

## Chapter 11– Advanced Accounting, 1<sup>st</sup> edition by Hamlen, Huefner, and Largay

### Solutions to Practice Quiz

1. Topic: Components of the CAFR  
LO 1  
The basic financial statements found in the CAFR of a state or local government include all of the following *except*:
  - a. Government-wide financial statements
  - b. Management’s discussion and analysis
  - c. Fund financial statements
  - d. Notes to the financial statements

ANS: b

Rationale: The basic financial statements consist of the government-wide statements, the fund statements, and notes to the financial statements. The MD&A is included in the CAFR, but it is not part of the basic financial statements.

2. Topic: Government-wide financial statements  
LO 2  
The government-wide financial statements of a state or local government report on the activities of all funds *except*:
  - a. Internal service funds
  - b. Fiduciary funds
  - c. Private-purpose trust funds
  - d. Proprietary funds

ANS: b

Rationale: The government-wide statements report the activities of governmental and proprietary funds, but not the fiduciary funds.

3. Topic: Government-wide financial statements

LO 2

The government-wide financial statements consist of:

- a. The balance sheet and the statement of revenues, expenditures, and changes in fund balances
- b. The statement of net assets, the statement of activities, and the statement of cash flows
- c. The statement of net assets and the statement of changes in net assets
- d. The statement of net assets and the statement of activities

ANS: d

Rationale: There are two government-wide financial statements: the statement of net assets reports assets, liabilities, and net assets of governmental and proprietary funds, and the statement of activities reports revenues and expenses of governmental and proprietary funds.

4. Topic: Fund statements, major funds

LO 3

Which statement is *false* concerning presentation of information in the fund statements?

- a. Governmental funds financial statements do not report results by fund type, such as debt service, capital projects, etc.
- b. The general fund is always separately reported, and other individual funds are separately disclosed in the governmental funds financial statements only if they are major funds.
- c. The four fiduciary fund types are separately disclosed in the fiduciary funds financial statements.
- d. Individual internal service and enterprise funds are separately reported in the proprietary funds financial statements if they are major funds.

ANS: d

Rationale: Major enterprise funds are separately reported if they are major funds, but internal service funds are reported in total on the proprietary funds financial statements.

5. Topic: Fund statements, reconciliation  
LO 3

A county government's total fund balances, governmental funds is \$23,000,000.  
Other information is as follows:

Internal service fund net assets.....	\$ 1,500,000
General obligation long-term debt.....	25,000,000
Accrued pension and OPEB liabilities of proprietary funds.....	3,000,000
Accrued pension and OPEB liabilities of governmental funds...	4,200,000
Capital assets used in governmental activities, net.....	16,000,000
Proprietary funds capital assets, net.....	7,000,000

The government-wide balance sheet reports net assets of governmental activities of:

- a. \$ 9,800,000
- b. \$15,300,000
- c. \$11,300,000
- d. \$29,300,000

ANS: c

Rationale: The reconciliation is:

Total fund balances, governmental funds	\$ 23,000,000
Plus net assets of internal service funds	1,500,000
Less general obligation long-term debt	(25,000,000)
Less accrued pension and OPEB liabilities of governmental funds	(4,200,000)
Plus capital assets used in governmental activities, net	<u>16,000,000</u>
Net assets of governmental activities	\$ 11,300,000

6. Topic: Fund statements, reconciliation  
LO 3

A county government's change in fund balances, governmental funds is \$3,000,000 for 2013. Other information for 2013 is as follows:

Outlays for capital assets by governmental funds.....	\$ 2,600,000
Repayments of general long-term debt principal.....	8,000,000
Fiduciary funds net financial investments.....	1,500,000
Depreciation on governmental funds capital assets.....	5,000,000
Payments of general long-term debt interest.....	15,000,000
Proceeds from issuing general long-term debt.....	18,000,000

The government-wide operating statement reports a change in net assets of governmental activities of:

- a. \$ (9,400,000)
- b. \$ (7,900,000)
- c. \$15,400,000
- d. \$ 5,600,000

ANS: a

Rationale: The reconciliation is:

Change in fund balances, governmental funds	\$ 3,000,000
Plus outlays for capital assets by governmental funds	2,600,000
Plus repayments of general long-term debt principal	8,000,000
Less depreciation on governmental funds capital assets	(5,000,000)
Less proceeds from issuing general long-term debt	<u>(18,000,000)</u>
Change in net assets of governmental activities	\$ (9,400,000)

7. Topic: Fund and government-wide financial statements

LO 2, 3

The general fund's total cost of buildings and equipment, net of accumulated depreciation, appears in the CAFR on:

- a. The government-wide statement of net assets and the governmental funds balance sheet
- b. The governmental funds balance sheet only
- c. The government-wide statement of net assets only
- d. No financial statement in the CAFR

ANS: c

Rationale: The general fund's financial position is reported in both the government-wide statement of net assets and the governmental funds balance sheet. However, the governmental funds balance sheet is on the modified accrual basis, and capital outlays are expenditures, not assets.

8. Topic: Budgetary comparison schedules

LO 4

A county's general fund budgetary comparison schedule for 2014 reports an actual excess of revenues and other financing sources over expenditures and other financing uses of \$400,000. The governmental funds operating statement reports a \$150,000 excess of revenues and other financing sources over expenditures and other financing uses for the general fund. Which of the following items might explain the discrepancy between these two numbers?

- a. The governmental funds operating statement includes capital outlays, while the budgetary comparison schedule does not
- b. The budgetary comparison schedule includes bond proceeds, while the governmental funds operating statement does not
- c. The governmental funds operating statement includes accruals of property tax revenues, while the budgetary comparison schedule does not
- d. The budgetary comparison schedule accrues future pension costs of general fund employees, while the governmental funds operating statement does not

ANS: c

Rationale: The general fund change in fund balances, reported in the governmental funds operating statement, is reported using the modified accrual basis. The general fund budgetary comparison schedule reports the change in fund balances based on applicable laws and regulations, which may be closer to the cash basis. Alternative c describes a **basis difference** between the cash basis and the modified accrual basis of reporting. The other alternatives describe differences between modified accrual and full accrual accounting, which is not used in either the governmental funds operating statement or the general fund budgetary comparison schedule.

9. Topic: Budgetary comparison schedules, outstanding encumbrances  
LO 4

In its budgetary comparison schedule for 2013, a county's general fund reports actual excess of revenues and other financing sources over expenditures and other financing uses of \$5,000,000. Encumbrances outstanding at the beginning of 2013 were \$750,000. Encumbrances outstanding at the end of 2013 are \$400,000. What is the 2013 excess of revenues and other financing sources over expenditures and other financing uses for the general fund, on a modified accrual GAAP basis?

- a. \$4,650,000
- b. \$5,350,000
- c. \$5,750,000
- d. \$6,150,000

ANS: a

Rationale:  $\$5,000,000 - \$750,000 + \$400,000 = \$4,650,000$ .

10. Topic: External reporting for infrastructure  
LO 5

The modified approach for infrastructure allows governments to:

- a. Not report any infrastructure
- b. Report as depreciation expense the cost of maintaining infrastructure
- c. Report outlays for new infrastructure as expenditures
- d. Use straight-line depreciation for all infrastructure

ANS: b

Rationale: If infrastructure is well maintained, the concept of expensing its cost over a limited life does not apply. The GASB allows the cost of maintaining (preserving) the infrastructure to be reported as the equivalent of depreciation expense.