Governmental and Nonprofit Accounting 11th edition Freeman Test Bank

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Governmental and Nonprofit Accounting: Theory and Practice, 11e **(Freeman)**
Chapter 2 State and Local Government Accounting and Financial Reporting Model—The Foundation

1. If a government is obligated to legally report information in a manner that differs from GAAP
   A. GAAP take precedence over the legal requirements.
   B. Legal requirements take precedence over GAAP.
   C. Both GAAP requirements and legal requirements must be met.
   D. Information should be presented that meets as many legal requirements as possible without violating GAAP in a material manner.

Answer: C
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
• Distinguishing the three broad categories of funds—governmental, proprietary, and fiduciary—and the specific types of funds in each fund category.
• Identifying and explaining the measurement focus and basis of accounting used for each category of funds and the financial statements required for funds of each category.
• Analyzing the effects of transactions on the proprietary fund and governmental fund categories and on the General Capital Assets and General Long-Term Liabilities accounts.
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Difficulty Level: Difficult
Classification: Synthesis
AACSB Category: Analytical thinking

2. Which of the following is not a fund category used by state and local governments?
   A. Fiduciary funds.
   B. Plant and Equipment funds.
   C. Governmental funds.
   D. Proprietary funds.

Answer: B
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Difficulty Level: Easy
Classification: Concept
AACSB Category: Application of knowledge

3. Which of the following is an official fund category used by state and local governments?
   A. Current funds.
   B. Expendable funds.
   C. Governmental funds.
   D. General capital asset funds.

Answer: C

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Difficulty Level: Easy
Classification: Concept
AACSB Category: Application of knowledge

4. Which of the following is considered a proprietary fund?
   A. General Fund.
   B. Special Revenue Fund.
   C. Permanent Fund.
   D. Internal Service Fund.

Answer: D

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Difficulty Level: Easy
Classification: Concept
AACSB Category: Application of knowledge

5. The operations of a city bus line receiving all its funding from user charges would be accounted for in
   A. A General Fund.
   B. An Enterprise Fund.
   C. An Internal Service Fund.

D. A Special Revenue Fund.

Answer: B

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Difficulty Level: Easy
Classification: Application
AACSB Category: Analytical thinking

6. Which of the following is not considered a fiduciary fund?
   A. Agency Fund
   B. Investment Trust Fund
   C. Permanent Fund
   D. Private-purpose Trust Fund

Answer: C

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Difficulty Level: Easy
Classification: Concept
AACSB Category: Application of knowledge

7. Activities of a central motor pool that provides and services vehicles for the use of municipal employees on official business should be accounted for in
   A. General Fund.
   B. Enterprise Fund.
   C. Internal Service Fund.
   D. Special Revenue Fund.

Answer: C

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Difficulty Level: Easy
Classification: Application
AACSB Category: Application of knowledge

8. A government can only have one
   A. Capital Projects Fund.
   B. General Fund.
   C. Private-Purpose Trust Fund.
   D. Special Revenue Fund.

Answer: B
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Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

9. Which of the following is not considered a governmental fund?
   A. General Fund.
   B. Debt Service Fund.
   C. Permanent Fund.
   D. Internal Service Fund.

Answer: D
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Difficulty Level: Easy
Classification: Concept
AACSB Category: Application of knowledge

10. Which of the following is the basic proprietary fund accounting equation?
    A. Assets + Deferred Outflows – Liabilities – Deferred Inflows = Fund Balance.
    B. Financial Assets – Related Liabilities = Net Position.
    C. Financial Assets + Deferred Outflows – Related Liabilities – Deferred Inflows = Fund Balance.
    D. Assets + Deferred Outflows – Liabilities – Deferred Inflows = Net Position.

Answer: D
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Difficulty Level: Difficult
Classification: Concept
AACSB Category: Application of knowledge

11. Which of the following uses the flow of economic resources measurement focus?
    A. General Fund.
    B. Debt Service Fund.
    C. Special Revenue Fund.
    D. Internal Service Fund.

Answer: D
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Difficulty Level: Easy

Classification: Concept
AACSB Category: Application of knowledge

12. Proprietary funds recognize
    A. Expenditures when the fund incurs a liability for goods or services.
    B. Expenditures when the fund uses goods or services.
    C. Expenses when the fund incurs a liability for goods or services.
    D. Expenses when the fund uses goods or services.

Answer: D
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Difficulty Level: Easy
Classification: Concept
AACSB Category: Application of knowledge

13. Which of the following is the basic governmental fund accounting equation?
    A. Assets – Liabilities = Net Assets.
    B. Financial Assets – Related Liabilities = Fund Balance.
    C. Financial Assets + Deferred Outflows – Related Liabilities – Deferred Inflows = Fund Balance.
    D. Assets + Deferred Inflows – Liabilities – Deferred Outflows = Net Position

Answer: C
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Difficulty Level: Difficult
Classification: Concept
AACSB Category: Application of knowledge

14. Which of the following uses the flow of current financial resources measurement focus?
    A. Agency Fund.

B. Enterprise Fund.
C. Special Revenue Fund.
D. Internal Service Fund.

Answer: C

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Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

15. In which of the following financial statements should a government not report depreciation expense?
A. Fiduciary fund financial statements.
B. Governmental fund financial statements.
C. Proprietary fund financial statements.
D. Government-wide financial statements.

Answer: B

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Difficulty Level: Moderate
Classification: Concept
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16. The availability criterion for recognizing revenues applies to all of the following funds *except*
A. Capital Projects Funds.
B. Debt Service Funds.
C. Enterprise Funds.
D. Special Revenue Funds.

Answer: C

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Difficulty Level: Moderate
Classification: Application
AACSB Category: Analytical thinking

17. Governmental funds recognize
    A. Expenses when the governmental unit uses goods or services.
    B. Expenditures when the governmental unit incurs a liability for goods or services.
    C. Expenditures when the fund incurs a liability.
    D. Expenses when the fund assets are consumed.

Answer: C
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Classification: Concept
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18. Which of the following would ***not*** be classified as an *expenditure*?
    A. Salaries and wages.
    B. Depreciation.
    C. Capital outlay.
    D. Debt service — principal and interest.

Answer: B
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Difficulty Level: Moderate
Classification: Application
AACSB Category: Analytical thinking

19. Assume that Kelly County issues $3,000,000 in general obligation bonds to build a new fire station and $7,000,000 in revenue bonds to finance the upgrade of their Water Department's water treatment facility. How will these transactions affect the funds of the county?

    A. Financial assets of the Capital Projects Fund will increase by $10,000,000, as will the related fund liabilities.
    B. Financial assets and related fund liabilities of the Capital Projects Fund will increase by $3,000,000; current assets and long-term liabilities will increase by $7,000,000 in the Water Enterprise Fund.
    C. Financial assets, but not the related fund liabilities, will increase in the General Fund by $10,000,000.
    D. Financial assets, but not the related fund liabilities, will increase in the Capital Projects Fund by $3,000,000; current assets and the long-term liabilities will increase by $7,000,000 in the Water Enterprise Fund.

Answer: D
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Difficulty Level: Moderate
Classification: Synthesis
AACSB Category: Analytical thinking

20. Ashley Woods Village issued $4,000,000 in general obligation bonds to finance the widening of a local thoroughfare. This transaction will *most likely*
    A. Increase fund balance in the General Fund by $4,000,000.
    B. Decrease fund balance in the General Fund by $4,000,000.
    C. Increase fund balance in the Capital Projects Fund by $4,000,000.
    D. Decrease fund balance in the Capital Projects Fund by $4,000,000.

Answer: C

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Difficulty Level: Moderate
Classification: Synthesis
AACSB Category: Analytical thinking

21. Ashley Woods Village paid $1,000,000 principal and $200,000 interest on its general obligation bonds that it issued in a prior year to finance widening of a local thoroughfare. This transaction will most likely
    A. Decrease fund balance in the Capital Projects Fund by $1,000,000.
    B. Decrease fund balance in the Capital Projects Fund by $1,200,000.
    C. Decrease fund balance in the Debt Service Fund by $1,000,000.
    D. Decrease fund balance in the Debt Service Fund by $1,200,000.

Answer: D
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Classification: Synthesis
AACSB Category: Analytical thinking

22. The police department of the city of Newport purchased 10 new patrol cars at the beginning of the new budget year at a total cash price of $250,000. This purchase will
    A. Increase capital assets reported in the General Fund by $250,000.
    B. Have no effect on capital assets in the General Fund, but will decrease fund balance in the General Fund by $250,000.
    C. Increase capital assets reported in the General Fund by $250,000, as well as decrease fund balance in the General Fund by the same amount.
    D. Increase both capital assets and fund balance in the General Fund by $250,000.

Answer: B

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Classification: Synthesis
AACSB Category: Analytical thinking

23. The City of Ruth owns and operates an electric utility. The utility purchases new electric transmission lines for $6,000,000 so that it can provide electricity to new customers. This purchase will *most likely*
    A. Increase expenditures reported in the General Fund by $6,000,000.
    B. Increase capital assets reported in the Capital Projects Fund by $6,000,000.
    C. Increase capital assets reported in the Enterprise Fund by $6,000,000.
    D. Increase expenses reported in the Enterprise Fund by $6,000,000.

Answer: C
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Difficulty Level: Moderate
Classification: Synthesis
AACSB Category: Analytical thinking

24. A transaction in which a government issues general obligation bonds to finance the construction of a new police station would
    A. Increase liabilities in a Debt Service Fund.
    B. Increase liabilities in a Capital Projects Fund.
    C. Decrease fund balance in a Debt Service Fund.
    D. Increase fund balance in a Capital Projects Fund.

Answer: D
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Difficulty Level: Moderate
Classification: Application
AACSB Category: Analytical thinking

25. Incurring construction costs on a major general government capital project would
    A. Decrease fund balance in a Capital Projects Fund.
    B. Decrease cash in the General Capital Assets accounts.
    C. Increase capital assets in a Capital Projects Fund.
    D. Increase capital assets in the General Fund.

Answer: A
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Difficulty Level: Moderate
Classification: Application
AACSB Category: Analytical thinking

26. Which one of the following accounts is not found in the General Capital Assets and General Long-Term Liabilities accounts?
    A. Bonds Payable.
    B. Long-Term Claims and Judgments Payable.
    C. Investments.
    D. Land.

Answer: C
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Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

27. Which one of the following accounts is not found in the General Capital Assets and General Long-Term Liabilities accounts?
   A. Cash (Restricted for capital asset purchases).
   B. Buildings.
   C. Equipment.
   D. Textbooks and library books (of a city school).

Answer: A
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Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

28. A computer was purchased from unrestricted resources for a general government department. The government paid cash for the computer at the purchase date. Which of the following is not an effect of this transaction in the General Fund?
   A. Current assets decrease.
   B. Capital assets increase.
   C. Current liabilities do not change.
   D. Fund balance decreases.

Answer: B
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Difficulty Level: Moderate
Classification: Synthesis
AACSB Category: Analytical thinking

29. All of the following transactions decrease the fund balance of a governmental fund *except*
   A. Purchase of equipment.
   B. Retirement of the principal of a short-term note.
   C. Payment of salaries and wages.
   D. Purchase and use of supplies.

Answer: B
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Difficulty Level: Moderate
Classification: Application
AACSB Category: Analytical thinking

30. Capital outlay expenditures would be *least likely* in a
   A. General Fund.
   B. Debt Service Fund.
   C. Capital Projects Fund.
   D. Special Revenue Fund.

Answer: B
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Difficulty Level: Moderate
Classification: Application

AACSB Category: Analytical thinking

31. All of the following financial statements should be presented for a General Fund *except* a
    A. Balance sheet.
    B. Statement of revenues, expenditures, and changes in fund balance.
    C. Statement of cash flows.
    D. Statement of revenues, expenditures, and changes in fund balance: budget and actual.

Answer: C

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
• Distinguishing the three broad categories of funds—governmental, proprietary, and fiduciary—and the specific types of funds in each fund category.
• Identifying and explaining the measurement focus and basis of accounting used for each category of funds and the financial statements required for funds of each category.
• Analyzing the effects of transactions on the proprietary fund and governmental fund categories and on the General Capital Assets and General Long-Term Liabilities accounts.
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• Explaining the financial reporting requirements for a government's basic financial statements and its comprehensive annual financial report.
Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

32. In which accounting entity may a government report capital assets?
    A. Capital Projects Fund.
    B. Enterprise Fund.
    C. General Fund.
    D. Agency Fund.

Answer: B

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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• Analyzing the effects of transactions on the proprietary fund and governmental fund categories and on the General Capital Assets and General Long-Term Liabilities accounts.
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Difficulty Level: Moderate
Classification: Application
AACSB Category: Application of knowledge

33. A city adds a new door to its downtown fire station. This is considered a relatively minor addition. Which fund would most likely be used to account for the construction expenditures associated with the door?

A. Enterprise Fund.
B. General Fund.
C. Capital Projects Fund.
D. General Capital Assets accounts.

Answer: B

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Difficult
Classification: Synthesis
AACSB Category: Analytical thinking

34. Which of the following funds is reported as a *governmental* fund even though it is not considered to be *expendable* in nature?
A. Special Revenue Fund
B. Capital Projects Fund
C. Permanent Fund
D. Pension Trust Fund

Answer: C

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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• Identifying and explaining the measurement focus and basis of accounting used for each category of funds and the financial statements required for funds of each category.
• Analyzing the effects of transactions on the proprietary fund and governmental fund categories and on the General Capital Assets and General Long-Term Liabilities accounts.
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Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

35. General government financial resources that are required to be used to pay principal and interest on general government long-term debt are accounted for in
A. A Capital Projects Fund.
B. A Debt Service Fund.
C. The General Fund.

D. A Special Revenue Fund.

Answer: B

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:

• Distinguishing the three broad categories of funds—governmental, proprietary, and fiduciary—and the specific types of funds in each fund category.

• Identifying and explaining the measurement focus and basis of accounting used for each category of funds and the financial statements required for funds of each category.

• Analyzing the effects of transactions on the proprietary fund and governmental fund categories and on the General Capital Assets and General Long-Term Liabilities accounts.

• Identifying typical budgetary accounting and reporting requirements.

• Explaining the financial reporting requirements for a government's basic financial statements and its comprehensive annual financial report.

Difficulty Level: Easy

Classification: Concept

AACSB Category: Application of knowledge

36. General government financial resources to be used to finance construction of a general government construction project typically should be accounted for in

A. A Capital Projects Fund.
B. A Debt Service Fund.
C. The General Fund.
D. A Special Revenue Fund.

Answer: A

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:

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• Identifying and explaining the measurement focus and basis of accounting used for each category of funds and the financial statements required for funds of each category.

• Analyzing the effects of transactions on the proprietary fund and governmental fund categories and on the General Capital Assets and General Long-Term Liabilities accounts.

• Identifying typical budgetary accounting and reporting requirements.

• Explaining the financial reporting requirements for a government's basic financial statements and its comprehensive annual financial report.

Difficulty Level: Easy

Classification: Concept

AACSB Category: Application of knowledge

37. The fund used to account for the acquisition or construction of major capital facilities and other capital assets is the

A. General Fund.
B. Special Revenue Fund.
C. Capital Projects Fund.
D. General Capital Assets accounts.

Answer: C

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:

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Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

38. The receipts of a special tax levy to retire principal and pay interest on general obligation bonds issued to finance the construction of a new fire hall should be accounted for in the
    A. General Fund.
    B. Special Revenue Fund.
    C. Debt Service Fund.
    D. General Long-Term Liabilities accounts.

Answer: C

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:

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Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

39. General government financial resources that are required to be used to pay teacher salaries for a special education program are typically accounted for in a
    A. Capital Projects Fund.
    B. Debt Service Fund.
    C. Permanent Fund.
    D. Special Revenue Fund.

Answer: D

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:

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Difficulty Level: Easy
Classification: Concept
AACSB Category: Application of knowledge

40. Receipts from a special fishing tax committed to maintain the (no-charge) public fishing pier should be accounted for in
    A. A Special Revenue Fund.
    B. The General Fund.
    C. An Enterprise Fund.
    D. General Capital Assets accounts.

Answer: A
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Easy
Classification: Concept
AACSB Category: Application of knowledge

41. Incurring construction costs on a major general government capital project should require entries in a
    A. Capital Projects Fund.
    B. Debt Service Fund.
    C. General Long-Term Liabilities account.
    D. Permanent Fund.

Answer: A
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Easy
Classification: Concept
AACSB Category: Application of knowledge

42. A city levies a special property tax that is legally restricted to pay off the principal and interest on bonds issued to build the city's new police headquarters. Which fund should be used to account for the proceeds from the tax levy?
   A. Debt Service Fund.
   B. General Fund.
   C. Capital Projects Fund.
   D. General Long-Term Liabilities Fund.

Answer: A
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Moderate
Classification: Application
AACSB Category: Application of knowledge

43. A state enacts a gasoline tax that is restricted for new highway construction. Which fund should be used to account for the proceeds from the tax?
   A. Debt Service Fund.
   B. General Fund.
   C. Capital Projects Fund.
   D. General Long-Term Liabilities Fund.

Answer: C
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Moderate
Classification: Application
AACSB Category: Application of knowledge

44. The General Capital Assets and General Long-Term Liabilities nonfund accounts would be used to account for
    A. All capital assets acquired by a government entity regardless of the fund purchasing the asset.
    B. Capital assets acquired with governmental fund resources that will be used in governmental fund activities.
    C. Capital assets acquired with debt proceeds only.
    D. Capital assets that are used by a variety of governmental and proprietary funds.

Answer: B
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Easy
Classification: Concept
AACSB Category: Application of knowledge

45. A government issues 10-year bonds to finance construction of an addition to city hall. The bonds payable should be reported in the
    A. General Fund.
    B. Capital Projects Fund.
    C. General Capital Asset accounts.
    D. General Long-Term Liabilities accounts.

Answer: D
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Moderate
Classification: Application
AACSB Category: Application of knowledge

46. To account for amounts owed to general government bondholders that must be paid in the future, a government should use
    A. A Debt Service Fund.
    B. The General Long-Term Liabilities accounts.
    C. The General Fund
    D. A Private-Purpose Trust Fund.

Answer: B
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Moderate
Classification: Application
AACSB Category: Analytical thinking

47. Assume that the City of Wakefield purchased a tract of land to be used as a public park. The purchase was financed with proceeds from a five-year note issued by a local lending institution. Because of the time required for facilities construction and land improvements, the park itself will not be ready for public use for at least two years. At the date of purchase, the city would most likely account for the transaction in
    A. The General Fund and General Capital Assets and General Long-Term Liabilities accounts.
    B. The Capital Projects Fund and the General Capital Assets and General Long-Term Liabilities accounts.
    C. The Enterprise Fund.
    D. The General Fund and the General Capital Assets and General Long-Term Liabilities accounts.

Answer: B
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Moderate
Classification: Synthesis
AACSB Category: Analytical thinking

48. The *operation* of a municipality's recreation facilities and sites such as ball fields, gymnasiums, and tracks are most likely to be accounted for in a/an
   A. General Fund.
   B. Enterprise Fund.
   C. Capital Projects Fund.
   D. Internal Service Fund.

Answer: A
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Easy
Classification: Application
AACSB Category: Analytical thinking

49. To account for a donation to the City where the principal is to remain intact forever and the earnings are to be used to benefit the Boy Scout and Girl Scout organizations in the City, the government should use what fund type?
   A. Permanent Fund.
   B. Special Revenue Fund.
   C. General Fund.
   D. Private-Purpose Trust Fund.

Answer: D
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Moderate
Classification: Application
AACSB Category: Analytical thinking

50. Caraway County financed its new $6,000,000 courthouse by issuing general obligation bonds. In the year financing was secured and construction began, the fund(s) and/or nonfund fund accounts that would most likely be affected would be
    A. The General Fund only.
    B. The Capital Projects Fund only.
    C. The General Fund and the General Capital Assets and General Long-Term Liabilities accounts.
    D. The Capital Projects Fund and the General Capital Assets and General Long-Term Liabilities accounts.

Answer: D
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Difficult
Classification: Application
AACSB Category: Analytical thinking

51. The minimum general purpose external financial reports required for state and local government entities do not include which of the following?
    A. Government-wide financial statements.
    B. Management's discussion and analysis.
    C. Fund financial statements.
    D. Transmittal Letter.

Answer: D
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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• Analyzing the effects of transactions on the proprietary fund and governmental fund categories and on the General Capital Assets and General Long-Term Liabilities accounts.
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• Explaining the financial reporting requirements for a government's basic financial statements and its comprehensive annual financial report.
Difficulty Level: Moderate

Classification: Synthesis
AACSB Category: Application of knowledge

52. The Basic Financial Statements include all of the following *except*
    A. Government-wide financial statements.
    B. Fund financial statements.
    C. Combining financial statements.
    D. Notes to the financial statements.

Answer: C
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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• Analyzing the effects of transactions on the proprietary fund and governmental fund categories and on the General Capital Assets and General Long-Term Liabilities accounts.
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• Explaining the financial reporting requirements for a government's basic financial statements and its comprehensive annual financial report.
Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

53. GAAP requirements for external financial reporting include
    A. A comprehensive annual financial report.
    B. Note disclosures.
    C. Transmittal letter.
    D. Statistical Section.

Answer: B
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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• Analyzing the effects of transactions on the proprietary fund and governmental fund categories and on the General Capital Assets and General Long-Term Liabilities accounts.
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• Explaining the financial reporting requirements for a government's basic financial statements and its comprehensive annual financial report.
Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

54. Basic financial statements exclude
    A. Management's discussion and analysis.

B. Government-wide financial statements.
C. Fund financial statements.
D. Notes to the financial statements.

Answer: A

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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• Explaining the financial reporting requirements for a government's basic financial statements and its comprehensive annual financial report.
Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

55. Which of the following accounts is not included in a balance sheet of a governmental fund?
A. Cash.
B. Investments.
C. Equipment.
D. Salaries Payable.

Answer: C

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Easy
Classification: Application
AACSB Category: Application of knowledge

56. Government-wide financial statements include
A. A statement of net position.
B. A budget-to-actual schedule.
C. A statement of cash flows.
D. A statement of revenues, expenses, and changes in net position.

Answer: A

Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

57. A statement of revenues, expenditures, and changes in fund balance is required for each
    A. Special Revenue Fund.
    B. Internal Service Fund.
    C. Private-purpose Trust Fund.
    D. Enterprise Fund.

Answer: A
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

58. Which of the following would not be considered a fund financial statement?
    A. Balance sheet
    B. Statement of cash flows
    C. Statement of activities
    D. Statement of changes in fiduciary net position

Answer: C
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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• Identifying and explaining the measurement focus and basis of accounting used for each category

of funds and the financial statements required for funds of each category.
• Analyzing the effects of transactions on the proprietary fund and governmental fund categories and on the General Capital Assets and General Long-Term Liabilities accounts.
• Identifying typical budgetary accounting and reporting requirements.
• Explaining the financial reporting requirements for a government's basic financial statements and its comprehensive annual financial report.
Difficulty Level: Easy
Classification: Concept
AACSB Category: Application of knowledge

59. All of the following financial statements should be presented for an Internal Service Fund except for a
    A. Statement of net position.
    B. Statement of revenues, expenses, and changes in fund net position.
    C. Statement of cash flows.
    D. Statement of revenues, expenses, and changes in fund net position: budget and actual.

Answer: D
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Moderate
Classification: Concept
AACSB Category: Application of knowledge

60. A statement of cash flows is required for which of the following?
    A. Enterprise Fund.
    B. General Fund.
    C. Investment Trust Fund.
    D. Agency Fund.

Answer: A
Objective: LO 2.2 Explain the fundamental features of the state and local government accounting and financial reporting model, including:
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Difficulty Level: Moderate

Classification: Concept

AACSB Category: Application of knowledge

Governmental and Nonprofit Accounting: Theory and Practice, 11e **(Freeman)**
Problems—Chapter 2

The material in Chapter 2 is best suited for two types of problems:
1. Matching funds to fund types or fund definitions; and
2. Transaction analysis.

Since transactions are an essential part of Chapters 3 through 12 and 16 through 18, we recommend using the transaction analysis with journal entries in those chapters. To that end, transaction analysis will be further demonstrated in those chapters.

Problem 1—Matching funds types to fund categories.

Indicate how the following funds types would be classified as to category: (G) governmental, (P) proprietary, or as (F) fiduciary.

1. Internal Service
2. Agency
3. General
4. Special Revenue
5. Investment Trust
6. Capital Projects
7. Debt Service
8. Pension Trust
9. Permanent
10. Enterprise
11. Private-Purpose Trust

Answers:

1. P
2. F
3. G
4. G
5. F
6. G
7. G
8. F
9. G
10. P
11. F

Problem 2—Fund and Nonfund Accounts identification

Match the following situations with the fund or nonfund account best suited to account for it. A fund or nonfund account may be used more than once. The funds and nonfunds accounts are:

A	Agency Fund	G	General Long-Term Liability Accounts
B	Capital Projects Fund	H	Internal Service Fund
C	Debt Service Fund	I	Pension Trust Fund
D	Enterprise Fund	J	Permanent Fund
E	General Capital Asset accounts	K	Private Purpose Trust Fund
F	General Fund	L	Special Revenue Fund

1. The operations of a city bus line receiving all its funding from user charges.
2. Receipts from a special fishing tax restricted to maintain the (no-charge) public fishing pier.
3. Collects taxes withheld from employees throughout the government and makes payments to the appropriate government for these withholdings.
4. Donation to the city to be invested in perpetuity with the earnings from that investment to help maintain city parks.
5. The activities of a central motor pool that provides and services vehicles for the use of municipal employees on official business.
6. The segregation of resources accumulated to pay principal and interest on long-term debt of the general government.
7. The levy and collection of property taxes for general operations of a city.
8. Used to account for acquisition of major capital assets.
9. Accounts for contributions by the government and employees to be invested and paid to employees after retirement.
10. Amounts owed to general government bondholders that must be paid in the future.
11. Used to account for land, buildings, and equipment owned by the government.
12. Activities whose management requires a periodic measurement of revenues and expenses, and whose customers are the general public.
13. Receipts from a special tax levy to retire and pay interest on general obligation bonds issued to finance the construction of a new city hall.
14. Donation to the city where the principal is to remain intact forever and the earnings are to be used to benefit the Boy Scout and Girl Scout organizations in the city.

Answers:

1. D
2. L
3. A
4. J
5. H
6. C
7. F
8. B
9. I
10. G
11. E
12. D
13. C
14. K

Problem 3—Fund and Nonfund Accounts identification

Match the following situations with the fund or nonfund account best suited to account for it. A fund or nonfund account may be used more than once. The funds and nonfunds accounts are:

Situations

______1. Federal grant proceeds received for construction of a new elementary school building

______2. Municipal electric utility bonds to be repaid from customer charges

______3. General obligation bonds issued to finance construction of a new elementary school building

______4. Activities of a central print shop that provides custom printing services to all campus departments

______5. Financial resources set aside to service the principal and interest on general obligation debt

______6. A special hotel occupancy sales tax that can only be used for city economic development promotional activities

______7. Financial resources legally restricted to the extent that only earnings, and not the principal, may be used to benefit the government or its citizenry

______8. Monthly payroll deductions from employees to be remitted to an insurance company to pay for medical insurance premiums

Funds and Non-Funds

A. General Fund
B. Special Revenue Fund
C. Capital Projects Fund
D. Debt Service Fund
E. Permanent Fund
F. Enterprise Fund
G. Internal Service Fund
H. Trust Fund
I. Agency Fund
J. General Capital Assets
K. General Long-Term Liabilities

Answers:

1. C
2. F
3. K
4. G
5. D
6. B
7. E
8. I

Problem 4—Transaction Analysis

Use the formatted answer sheet provided to analyze the effects of each of transaction on the accounting equations of each fund or nonfund account affected by the transaction. Indicate increases by positive amounts; indicate decreases by putting the amount in parentheses.

1. Beverly County issued at par $20 million of general obligation, 10%, 10-year bonds. The resources are to be used to construct a new civic center downtown.

2. The county paid $100,000 to Fancy Dan Construction Company for work completed during the year.

3. During the year the county transferred $250,000 of general fund cash to the fund from which the bonds are to be repaid. The purpose of shifting the resources was to provide for the principal and interest payments to be made during the fiscal year.

4. $200,000 of the bonds and $20,000 of interest matured and were paid.

	Fund Affected	Governmental Funds			GCA and GLTL Nonfund Accounts		
		CA	− CL	= FB	GCA	− GLTL	= NP
1.							
2.							
3.							
4.							

Answers:

	Fund Affected	Governmental Funds			GCA and GLTL Nonfund Accounts		
		CA	− CL	= FB	GCA	− GLTL	= NP
1.	CPF	$20 mil		$20 mil		$20 mil	($20 mil)
2.	CPF	(100,000)		(100,000)	100,000		100,000
3a.	GF	(250,000)		(250,000)			
3b.	DSF	250,000		250,000			
4.	DSF	(220,000)		(220,000)		(200,000)	200,000