

## Chapter 9 – Advanced Accounting, 1<sup>st</sup> edition by Hamlen, Huefner, and Largay

### Solutions to Practice Quiz

1. Topic: Governmental reporting entity  
LO 1  
Which of the following entities is *least* likely to be included as a component unit in a county government's financial statements?
  - a. County library, funded by general obligation bonds
  - b. County medical center, funded by bonds guaranteed by the county
  - c. County water authority, funded by debt secured by water revenues
  - d. County building authority, whose board members are appointed by the county

ANS: c

Rationale: The water authority's debt is secured by its future water revenues; the county is liable for the debt or controls the board of the other entities.

2. Topic: Sources of GAAP for state and local governments  
LO 1  
The GAAP hierarchy lists which source of authoritative accounting guidance as Level 1?
  - a. AICPA *Practice Bulletins*
  - b. GASB *Implementation Guides*
  - c. GASB *Technical Bulletins*
  - d. GASB *Statements and Interpretations*

ANS: d

Rationale: GASB *Statements and Interpretations* are established by SGAS 55 as Level 1 in the GAAP hierarchy.

3. Topic: Fund types and reporting structure

LO 2

Governments often provide goods and services to citizens or other governmental units at a fee. These activities are accounted for in:

- a. The general fund
- b. Governmental funds
- c. Proprietary funds
- d. Special revenue funds

ANS: c

Rationale: Goods and services provided for a fee are reported in proprietary funds. If the customer is another governmental unit, an internal service fund is used. If the customer is the public, an enterprise fund is used.

4. Topic: Fund types and reporting structure

LO 2

Which of the following fund types does *not* report the payment of bond principal as an expenditure?

- a. Special revenue fund
- b. Enterprise fund
- c. Debt service fund
- d. General fund

ANS: b

Rationale: Special revenue, debt service, and general fund are governmental funds using modified accrual accounting. Payment of bond principal and interest both reduce fund balance, and the payment is reported as an expenditure. Enterprise funds use full accrual accounting, and payment of bond principal reduces the bond liability.

5. Topic: Fund types and reporting structure

LO 2

Payment of salaries and wages to the staff of the county controller's office is typically reported in the:

- a. General fund
- b. Internal service fund
- c. Special revenue fund
- d. Agency fund

ANS: a

Rationale: General administrative costs are usually reported in the general fund.

**Use the following information to answer questions 6 – 10:**

A county's general fund trial balance at the beginning of the year is as follows:

	<b>Dr (Cr)</b>
Cash	\$ 42,000
Fund balance—unreserved	(42,000)
Total	\$ -0-

The following events occur during the year:

- a. The budget is \$1,100,000 in estimated revenues, \$125,000 in estimated other financing sources, and \$1,230,000 in estimated expenditures.
- b. Property tax bills of \$1,150,000 were sent out. Uncollectible taxes were estimated at \$50,000. Cash of \$1,080,000 was collected during the year.
- c. General expenditures for salaries, wages and supplies are \$1,200,000, paid in cash.
- d. The general fund issues general obligation bonds at par, receiving \$120,000 in cash.
- e. Equipment costing \$28,000 was purchased for cash.
- f. It is estimated that 80% of uncollected taxes at year-end are uncollectible.

6. Topic: General fund accounting, budget entry

LO 3

How does the beginning-of-year budget entry affect the fund balance—unreserved account?

- a. No effect
- b. \$ 5,000 credit
- c. \$ 5,000 debit
- d. \$130,000 debit

ANS: c

Rationale: The budget entry is as follows:

Estimated revenues	1,100,000	
Estimated other financing sources	125,000	
Fund balance—unreserved	5,000	
Appropriations		1,230,000

7. Topic: General fund accounting, property tax revenues  
LO 3

Property tax revenues for the year are:

- a. \$1,100,000
- b. \$1,094,000
- c. \$1,150,000
- d. \$1,106,000

ANS: b

Rationale: The entries related to property taxes are:

Cash	1,080,000	
Property taxes receivable	70,000	
Allowance for uncollectible taxes		50,000
Property tax revenues		1,100,000

Adjust the allowance to 80% of \$70,000 = \$56,000:

Property tax revenues	6,000	
Allowance for uncollectible taxes		6,000

Property tax revenues balance:  $\$1,100,000 - \$6,000 = \$1,094,000$ .

8. Topic: General fund accounting, closing entries  
LO 3  
What net effect do the general fund's end-of-year closing entries have on fund balance—unreserved?
- \$ 9,000 debit
  - \$11,000 debit
  - \$16,000 credit
  - \$37,000 credit

ANS: a

Rationale: The general fund's closing entries are:

Property tax revenues	1,094,000	
Other financing sources	120,000	
Fund balance—unreserved	11,000	
Estimated revenues		1,100,000
Estimated other financing sources		125,000
Appropriations	1,230,000	
Expenditures		1,228,000
Fund balance—unreserved		2,000

Net effect on fund balance—unreserved: \$11,000 debit - \$2,000 credit = \$9,000 debit.

9. Topic: General fund accounting, operating statement  
LO 3  
The general fund's statement of revenues, expenditures, and changes in fund balances reports total expenditures of
- \$1,230,000
  - \$1,200,000
  - \$1,250,000
  - \$1,228,000

ANS: d

Rationale: Total expenditures = \$1,200,000 + \$28,000 = \$1,228,000

10. Topic: General fund accounting, operating statement  
LO 3

The general fund's statement of revenues, expenditures, and changes in fund balances reports net other financing sources (uses) of:

- a. \$ 28,000 net other financing uses
- b. \$120,000 net other financing sources
- c. \$ 92,000 net other financing sources
- d. \$0

ANS: b

Rationale: Total net other financing sources = the bond proceeds of \$120,000.