

21. Which of the following liabilities would NOT be found in the fund balance sheet of the General Fund of the City of Marmaduke?
- a) Accounts payable.
 - b) Due to Special Revenue Fund.
 - c) Deferred revenue.
 - d) Bonds payable, due in 5 years.
22. For which of the following entities is fund accounting mandated?
- a) American Hospital Association.
 - b) City of New York.
 - c) Grace Lutheran Church.
 - d) United Way.
23. The focus of the Statement of Activities of the City of West Hills is on which of the following?
- a) Determining the total expenses by natural classification.
 - b) Determining the total expenses by function.
 - c) Determining the total revenues by function.
 - d) Determining the net cost of functions.
24. Which of the following statements is NOT required in the financial reports of a not-for-profit entity?
- a) Statement of Position.
 - b) Statement of Restricted Funds.
 - c) Statement of Activities.
 - d) Statement of Cash Flows.
25. The primary focus of the Statement of Activities of a not-for-profit organization is on determining the net increase/decrease in which of the following?
- a) Unrestricted Net Assets.
 - b) Temporarily Restricted Net Assets.
 - c) Permanent Net Assets.
 - d) Net Assets of the entity taken as a whole.
26. Under the GASB Statement No. 34 reporting model for governmental entities, which of the following is required?
- a) Only one set of financial statements, prepared on the full accrual basis of accounting.
 - b) Only one set of financial statements, prepared on the modified accrual basis of accounting.
 - c) Two sets of financial statements, one that views the government as a collection of separate funds and reports using the current financial resources measurement focus and modified accrual basis of accounting for governmental funds and one that views the government as a whole by combining all governmental activities in one column and all business-type activities in another column using the full accrual basis of accounting for both columns.
 - d) Two sets of financial statements, one that views the government as a whole using the current financial resources measurement focus and modified accrual basis of accounting and one that views the government by function and combines all governmental activities in one column and all business-type activities in another column using the full accrual basis of accounting for both columns.

27. Under the GASB Statement No. 34 reporting model for governmental entities, the government-wide Statement of Net Assets will display which of the following?
- a) Assets, Liabilities, and Net Assets.
 - b) Assets, Liabilities, and Fund Balances.
 - c) Assets, Liabilities, and Fund Equity.
 - d) Assets, Liabilities, and Owner's Equity.
28. Under the GASB Statement No. 34 reporting model for governmental entities, the focus of the government-wide Statement of Activities is on which of the following?
- a) Program revenues and general revenues.
 - b) Program revenues and expenses.
 - c) Net income.
 - d) The net cost of each of the government's main functions and programs.
29. A not-for-profit entity Statement of Net Assets will NOT report which of the following?
- a) Net assets invested in capital assets net of related debt.
 - b) Capital assets.
 - c) Temporarily restricted net assets.
 - d) Permanently restricted net assets.
30. Which of the following funds of Chessie City would be consolidated to form the governmental activities column in the City's government-wide financial statements?
- a) Its general fund, special revenue fund, and agency fund.
 - b) Its general fund, debt service fund, and capital projects fund.
 - c) Its general fund, enterprise fund, and fiduciary fund.
 - d) Its enterprise fund and internal service fund.
31. Which fund type would all governments normally include in their fund financial statements?
- a) Capital projects funds
 - b) Special revenue funds
 - c) General fund
 - d) Fiduciary funds
32. Under the GASB Statement No. 34 reporting model for governmental entities, fund financial statements include separate sets of financial statements for:
- a) Each major function of the government.
 - b) Governmental funds, proprietary funds, and fiduciary funds.
 - c) Governmental funds, enterprise funds, and internal service funds.
 - d) Governmental funds, special revenue funds, and debt service funds.

33. When a fax machine purchased by a governmental unit is received, it should be recorded in the general fund as a(n)
- a) Expense
 - b) Encumbrance
 - c) Expenditure
 - d) General Capital Asset
34. Which of the following is not included in the financial section of the Comprehensive Annual Financial Report?
- a) Required supplementary information
 - b) Letter of transmittal
 - c) Financial Statements
 - d) Notes to the statements
35. During the current fiscal year, Mountain View City's water utility, an enterprise fund, rendered billings for water supplied to the general fund. Which of the following accounts should be debited by the general fund?
- a) Transfer-out to enterprise fund
 - b) Due to water utility enterprise fund
 - c) Appropriations
 - d) Expenditures

PROBLEMS (CHAPTER 2)

1. Assume that the City of Ft. Smith maintains its books and records in a manner that facilitates the preparation of the fund financial statements. For each of the following events indicate in which fund(s) of the City of Ft. Smith the event would be recorded and justify your fund selection.
 - a. The City collected property taxes levied for the general operations of the City.
 - b. The City collected property taxes levied to pay principal and interest on bonds issued several years in the past to construct a new fire station.
 - c. The City collected property taxes levied on a specific area of the City for the purposes of providing more frequent snow removal than is enjoyed by the rest of the City.
 - d. The City sold bonds to finance the construction of a new City Hall.
 - e. The City sold bonds to finance major renovations at the city-owned electric utility.
 - f. The City purchased a street sweeping machine.
2. Assume that the City of Amber maintains its books and records in a manner that facilitates the preparation of the fund financial statements. Amber City maintains a general fund, a capital projects fund, and a special revenue fund. During the current fiscal year, the City engaged in the following transactions. Record all transactions. Be sure to clearly indicate the fund in which the entry is made.
 - a. The City sold bonds, face value \$26 million, at par to finance the construction of a new City Hall.
 - b. The City purchased two new police cars at a total cost of \$50,000.
 - c. The City collected \$8,000 in taxes dedicated for the eradication of noxious weeds.
 - d. The City spent \$6,000 on pesticides for noxious weeds.
 - e. The City acquired a new tractor for \$80,000. The City paid \$20,000 in cash and signed a note that is due in three years.
3. Assume that Blackfoot County maintains its books and records in a manner that facilitates the preparation of the fund financial statements. Blackfoot County engaged in the following transactions during the current month. Prepare journal entries in the general fund to record these events.
 - a. Paid salaries to County employees, \$100,000.
 - b. Borrowed \$35,000 on a three-year note from a local bank to use to buy a County car.
 - c. Purchased the County car for \$35,000.
 - d. Made a \$7,000 payment on outstanding accounts payable.
 - e. Collected \$3,500,000 of the current property tax levy.
 - f. Received a \$50,000 grant from the State to support general government activities.

4. Kayla Township issued the following bonds during the year:
 - Ten-year bonds to acquire equipment for a data processing service reported in an internal service fund \$2,000,000
 - Bonds to construct a new police station \$9,000,000
 - Bonds to increase the capacity of the water treatment plant reported in an enterprise fund \$4,800,000
- a. The amount of debt reported in the Township's general fund is:
 1. \$0
 2. \$9,000,000
 3. \$11,000,000
 4. \$15,800,000
- b. The Township should report depreciation expense related to the new capital assets in these funds:
 1. The general fund
 2. The enterprise fund
 3. The enterprise and internal service funds
 4. The capital projects fund
- c. The bonds issued to construct the new police stations should be reported as:
 1. Debt proceeds in the general fund
 2. Long-term debt in the debt service fund
 3. Debt proceeds in the capital projects fund
 4. None of the above
- d. In accordance with bond covenants, the Township sets aside \$1,000,000 to help assure that it is able to meet its first payment of principal and interest on the police station debt due one year from the date the bonds were issued. The amount of liability that the Township should report in its debt service fund is:
 1. \$0
 2. \$1,000,000
 3. \$9,000,000
 4. \$8,000,000

5. A newly established Chessie Foundation engaged in the following transactions:
1. A donor made a \$1,000,000 pledge, giving the organization a legally enforceable 90-day note for the full amount.
 2. The same donor paid \$500,000 of the amount pledged.
 3. The Foundation purchased a building for \$900,000, paying \$90,000 in cash and giving a ten-year mortgage for the balance. The building has a 25-year useful life. The organization charges a half-year's depreciation for all assets in the year they are acquired.
 4. The organization hired five employees. At year-end, these employees had earned \$10,000 in salaries and wages for which they had not been paid.
- The Foundation accounts for its activities in a single fund.

- a. Prepare journal entries to record the transactions, making the following alternative assumptions as to the organization's measurement focus:
- Cash only
 - Cash plus other current financial resources (cash plus short-term receivables less short-term payables)
 - All economic resources
- b. Based on your entries, prepare appropriate operating statements and balance sheets for the organization.

6. Katerah City maintains the following funds:

1. General
2. Special revenue
3. Capital projects
4. Debt service
5. Enterprise
6. Investment trust
7. Permanent
8. Agency

For each of the following transactions, indicate which fund would most likely be used to report the transaction:

- a. The City collects \$1 million of taxes for an independent fire district located within the City.
- b. The City spends \$1.2 million on street maintenance using the proceeds of a city gas tax dedicated for road and highway maintenance and improvements.
- c. The City receives a bequest of \$1.5 million. The donor's Will, requires that the principal amount be invested in perpetuity and that the earnings on the investment be used to maintain a city park to be renamed for the donor.
- d. The City collects water and sewer fees of \$4.2 million.
- e. The City pays \$4 million to a contractor for work on the new bridge.
- f. The City receives \$1.3 million to invest on behalf of the County.
- g. The City pays its police officers wages of \$325,000.
- h. The City pays \$2.2 million in Bond Interest on its general obligation debt.

7. The Geneva Housing Authority, a governmental entity, accounts for its activities on a modified accrual basis of accounting. In the current period, it reports the following transactions:

- The Authority issues \$2.5 million in long-term bonds.
- The Authority purchases 4 acres of land for \$500,000 in cash.
- It sells one of these acres of land for \$125,000 in cash.
- It made a \$325,000 payment on the debt, consisting of \$75,000 of interest and \$250,000 in principal.
- It lost a lawsuit filed by one of its renters and was ordered to pay \$1 million in damages over 5 years. It made its first cash payment of \$200,000.

1. Prepare journal entries to record each of these transactions in the general fund.
2. Based on your entries, prepare a balance sheet and statement of revenues, expenditures, and changes in fund balance for the general fund.
3. Comment on how these statements capture the Authority's economic resources and obligations.
4. Comment on the extent to which the statement of revenues, expenditures, and changes in fund balances captures the Authority's costs of services.
5. When the Authority prepares GAAP financial statements based on GASB Statement No. 34, what assets and liabilities would be added in the Authority's government-wide Statement of Net Assets? What gains and losses would be added in its government-wide Statement of Activities?

8. The newly established Environmental Council (a not-for-profit organization) uses two funds for internal reporting purposes. The general fund is used to record day-to-day operating transactions. A building fund is used to accumulate resources for a new building to house the Council's operations. Both funds are reported using the accrual basis of accounting. In its first year, the Council engaged in the following transactions:

1. It received cash contributions of \$500,000, \$100,000 of which donors stipulate must be used for the new building.
 2. It incurred operating payroll costs of \$200,000, of which \$180,000 is paid in cash.
 3. It earned \$1,000 in interest (paid in cash) on investments restricted to the acquisition of the new building.
 4. It transferred \$25,000 from its general fund to the building fund.
 5. It paid \$15,000 in fees (accounted for as expenses) for architectural drawings for the proposed building.
- a. Prepare journal entries to record the transactions. Be sure to indicate the fund in which the entry would be made.
 - b. Prepare a statement of revenues, expenses and other changes in fund balances and a balance sheet. Use a two-column format, one column for each of the Council's two funds.

ESSAYS (CHAPTER 2)

1. Why do governments and not-for-profit entities use fund accounting?
2. Governments use the modified accrual basis of accounting and a current financial resources measurement focus when presenting the governmental fund financial statements but they use the accrual basis of accounting and the flow of economic resources for the government-wide financial statements. What is a basis of accounting? What is measurement focus? How does the selection of one affect the selection of the other?
3. For what purposes do governmental entities use agency funds? What are the distinguishing characteristics of agency funds?
4. The Basic Financial Statements for Ammon City contains the following statements. For each statement identify the appropriate measurement focus and basis of accounting.
 - a.) Government-wide Statement of Net Assets
 - b.) Government-wide Statement of Activities
 - c.) Balance Sheet—Governmental Funds
 - d.) Statement of Revenues, Expenditures, and Changes in Fund Balance—Governmental Funds
 - e.) Statement of Net Assets—Proprietary Funds
 - f.) Statement of Revenues, Expenses, and Changes in Fund Net Assets—Proprietary Funds
5. The activities of an internal service fund are presented on the Statement of Revenues, Expenses, and Changes in Fund Net Assets in the fund financial statements. Why?
6. What are the three categories of restrictions that must be used to report the resources of not-for-profit organizations? Who must impose the restrictions in order for them to be reported?
7. Why are long-term debts generally **not** reported in a government's debt service funds?
8. What are fiduciary funds? Why don't governments incorporate (consolidate) these funds into their government-wide financial statements?
9. The City of Orlando maintains funds for debt service, capital projects and special revenues. It does not, however, maintain funds for police, recreation, and general administration. Why do you suppose it does not maintain a separate fund for each of its functional areas?
10. GASB 34 mandates that the government reconcile total governmental fund balances per the fund balance sheet with net assets of governmental activities per the government-wide statements. What are likely to be the two largest reconciling items for most major cities? Why?

ANSWERS TO TRUE/FALSE (CHAPTER 2)

1. True
2. True
3. True
4. True
5. False
6. False
7. True
8. False
9. True
10. True
11. True
12. True

ANSWERS TO MULTIPLE CHOICE (CHAPTER 2)

1. c
2. a
3. b
4. b
5. c
6. c
7. b
8. d
9. a
10. b
11. b
12. a
13. b
14. d
15. b
16. a
17. d
18. c
19. a
20. b
21. d
22. b
23. d
24. b
25. d
26. c
27. a
28. d
29. a
30. b
31. c
32. b
33. c
34. b
35. d

ANSWERS TO PROBLEMS (CHAPTER 2)

Problem 1

- a. General Fund. The general fund is used to account for the general activities of a governmental entity.
- b. Debt Service Fund. The debt service fund is used to account for payments of principal and interest on debt incurred to finance general government activities.
- c. Special Revenue Fund. The proceeds may only be used for snow removal. By accounting for these proceeds in a special revenue fund and accounting for the expenditures of the proceeds the entity can demonstrate that it used these resources for the purpose required.
- d. Capital Project Fund. A new City Hall is a general government asset. The Capital Project Fund is used to account for the resources held for the purpose of construction and/or acquisition of major capital facilities. It is also used to account for the construction and/or acquisition of those assets.
- e. Enterprise Fund. Normally, governments use enterprise funds to account for activities for which there comparable activities in the private sector. If the electric utility is accounted for in an enterprise fund, all fixed assets and all long-term debt associated with those activities will be accounted for in the enterprise fund.
- f. General Fund. The general fund is used to account for the general activities of a government. However, only the cost (expenditure) of the machine would be reported in this fund. The machine (a capital asset) is reported only in the government-wide financial statements.

Problem 2

- | | | |
|--------------------------|--------------|--------------|
| a. CAPITAL PROJECTS FUND | | |
| Cash | \$26 million | |
| Bond proceeds | | \$26 million |
| b. GENERAL FUND | | |
| Vehicle expenditure | \$ 50,000 | |
| Cash | | \$ 50,000 |
| c. SPECIAL REVENUE FUND | | |
| Cash | \$ 8,000 | |
| Tax revenue | | \$ 8,000 |
| d. SPECIAL REVENUE FUND | | |
| Expenditures for weeds | \$ 6,000 | |
| Cash | | \$ 6,000 |
| e. GENERAL FUND | | |
| Tractor expenditure | \$80,000 | |
| Proceeds of note | | \$ 60,000 |
| Cash | | 20,000 |

Problem 3

| | | | |
|----|-------------------------|-------------|-------------|
| a. | Expenditures-salaries | \$100,000 | |
| | Cash | | \$100,000 |
| b. | Cash | \$ 35,000 | |
| | Proceeds of notes | | \$ 35,000 |
| c. | Automobile expenditure | \$ 35,000 | |
| | Cash | | \$ 35,000 |
| d. | Accounts payable | \$ 7,000 | |
| | Cash | | \$ 7,000 |
| e. | Cash | \$3,500,000 | |
| | Tax revenue or | | |
| | Property tax receivable | | \$3,500,000 |
| f. | Cash | \$ 50,000 | |
| | Grant revenue | | \$ 50,000 |

Problem 4

- a. 1
- b. 3
- c. 3
- d. 1

Problem 5

a. Focus on cash

(1)

No entry necessary — no cash involved.

(2)

| | | |
|---|------------|------------|
| Cash | \$ 500,000 | |
| Contribution revenues | | \$ 500,000 |
| <i>To record the partial collection of the note</i> | | |

(3)

| | | |
|--|-----------|-----------|
| Building acquisition expenditure | \$ 90,000 | |
| Cash | | \$ 90,000 |
| <i>To record the cash paid to acquire the building</i> | | |

(4)

No entry necessary — no cash involved

Focus on cash plus current financial resources

(1)

| | | |
|------------------------------------|-------------|-------------|
| Note receivable | \$1,000,000 | |
| Contribution revenue | | \$1,000,000 |
| <i>To record the note received</i> | | |

(2)

| | | |
|---|------------|------------|
| Cash | \$ 500,000 | |
| Note receivable | | \$ 500,000 |
| <i>To record the partial collection of the note</i> | | |

(3)

| | | |
|---|-----------|-----------|
| Building acquisition expenditure | \$ 90,000 | |
| Cash | | \$ 90,000 |
| <i>To record the cash paid to acquire the building (No recognition is given to the long-term note or to the building, a long-term asset.)</i> | | |

(4)

| | | |
|---|-----------|-----------|
| Wage expenditure | \$ 10,000 | |
| Wages payable | | \$ 10,000 |
| <i>To record the wages earned by employees, but not yet paid.</i> | | |

Focus on all economic resources

(1)

| | | |
|------------------------------------|-------------|-------------|
| Note receivable | \$1,000,000 | |
| Contribution revenue | | \$1,000,000 |
| <i>To record the note received</i> | | |

(2)

| | | |
|---|------------|------------|
| Cash | \$ 500,000 | |
| Note receivable | | \$ 500,000 |
| <i>To record the partial collection of the note</i> | | |

(3)

| | | |
|--|------------|-----------|
| Building | \$ 900,000 | |
| Cash | | \$ 90,000 |
| Mortgage note payable | | 810,000 |
| <i>To record the acquisition of the building</i> | | |

| | | |
|---|-----------|-----------|
| Depreciation expense | \$ 18,000 | |
| Accumulated depreciation | | \$ 18,000 |
| <i>To record depreciation on the building</i> | | |

(4)

| | | |
|--|-----------|-----------|
| Wage expense | \$ 10,000 | |
| Wages payable | | \$ 10,000 |
| <i>To record the wages earned by employees, but not yet paid</i> | | |

b.

Statements of Revenues and Expenditures

| | <u>Cash</u> | <u>Current Financial Resources</u> | <u>All Economic Resources</u> |
|---|------------------|--|---------------------------------------|
| Contribution revenue | <u>\$500,000</u> | <u>\$1,000,000</u> | <u>\$1,000,000</u> |
| Building acquisition | | | |
| expenditure (or depreciation expense) | 90,000 | 90,000 | \$ 18,000 |
| Wage expenditure/expense | <u>0</u> | <u>10,000</u> | <u>10,000</u> |
| Total expenditures/expenses | <u>90,000</u> | <u>100,000</u> | <u>28,000</u> |
| Excess of revenues over expenditures/expenses | <u>\$410,000</u> | <u>\$ 900,000</u> | <u>\$ 972,000</u> |

Balance Sheets

| | <u>Cash</u> | <u>Current Financial Resources</u> | <u>All Economic Resources</u> |
|--|------------------|--|---------------------------------------|
| <u>Assets</u> | | | |
| Cash | \$410,000 | \$ 410,000 | \$ 410,000 |
| Note receivable | | 500,000 | 500,000 |
| Building (less accumulated depreciation) | | | 882,000 |
| Total assets | <u>\$410,000</u> | <u>\$ 910,000</u> | <u>\$1,792,000</u> |
| <u>Liabilities and Fund Balance</u> | | | |
| Wages payable | | \$ 10,000 | \$ 10,000 |
| Mortgage note payable | | | 810,000 |
| Fund balance | <u>410,000</u> | <u>900,000</u> | <u>972,000</u> |
| Total liabilities and fund balance | <u>\$410,000</u> | <u>\$ 910,000</u> | <u>\$1,792,000</u> |

Problem 6

- a. 8
- b. 2
- c. 7
- d. 5
- e. 3
- f. 6
- g. 1
- h. 4

Problem 7

1. Journal entries in Authority's general fund

(1)

| | | |
|--|-------------|-------------|
| Cash | \$2,500,000 | |
| Proceeds from borrowing | | \$2,500,000 |
| <i>To record the issuance of bonds</i> | | |

(2)

| | | |
|---------------------------------------|------------|------------|
| Expenditure for land | \$ 500,000 | |
| Cash | | \$ 500,000 |
| <i>To record the purchase of land</i> | | |

(3)

| | | |
|-------------------------------|------------|------------|
| Cash | \$ 125,000 | |
| Proceeds from sale of land | | \$ 125,000 |
| <i>To record sale of land</i> | | |

(4)

| | | |
|-------------------------------------|------------|------------|
| Repayment of bonds (expenditure) | \$ 325,000 | |
| Cash | | \$ 325,000 |
| <i>To record repayment of bonds</i> | | |

(5)

| | | |
|--------------------------------------|------------|------------|
| Legal claims (expenditure) | \$ 200,000 | |
| Cash | | \$ 200,000 |
| <i>To record payment of judgment</i> | | |

2. Modified accrual statements

Geneva Housing Authority
Balance Sheet

| | |
|--------------|--------------------|
| Cash | <u>\$1,600,000</u> |
| Fund Balance | <u>\$1,600,000</u> |

Geneva Housing Authority
Statement of Revenues, Expenditures and Changes in Fund Balance

| | |
|--|------------------------|
| <i>Revenues and other financing sources</i> | |
| Bond proceeds | \$2,500,000 |
| Proceeds from sale of land | <u>125,000</u> |
| Total revenues and other financing sources | <u>2,625,000</u> |
| <i>Expenditures and other financing uses</i> | |
| Repayment of bonds | 325,000 |
| Acquisition of land | 500,000 |
| Legal claims | <u>200,000</u> |
| Total expenditures and other financing uses | <u>1,025,000</u> |
| Excess of revenues and other financing sources over expenditures and other financing uses | <u>\$1,600,000</u> |

3. The governmental fund balance is not intended to report economic resources. Rather it reports current financial resources—current financial resources available to meet current obligations. Only the government-wide statements measure all economic resources—including capital assets and long-term obligations.
4. The governmental fund statement of revenues, expenditures and other financing sources does not measure the cost of services (e.g., it recognizes borrowings as an increase in fund balance and the full cost of acquiring capital assets as a decrease). It is not designed to do so. Instead it is designed to report on flows of current financial resources.
5. In its GAAP government-wide Statement of Net Assets, the Authority would report its capital assets (land) and long-term liabilities (long-term debt and claims and judgments). In the Statement of Activities, the Authority would report a gain on the sale of land and a loss related to the renter's lawsuit. The government-wide statements are prepared using the accrual basis of accounting and therefore measure all economic resources, not just current financial resources.

Problem 8

a. Journal entries

(1)

| | | |
|--|-----------|-----------|
| Cash | \$400,000 | |
| Contribution revenues | | \$400,000 |
| <i>To record contribution revenue (general fund)</i> | | |

| | | |
|---|-----------|-----------|
| Cash | \$100,000 | |
| Contribution revenues | | \$100,000 |
| <i>To record contribution revenue (building fund)</i> | | |

(2)

| | | |
|--|-----------|-----------|
| Operating expenditures | \$200,000 | |
| Cash | | \$180,000 |
| Salaries payable | | 20,000 |
| <i>To record payroll expenditures (general fund)</i> | | |

(3)

| | | |
|---|----------|----------|
| Cash | \$ 1,000 | |
| Interest revenue | | \$ 1,000 |
| <i>To record interest revenue (building fund)</i> | | |

(4)

| | | |
|---|-----------|-----------|
| Transfer to building fund | \$ 25,000 | |
| Cash | | \$ 25,000 |
| <i>To record transfer-out to building fund (general fund)</i> | | |

| | | |
|--|-----------|-----------|
| Cash | \$ 25,000 | |
| Transfer-in from general fund | | \$ 25,000 |
| <i>To record transfer-in from general fund (building fund)</i> | | |

(5)

| | | |
|---|-----------|-----------|
| Expenditures for architectural services | \$ 15,000 | |
| Cash | | \$ 15,000 |
| <i>To record fees paid to architect (building fund)</i> | | |

b. Financial Statements

Environmental Council
Statement of Revenues, Expenses and Other Changes in Fund Balance

| | <u>General Fund</u> | <u>Building Fund</u> |
|--------------------------------------|-------------------------|--------------------------|
| <u>Revenues</u> | | |
| Contribution revenue | \$400,000 | \$100,000 |
| Interest | | <u>1,000</u> |
| Total revenues | 400,000 | 101,000 |
| <u>Expenditures</u> | | |
| Operating expenditures | 200,000 | |
| Architecture services | | <u>15,000</u> |
| Excess of revenues over expenditures | 200,000 | 86,000 |
| Transfers from (to) other funds | <u>(25,000)</u> | <u>25,000</u> |
| Increase in fund balance | <u>\$175,000</u> | <u>\$ 111,000</u> |

Environmental Council
Balance Sheet

| | <u>General Fund</u> | <u>Building Fund</u> |
|-------------------------------------|-------------------------|--------------------------|
| <u>Assets</u> | | |
| Cash | <u>\$ 195,000</u> | <u>\$111,000</u> |
| <u>Liabilities and fund balance</u> | | |
| Salaries payable | \$ 20,000 | |
| Fund balance | <u>175,000</u> | <u>\$111,000</u> |
| Total liabilities and fund balance | <u>\$195,000</u> | <u>\$111,000</u> |

ANSWERS TO ESSAYS (CHAPTER 2)

1. Governmental and not-for-profit entities use fund accounting to demonstrate accountability. By segregating the assets, entities are able to demonstrate clearly that the assets were used for the intended purposes. By segregating certain activities, governments can better control the revenues and expenditures/expenses of these activities. It would not be uncommon for governments and not-for-profit entities to segregate assets whose use is restricted by outside donors, nor would it be uncommon for these entities to segregate the revenues and expenses of activities that are supposed to be self-supporting.
2. Basis of accounting determines WHEN transactions and events are recognized. Measurement focus determines WHAT is being reported upon. If an entity selects the cash basis of accounting, its measurement focus will necessarily be upon the flow of cash. If an entity selects full accrual accounting its measurement focus will, of course, be upon flow of economic resources. An entity must first decide WHAT assets and liabilities it wants to display and choose a basis of accounting that will then enable the entity to display those assets and liabilities.
3. Agency funds are used to account for assets that the governmental entity holds temporarily on behalf of other governments, private organizations, or individuals. Agency funds are mechanisms for segregating, on financial reports, assets held for others to demonstrate accountability and stewardship. Because agency funds are merely lists of assets held for others, with a corresponding obligation to those parties, agency funds have no operating accounts and no equity accounts. Assets = liabilities is the accounting equation.
4.
 - a.) Economic Resources; Accrual
 - b.) Economic Resources; Accrual
 - c.) Current Financial Resources; Modified Accrual
 - d.) Current Financial Resources; Modified Accrual
 - e.) Economic Resources; Accrual
 - f.) Economic Resources; Accrual
5. The activities of an internal service fund are presented on the Statement of Revenues, Expenses, and Changes in Fund Net Assets because they are part of the proprietary fund category. Proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting to provide information about the full cost of the activities reported in those funds.
6. Temporarily restricted, permanently restricted, and unrestricted resources. Temporarily restricted resources are those that must be used for a specific purpose (for example, to support donor-designated programs or activities) or cannot be spent until some time in the future (for example, when a donor makes good on a pledge). Permanently restricted resources are typically endowments, only the income from which can be spent. Unrestricted funds, of course, are not subject to restrictions. The restrictions are based only on donor mandates. Restrictions imposed by other parties (for example, creditors) are not taken into account for purposes of resource classification.

7. There are generally no long-term debts reported in the debt service fund because these funds are maintained on the modified accrual basis of accounting to account only for the current financial resources that will be used to pay the interest and principal on long-term debts. These resources are set apart from other resources because they can only be used for their specified purposes. The principal and interest payments on the long-term debt that are currently due and payable are reported in the debt service fund that will service the long-term debt.
8. Fiduciary funds are used to account for resources held by the government as either a trustee (a party that administers property for a beneficiary) or an agent (one who acts on behalf of another). Governments do not incorporate (consolidate) fiduciary funds into their government-wide financial statements because they benefit only outsiders and a government cannot expect to have use of their resources.
9. Funds are not maintained for organizational units. They are established only for resources that are restricted. Typically the resources for the key functional areas are provided by unrestricted tax revenues.
10. Long-lived assets and long-term liabilities. These are recorded on the government-wide statements but not the fund statements as the former are on a full accrual basis but the latter are on a modified accrual basis.