

Chapter 10– Advanced Accounting, 1st edition by Hamlen, Huefner, and Largay

Solutions to Practice Quiz

1. Topic: Special purpose activities
LO 1

In 2012, a city receives \$5,000,000 in funding from a private foundation, to finance summer art programs for children. Income from any investments of this funding must be used for these programs. During 2012, the city invests \$4,000,000, earns \$70,000 in investment income, and spends \$50,000 on summer art programs. At the end of 2012, how does the city report fund balance for the fund used to account for these activities, if (1) the \$5,000,000 is a permanent endowment, or (2) the \$5,000,000 is not an endowment and can be spent in its entirety?

	Fund bal.-reserved for programs	Fund bal.-reserved for endowment
a. (1)	\$ 20,000	\$5,000,000
(2)	\$5,020,000	\$0
b. (1)	\$4,020,000	\$1,000,000
(2)	\$5,020,000	\$0
c. (1)	\$ 20,000	\$5,000,000
(2)	\$4,020,000	\$1,000,000
d. (1)	\$5,020,000	\$0
(2)	\$ 20,000	\$5,000,000

ANS: a

Rationale: Here are the fund balance sheets:

(1) Permanent fund

Cash-income	\$ 20,000	Fund balance-	
Cash-endowment	1,000,000	reserved for endow.	\$5,000,000
Investments	4,000,000	Fund balance-	
		reserved for programs	<u>20,000</u>
Total	<u>\$5,020,000</u>	Total	<u>\$5,020,000</u>

(2) Special revenue fund

Cash-programs	\$1,020,000	Fund balance-	
Investments	<u>4,000,000</u>	reserved for programs	<u>\$5,020,000</u>
Total	<u>\$5,020,000</u>	Total	<u>\$5,020,000</u>

Use the following information to answer questions 2 and 3:

A county begins constructing an addition to its library in 2012. Total cost is expected to be \$10,000,000, financed by \$8,000,000 in general obligation bonds, and \$2,000,000 in state and federal grants. During 2012, the bonds are issued at par, \$1,800,000 of the grant is received, the contract for construction of the addition is awarded to the lowest bidder, in the amount of \$9,500,000, the city receives bills for \$3,000,000 for work performed, and pays \$2,900,000 to the contractor.

2. Topic: Capital projects fund
LO 2

The capital projects fund 2012 statement of revenues, expenditures, and changes in fund balances reports a total change in fund balances of:

- a. \$10,000,000
- b. \$ 7,000,000
- c. \$ (1,000,000)
- d. \$ 6,900,000

ANS: b

Rationale: The capital projects fund statement of revenues, expenditures, and changes in fund balances is as follows:

Grant revenue	\$ 2,000,000
Expenditures	<u>(3,000,000)</u>
Excess of expenditures over revenue	(1,000,000)
Other financing sources	
Bond proceeds	<u>8,000,000</u>
Change in fund balances	\$7,000,000

3. Topic: Capital projects fund
LO 2

The capital projects fund balance sheet at the end of 2012 reports fund balances as:

- a. Fund balance-unreserved, \$6,900,000
- b. Fund balance-reserved for encumbrances, \$6,600,000; fund balance-unreserved, \$500,000
- c. Fund balance-reserved for encumbrances, \$8,000,000
- d. Fund balance-reserved for encumbrances, \$6,500,000; fund balance-unreserved, \$500,000

ANS: d

Rationale: The capital projects fund balance sheet at the end of 2012 is:

Cash	\$6,900,000	Accounts payable	\$ 100,000
Grant receivable	200,000	Fund balance-	
		reserved for encumbrances	6,500,000
		Fund balance-unreserved	<u>500,000</u>
Total	<u>\$7,100,000</u>	Total	<u>\$7,100,000</u>

4. Topic: Debt service fund
LO 3

During 2012, a county debt service fund receives \$5,000,000 from the general fund for budgeted payment of principal and interest on general obligation bonds. The debt service fund makes \$4,000,000 in interest and \$1,000,000 in principal payments. How is this reported on the debt service fund's 2012 operating statement?

- a. Expenditures, \$4,000,000; Revenues, \$5,000,000
- b. Expenditures, \$4,000,000; Other financing sources, \$5,000,000
- c. Expenditures, \$5,000,000; Other financing sources, \$5,000,000
- d. Expenditures, \$5,000,000; Revenues \$5,000,000

ANS: c

Rationale: Transfers from the general fund are other financing sources. Payments for both principal and interest are expenditures.

5. Topic: Debt service fund
LO 3

A county government borrows \$1,000,000 from a local bank in early 2012, to fund general operations. The proceeds are reported in the general fund. Payments for principal and interest are accounted for in the debt service fund. Principal and \$100,000 in interest (\$50,000 per year) are both due with the loan is repaid at the end of 2013. The debt service fund makes the payment of \$1,100,000 in 2013. How does the debt service fund's operating statement report these events in 2012 and 2013?

	2012	2013
a.	\$ 50,000 expenditure	\$ 50,000 expenditure
b.	--	\$1,100,000 expenditure
c.	--	\$ 100,000 expenditure
d.	\$1,000,000 revenue	\$1,100,000 expenditure

ANS: b

Rationale: The debt service fund does not accrue interest. It reports both principal and interest payments as expenditures when paid.

6. Topic: Proprietary funds
LO 4

Activities of a county recreation center are reported in an enterprise fund. During 2012, \$5,000,000 is spent on equipment and bonds are issued for \$3,000,000. How are these two transactions reported on the enterprise fund's operating statement?

- a. No effect
- b. Revenues, \$3,000,000; Expenditures, \$5,000,000
- c. Other financing sources, \$3,000,000
- d. Other financing sources, \$3,000,000; Expenditures, \$5,000,000

ANS: a

Rationale: Enterprise funds use full accrual accounting. Equipment is capitalized as an asset, and bond issuance is a liability. There is no effect on revenues and expenses.

7. Topic: Agency funds

LO 5

Financial statements for an agency fund are:

- a. A statement of changes in net assets and a statement of net assets
- b. A statement of revenues, expenditures, and changes in fund balances, and a balance sheet
- c. A statement of net assets only
- d. A statement of changes in net assets only

ANS: c

Rationale: Agency funds are fiduciary funds, but they have no net assets, and therefore do not appear on the statement of changes in net assets.

8. Topic: Investments

LO 6

Unrealized gains and losses on investments held by a state or local government are reported on the operating statement

- a. Only if they are changes in the market value of derivative investments classified as qualified hedges
- b. Only if they are changes in the market value of investments that are hedged by derivative investments
- c. Only if they are investments held by enterprise funds; investments by governmental funds are reported as expenditures
- d. For all investments held by any type of fund

ANS: d

Rationale: *SGAS 31* requires investments to be reported at fair value, when readily determinable, regardless of the fund in which the investments are reported.

9. Topic: Compensated absences

LO 6

A county's general fund reports its liability for employee vacation pay, paid holidays, and sick pay at a much smaller amount than that reported by the county's enterprise funds. The most likely reason for the difference is that:

- a. Enterprise funds accrue compensated absences earned by employees, while the general fund only reports compensated absence costs paid or to be paid this year.
- b. The general fund has fewer employees than enterprise funds, and therefore the employees earn less compensated absence pay.
- c. Employees of the general fund are not unionized and therefore have less provision for compensated absences.
- d. The general fund has more resources to pay compensated absences to employees, so it pays its employees currently, and therefore owes them less.

ANS: a

Rationale: Enterprise funds use full accrual accounting and therefore recognize the expense and liability for compensated absences earned by employees, regardless of when paid. The general fund uses modified accrual accounting, and only reports expenditures paid or expected to be paid in the current budget year.

10. Topic: Leases

LO 6

At the beginning of 2012, the general fund leased a building. The terms require payments of \$100,000 per year for the next five years, paid at the end of each year. The lease carries an interest rate of 5%. The present value of the lease payments, at the date the lease was signed, was \$433,000. The lease qualifies as a capital lease. At the date the lease is signed, the general fund records:

- a. No entry
- b. dr other financing uses \$433,000, cr other financing sources \$433,000
- c. dr expenditures and cr revenues for \$433,000
- d. dr expenditures and cr other financing sources for \$433,000

ANS: d

Rationale: Governmental funds report capital leases the same way they report borrowing and acquiring a capital asset. Borrowing is an other financing source, and acquiring a capital asset is an expenditure.