

Chapter 12– Advanced Accounting, 1st edition by Hamlen, Huefner, and Largay

Solutions to Practice Quiz

1. Topic: NFP financial statements

LO 1

Which statement is *false* concerning the financial statements of private NFP organizations?

- a. Required financial statements are the statement of financial position, the statement of activities, and the statement of cash flows.
- b. Expenses are classified functionally and reduce only unrestricted and temporarily restricted net assets.
- c. The organization's operating statement reports the change in net assets for the year.
- d. If the organization's board decides to set aside cash for a specific project, this has no effect on the categories of net assets.

ANS: b

Rationale: Expenses only reduce unrestricted net assets.

2. Topic: NFP financial statements

LO 1

Which type of private NFP organization is required to present a separate schedule showing the natural classification of functional expenses, in addition to the functional classification shown in its operating statement?

- a. Voluntary health and welfare organizations
- b. Hospitals and other health care organizations
- c. Private colleges and universities
- d. Civic and fraternal organizations

ANS: a

Rationale: While the other types of NFP organizations are encouraged to provide a separate schedule showing a natural classification of functional expenses, only voluntary health and welfare organizations are required to provide this schedule.

3. Topic: Promised contributions

LO 2

On January 2, 2012, a donor to a private university makes a documented promise to contribute \$50,000 per year in 2013, 2014, and 2015. There are no donor restrictions. During 2013, the donor pays the university \$50,000. How is this reported in the university's 2013 statement of activities? Ignore present value issues.

- a. No effect on any category of net assets
- b. Net assets released from time restrictions: decrease in unrestricted net assets and increase in temporarily restricted net assets, \$50,000
- c. Increase in unrestricted net assets: contributions, \$50,000
- d. Net assets released from time restrictions: increase in unrestricted net assets and decrease in temporarily restricted net assets, \$50,000

ANS: d

Rationale: The university reported the documented promise as a receivable and an increase in temporarily restricted net assets in 2012. In 2013, the \$50,000 received is recorded as follows:

Cash	50,000	
Contributions receivable		50,000
Net assets released from time restrictions (TR)	50,000	
Net assets released from time restrictions (UR)		50,000

4. Topic: Donated services

LO 2

A lawyer donates legal services valued at \$2,000 to a private NFP organization. A contractor donates services valued at \$300,000 to supervise the building of an addition to the organization's recreation building. High school students volunteer their time, valued at \$500, to clean up the organization's grounds. How does the organization report these donated services in its statement of activities?

- a. Service revenue, \$302,500; General expense, \$2,500
- b. Service revenue, \$302,500; General expense, \$302,500
- c. Service revenue, \$302,000; General expense, \$302,000
- d. Service revenue, \$302,000; General expense, \$2,000

ANS: d

Rationale: The services of the high school students are not reported. The legal and contractor services are reported as follows:

General expense	2,000	
Building	300,000	
Service revenue		302,000

5. Topic: Contributions received on behalf of others

LO 2

During 2012, the United Way receives \$1,000,000 in cash contributions that are donor-restricted to Habitat for Humanity. By the end of 2012, the United Way has distributed \$800,000 of these contributions to Habitat for Humanity. How much contribution revenue is reported on the 2012 statements of activities of each organization?

	United Way	Habitat for Humanity
a.	\$-0-	\$1,000,000
b.	\$1,000,000	\$-0-
c.	\$1,000,000	\$1,000,000
d.	\$ 800,000	\$ 800,000

ANS: a

Rationale: United Way reports the contribution as a liability. Habitat for Humanity accrues it as revenue.

6. Topic: Contributions with use restrictions

LO 2

The Louisiana Society for the Preservation of Waterfowl receives \$10,000,000 in contributions to support the Society's work to save ducks and geese affected by a serious oil spill in 2012. By the end of 2013, the Society has spent \$9,000,000 of these contributions. Where is the remaining \$1,000,000 reported in the Society's 2013 financial statements?

- a. Contributions revenue, 2013 statement of activities
- b. Program expenses, 2013 statement of activities
- c. Temporarily restricted net assets, statement of financial position
- d. Liabilities, statement of financial position

ANS: c

Rationale: Contributions revenue of \$10,000,000 was reported as an increase in temporarily restricted net assets in 2012. As the contributions were used, they were released to unrestricted net assets and reported as expenses (reduction in unrestricted net assets). Unspent contributions remain in temporarily restricted net assets.

7. Topic: Investments in financial securities

LO 3

At the end of 2012, a private NFP organization receives a permanent endowment of \$5,000,000 in cash. The organization immediately invests the \$5,000,000 in equity securities. The donor states that income from the endowment can be used for any purpose. During 2013, dividend revenue of \$200,000 is accrued, and the organization receives \$180,000 of this revenue in cash. The equity securities have a fair value of \$4,500,000 at the end of 2013. How is this information reported on the organization's 2013 statement of activities?

	Change in PRNA	Change in TRNA	Change in UNA
a.	\$-0-	\$(500,000)	\$ 180,000
b.	\$(500,000)	\$-0-	\$ 180,000
c.	\$(500,000)	\$-0-	\$ 200,000
d.	\$-0-	\$-0-	\$(300,000)

ANS: d

Rationale: The \$5,000,000 is a permanent donation. Therefore it is preserved as PRNA, and changes in the value of the securities are changes in UNA. The organization uses full accrual accounting, and the revenue is not restricted, so UNA increases by \$200,000 for the dividend income.

8. Topic: Investments in financial securities

LO 3

At the end of 2012, a private NFP organization receives a donation of equity securities with a fair value of \$5,000,000. The donor states that the organization must hold the securities, but income from the securities can be used for any purpose. During 2013, dividend revenue of \$200,000 is accrued, and the organization receives \$180,000 of this revenue in cash. The equity securities have a fair value of \$4,500,000 at the end of 2013. How is this information reported on the organization's 2013 statement of activities?

	Change in PRNA	Change in TRNA	Change in UNA
a.	\$-0-	\$(500,000)	\$ 180,000
b.	\$(500,000)	\$-0-	\$ 180,000
c.	\$(500,000)	\$-0-	\$ 200,000
d.	\$-0-	\$-0-	\$(300,000)

ANS: c

Rationale: Because the securities themselves are a permanent donation, all changes in the value of the securities are changes in PRNA. The organization uses full accrual accounting, and the revenue is not restricted, so UNA increases by \$200,000.

9. Topic: Health care organizations

LO 4

A private NFP hospital reports the following information for 2014:

Gross billings to patients.....	\$ 10,000,000
Gross billings to third party payers for patient services.....	130,000,000
Estimated retail value of charity care.....	8,000,000
Contractual and other billing adjustments for patient services.....	6,000,000
Estimated uncollectible portion of amounts billed.....	20,000,000
Administrative expenses related to patient care billings.....	4,000,000

On its 2014 operating statement, what is the hospital's net patient service revenue?

- a. \$142,000,000
- b. \$134,000,000
- c. \$122,000,000
- d. \$120,000,000

ANS: b

Rationale: $\$10,000,000 + \$130,000,000 - \$6,000,000 = \$134,000,000$

10. Topic: Evaluation of NFP financial information

LO 5

Critics of GAAP for NFP organizations contend that the financial statements overstate resources available to finance organization activities. Which of the following is *not* an example supporting this point of view?

- a. Investments are reported at fair value, with gains in value reported in the operating statement
- b. Documented promises to contribute are reported in the operating statement, at their present value
- c. Permanent endowment interest and dividend income is reported in the operating statement as unrestricted, if the donor does not restrict endowment income
- d. Contributions of goods are reported in the operating statement at fair value

ANS: c

Rationale: If the donor does not restrict interest and dividend income on the endowment, the organization is free to spend it any way it wishes, and reporting it as an increase in unrestricted net assets is appropriate. Interest and dividend income is spendable (i.e. already received in cash, or soon to be received in cash). Revenues and gains described in alternatives a, b and d are not available to finance organization activities.