

Governmental & Non Profit Accounting
Spring 2007

NAME _____

PROBLEM I

MULTIPLE CHOICE (1 POINT EACH):

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1. Which of the following is *not* a characteristic of a fund as defined by GASB standards?
 - A) An accounting entity.
 - B) A segregated quantity of cash and other financial resources on deposit with a designated trustee.
 - C) A fiscal entity.
 - D) A self-balancing set of accounts.

2. The accrual basis of accounting applicable to proprietary fund types requires that revenues be recognized when
 - A) Earned.
 - B) Authorized by the budget ordinance.
 - C) Collected in cash.
 - D) Measurable and available.

3. The modified accrual basis of accounting applicable to governmental fund types requires that revenues be recognized when
 - A) Earned.
 - B) Authorized by the budget ordinance.
 - C) Measurable and available.
 - D) Collected in cash.

4. According to the "Measurement Focus and Basis of Accounting in the Basic Financial Statements" principle, transfers should be recognized
 - A) When earned.
 - B) In the period the interfund receivable and payable arise.
 - C) When authorized by the budget ordinance.
 - D) When collected in cash.

5. Comparisons of budgeted versus actual revenues and expenditures are
 - A) Optional under GASB standards for all funds.
 - B) Required by GAAP for internal management reports only; not permitted for external financial reporting.
 - C) Required by GAAP for all governmental fund types.
 - D) Required by GAAP for the General Fund and major special revenue funds for which an annual budget has been legally adopted.

6. In accounting for state and local governments the modified accrual basis is recommended for
 - A) Proprietary and fiduciary funds.
 - B) Proprietary funds only.
 - C) Governmental funds only.
 - D) All funds.

7. An example of a proprietary fund is a (an)
- A) Special revenue fund.
 - B) Investment trust fund.
 - C) Internal service fund.
 - D) Debt service fund.
8. An example of a "fiduciary" fund is a (an)
- A) Special revenue fund.
 - B) Investment trust fund.
 - C) Debt service fund.
 - D) Enterprise fund.
9. In order for the accounting system of a local government to be in conformity with generally accepted accounting principles
- A) Only governmental funds, and proprietary funds should be provided.
 - B) Only those funds required by law, GASB standards, and sound financial administration should be provided.
 - C) Only those funds required by law should be provided.
 - D) All categories of funds must be provided.
10. Which of the following funds is a governmental fund-type?
- A) Private-purpose trust fund.
 - B) Internal service fund.
 - C) Permanent fund.
 - D) Enterprise fund.
11. In which of the following funds would it *not* be appropriate to record depreciation of capital assets?
- A) Special revenue fund.
 - B) Enterprise.
 - C) Internal service.
 - D) Pension trust.
12. Capital assets used by departments accounted for by the General Fund of a governmental unit should be accounted for in
- A) The General Fund.
 - B) The governmental activities journal.
 - C) The business-type activities journal.
 - D) The general capital assets fund.

13. Financial reporting by fund type
- A) Means that all assets and all liabilities of each government must be accounted for by one of the fund types set forth in the GASB Codification.
 - B) Is optional under GAAP, but is generally required by state laws for governments.
 - C) Is the same kind of accounting used by business organizations.
 - D) Is required by generally accepted accounting principles for state and local governments.
14. A fund that is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governments, on a cost-reimbursement basis is properly classified as a (an)
- A) Enterprise fund.
 - B) Proprietary fund.
 - C) Internal service fund.
 - D) Both B and C are correct.
15. Capital assets of an enterprise fund should be accounted for in the
- A) Enterprise fund and depreciation on the capital assets should be recorded.
 - B) Business-type activities journal but no depreciation on the capital assets should be recorded.
 - C) Governmental activities journal and depreciation on the capital assets should be recorded.
 - D) Enterprise fund but no depreciation on the capital assets should be recorded.
16. The measurement focus and basis of accounting for fiduciary funds are most similar to
- A) Governmental funds.
 - B) Permanent funds.
 - C) Proprietary funds.
 - D) None of the above.
17. Which of the following organizations should be included as part of the governmental reporting entity?
- A) A primary government.
 - B) Other legally separate organizations for which the primary government is financially accountable.
 - C) Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
 - D) All of the above.
18. Under GASB reporting entity standards, a component unit is
- A) Organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
 - B) A legally separate organization that is financially independent of a primary government and on which the primary government cannot impose its will.
 - C) A large department of a primary government.
 - D) Both A and B are component units.

19. The measurement focus that should be used in preparing fund financial statements is:

	<u>Governmental funds</u>	<u>Proprietary funds</u>	<u>Fiduciary funds</u>
A)	Current financial resources	Economic resources	Current financial resources
B)	Current financial resources	Economic resources	Economic resources
C)	Current financial resources	Current financial resources	Economic resources
D)	Economic resources	Current financial resources	Current financial resources

20. The basis of accounting that should be used in preparing fund financial statements is:

	<u>Governmental funds</u>	<u>Proprietary funds</u>	<u>Fiduciary funds</u>
A)	Modified accrual	Accrual	Modified accrual
B)	Modified accrual	Modified accrual	Modified accrual
C)	Modified accrual	Accrual	Accrual
D)	Accrual	Modified accrual	Accrual

21. Which of the following is a budgetary account?

- A) Encumbrances.
- B) Reserve for Encumbrances.
- C) Expenditures.
- D) Revenues.

22. When the budget for the General Fund is recorded, the required journal entry will include

- A) A credit to Estimated Revenues.
- B) A debit to Encumbrances.
- C) A credit to Appropriations.
- D) Both A and C.

23. When the budget of a government is recorded and Appropriations exceeds Estimated Revenues, the Fund Balance account is

- A) Credited at the beginning of the year and debited at the end of the year.
- B) Credited at the beginning of the year and no entry is made at the end of the year.
- C) Debited at the beginning of the year and no entry is made at the end of the year.
- D) Debited at the beginning of the year and credited at the end of the year.

24. Which of the following accounts is *not* a budgetary account of a governmental fund?

- A) Reserve for Inventory of Supplies.
- B) Encumbrances.
- C) Estimated Revenues.
- D) Estimated Other Financing Sources.

25. The estimated revenues control account of a government is credited when

- A) The budgetary accounts are closed: Yes; Revenues are recorded: No
- B) The budgetary accounts are closed: No; Revenues are recorded: No
- C) The budgetary accounts are closed: No; Revenues are recorded: Yes
- D) The budgetary accounts are closed: Yes; Revenues are recorded: Yes

26. The Expenditures control account of a government is debited when
- A) The budget is recorded.
 - B) Supplies previously encumbered are received.
 - C) Supplies are ordered.
 - D) The invoice is paid.
27. Which of the following accounts of a government is credited when a purchase order is approved?
- A) Reserve for Encumbrances.
 - B) Encumbrances.
 - C) Vouchers Payable.
 - D) Appropriations.
28. Which of the following best describes the purpose behind the *other financial sources/uses* category?
- A) The category is used to distinguish interfund activity from transactions and events involving parties outside the financial reporting entity.
 - B) The category is used to distinguish program revenues from general revenues.
 - C) The category is used to isolate certain nonroutine inflows and outflows that might otherwise distort revenue and expenditure trend analysis.
 - D) Other financial sources are equivalent to *gains* and *other financing uses* are equivalent to *losses*.
29. The expenditure classification "Public Safety" is an example of which of the following types of classifications?
- A) Activity.
 - B) Object.
 - C) Character.
 - D) Function.
30. A statement of revenues, expenditures, and changes in fund balances—budget and actual is
- A) Required by GAAP for the General Fund, special revenue funds, and all other governmental fund types for which an annual budget has been adopted.
 - B) Required by GAAP for internal management reports only; not permitted for external financial reporting.
 - C) Required by GAAP for all governmental fund types.
 - D) Optional under *GASBS 34*, as long as a budgetary comparison schedule is presented.
31. The account "Interfund Transfers In" would be classified in a General Fund statement of revenues, expenditures, and changes in fund balance as a (an)
- A) Revenue.
 - B) Other financing use.
 - C) Other financing source.
 - D) Current liability.

32. When the budget of a government is adopted and Estimated Revenues exceed Appropriations, the excess is
- A) Credited to Fund Balance.
 - B) Debited to Fund Balance.
 - C) Debited to Reserve for Encumbrances.
 - D) Credited to Reserve for Encumbrances.
33. Which of the following steps in the acquisition of goods and services by an activity accounted for by the General Fund occurs first?
- A) Disbursement.
 - B) Appropriation.
 - C) Encumbrance.
 - D) Expenditure.
34. When equipment that is to be used by an activity accounted for by the General Fund of a government is received, it should be recorded in the General Fund as a (an)
- A) Capital Asset.
 - B) Appropriation.
 - C) Encumbrances.
 - D) Expenditure.

Use the following information to answer Questions 35 – 37.

The County Commission of Brook County adopted its General Fund budget for the year ending June 30, comprising estimated revenues of \$3,200,000 and appropriations of \$2,900,000. Brook County utilizes the budgetary accounts required by GASB standards.

35. The journal entry to record budgeted revenues will include
- A) A debit to Revenues Receivable, \$3,200,000.
 - B) A credit to Estimated Revenues, \$3,200,000.
 - C) A debit to Estimated Revenues, \$3,200,000.
 - D) None of the above; only a memorandum entry is necessary.
36. The journal entry to record budgeted appropriations will include
- A) A credit to Appropriations, \$2,900,000.
 - B) A credit to Encumbrances, \$2,900,000.
 - C) A debit to Estimated Expenditures, \$2,900,000.
 - D) None of the above; only a memorandum entry is necessary.
37. The budgeted excess of estimated revenues over appropriations will be recorded as
- A) A credit to Surplus Revenues, \$300,000.
 - B) A debit to Estimated Excess Revenues, \$300,000.
 - C) A credit to Fund Balance, \$300,000.
 - D) A memorandum entry only.

38. Which of the following statements is false about expenses that are directly related to a government function or program?
- A) They are reported in the government-wide statement of activities at the government-wide level.
 - B) They do not include interest on general long-term liabilities.
 - C) They are reported in the statement of activities at the government-wide level to the right of program revenue in order to arrive at a net cost of the function or program.
 - D) They include depreciation expense on capital assets that are clearly identified with a function or program.
39. Which of the following are reported in the functions/programs section of the statement of activities at the government-wide level where they reduce the net expense of each function or program to produce a net revenue?
- A) General revenues.
 - B) Program revenues.
 - C) Indirect revenues.
 - D) None of the above.
40. Which of the following assets could appear in the governmental fund balance sheet?
- A) Taxes receivable.
 - B) Capital assets.
 - C) Deferred charge for issuance of bonds costs.
 - D) Infrastructure assets.
41. The Reserve for Encumbrances account is properly termed a
- A) Long-term liability.
 - B) Budgetary account.
 - C) Current liability if paid within a year; otherwise a long-term debt.
 - D) Reservation of fund equity.
42. Which of the following statements is true regarding the required disclosure of budgetary information?
- A) All budgetary disclosures should be presented in the notes to the financial statements.
 - B) There is one specific format for presenting the budgetary comparison statement.
 - C) The budgetary reconciliation must focus on the operating statement, but not the statement of position.
 - D) Budgetary comparisons are required supplementary information (RSI).
43. Encumbrances outstanding at year-end in a city's General Fund should be reported as a
- A) Fund balance designation in the General Fund.
 - B) Liability in the General Fund.
 - C) Reserve of fund balance in the General Fund.
 - D) Liability in the governmental activities column on the government-wide statement of net assets.

44. Which of the following will decrease the fund balance of a government at the end of the fiscal year?
- A) Appropriations are more than expenditures and reserve for encumbrances.
 - B) Appropriations are more than expenditures and encumbrances.
 - C) Appropriations are less than estimated revenues.
 - D) Appropriations are less than expenditures and encumbrances.
45. Which of the following fund types is most likely to have a legally adopted annual budget?
- A) Permanent fund.
 - B) General fund.
 - C) Pension trust fund.
 - D) Capital projects fund.
46. When computers are ordered by the mayor's office, the purchase order should be recorded in the General Fund as a debit to:
- A) Encumbrance.
 - B) Equipment.
 - C) Expenditures.
 - D) Appropriations.
47. If a state law requires that local governments prepare General Fund and special revenue fund budgets on a basis that differs from the basis of accounting required by generally accepted accounting principles (GAAP)
- A) The actual amounts in the budgetary comparison schedule should be reported using the government's budgetary basis.
 - B) A reconciliation of required budgetary basis to GAAP basis should be included.
 - C) Column headings in the budgetary comparison schedule should indicate if the government uses a non-GAAP budgetary basis.
 - D) All of the above statements are true.
48. Which of the following is properly reported as a liability of the General Fund?
- A) General obligation bonds payable.
 - B) Accounts payable.
 - C) Tax anticipation notes payable.
 - D) Both B and C are correct.
49. The Town of Woodhaven levied property taxes in the amount of \$800,000. The Town estimates that 1 percent will be uncollectible. The journal entry to record the tax levy will include
- A) A debit to cash for \$792,000.
 - B) A credit to revenues for \$792,000.
 - C) A debit to estimated uncollectible current taxes for \$8,000.
 - D) A debit to estimated revenues for \$800,000.

50. An interfund transfer should be reported in a governmental fund operating statement as a (an)
- A) Revenue or expenditure.
 - B) Due from or due to other funds.
 - C) Change in fund balance.
 - D) Other financing source or use.

51. The General Fund has transferred cash to the appropriate fund for eventual retirement of term bonds maturing in 10 years. Which funds would record this transaction?

- A) General Fund: Yes; Capital Projects Fund: No; Debt Service Fund: Yes
- B) General Fund: No; Capital Projects Fund: No; Debt Service Fund: Yes
- C) General Fund: Yes; Capital Projects Fund: No; Debt Service Fund: No
- D) General Fund: Yes; Capital Projects Fund: Yes; Debt Service Fund: Yes

52. Using the information below, what amount should be accounted for in a special revenue fund or funds?

Warehouse equipment used to store supplies for delivery to all city departments and agencies on a cost-reimbursement basis	\$300,000
Equipment used for supplying electric power to residents	\$1,750,000
Receivables for completed sidewalks to be paid for in installments by affected property owners. Construction was financed by special assessment bonds for which the town has no liability	\$1,500,000
Cash received from federal government, dedicated to highway maintenance, that must be accounted for in a separate fund	\$1,800,000

- A) \$1,800,000.
 - B) \$2,100,000.
 - C) \$3,300,000.
 - D) \$5,350,000.
53. On May 1, Yuca City was notified of approval of a \$300,000 federal operating grant, payable on a reimbursement basis as the city expends resources for the intended purpose of the grant. As of May 1, no expenditures had been made for grant purposes. The journal entry to record approval of this grant will include
- A) A credit to revenues in the amount of \$300,000.
 - B) A credit to deferred revenues in the amount of \$300,000.
 - C) A debit to grants receivable in the amount of \$300,000.
 - D) No journal entry will be made until eligibility requirements are met by expending resources for the authorized purpose(s).
54. Which of the following best describes the proper treatment for uncollectible amounts of tax revenue?
- A) Report bad debt expense.
 - B) Report revenue net of uncollectible amounts.
 - C) Report bad debt expenditures.
 - D) Report deferred revenue.

55. The following items were among Birch Village's capital expenditures during the year ended December 31:

Equipment for village tax collector's office	\$40,000
Vehicles for village electric utility	60,000

What amounts should have been recorded in the General Fund and enterprise fund for the increase in equipment during the year ended December 31, assuming the electric utility is accounted for in an enterprise fund?

- A) General Fund: \$0; Enterprise Fund: \$0
 - B) General Fund: \$0; Enterprise Fund: \$60,000
 - C) General Fund: \$40,000; Enterprise Fund: \$60,000
 - D) General Fund: \$100,000; Enterprise Fund: \$0
56. The General Fund received \$200,000 in lieu of taxes from the city owned water utility, an Enterprise Fund. This is an example of a (an)
- A) Interfund transfer.
 - B) Interfund loan.
 - C) Reimbursement.
 - D) Internal exchange or quasi-external transaction.
57. On July 1, the first day of its fiscal year, Elsie City levied a \$1,000,000 property tax which is payable in full on December 1 of the same year. On September 15, the city decided to borrow \$200,000 in 90 day tax anticipation notes to cover operating expenditures until the tax revenues are collected. The journal entry on September 15 to record the issuance of tax anticipation notes will include
- A) A credit to proceeds of tax anticipation notes.
 - B) A credit to tax anticipation revenue.
 - C) A credit to tax anticipation notes payable.
 - D) Either B or C is acceptable if consistently applied.
58. During January 2009 General Fund supplies ordered in the previous fiscal year and encumbered at an estimated amount of \$2,000 were received at an actual cost of \$2,200. The entry to record this transaction will require a debit to
- A) Expenditures 2009 in the amount of \$2,200.
 - B) Expenditures 2008 in the amount of \$2,000.
 - C) Expenditures 2009 in the amount of \$200.
 - D) Both B and C are correct.

59. If state law requires that local governments prepare General Fund and special revenue fund budgets on a basis that differs from the basis of accounting required by GAAP, then the budgetary comparison schedule or statements should
- A) Not be included in the general purpose external financial statements.
 - B) Be included with budget figures adjusted to the GAAP basis and presented only in the general purpose external financial statements.
 - C) Be included with the actual figures presented on the budget basis and then reconciled to the GAAP basis.
 - D) None of the above.
60. In fiscal year 2009 the "Expenditures—2008" account represents
- A) Excess expenditures in 2008 that will be offset against appropriations for 2009.
 - B) Goods or services received in 2008 which the government has no record of ordering.
 - C) Amount of expenditures for goods ordered in 2008 that were received in 2009 and chargeable to appropriations of 2008.
 - D) The amounts of purchase orders issued in 2008 that were intended to be paid from in full from appropriations for 2009.
61. Which of the following transactions is classified as an exchange transaction rather than a nonexchange transaction?
- A) Property taxes.
 - B) Fees charged by a municipal airport.
 - C) Bequest left to the city by a wealthy citizen.
 - D) State grant to conduct an after school program for children.
62. The City of Beauchamp received 100 acres of land located in the city limits as a gift from a local property owner for use as a city recreation park. The debit for the entry to record this event in the General Fund should be to
- A) General capital assets.
 - B) Land.
 - C) Expenditures.
 - D) None of the above—no entry required in General Fund.
63. Equipment acquired several years ago by a capital projects fund and reported in the governmental activities was sold. The receipts were considered to be unrestricted revenue. Entries are necessary in the
- A) General Fund, capital projects fund, and governmental activities.
 - B) General Fund and governmental activities.
 - C) General Fund, capital projects fund, and enterprise fund.
 - D) None of the above.

Use the following information to answer Questions 64-65.

Based on the following selected General Fund account balances and other information for Turner City at the end of the first quarter of the current fiscal year.

Estimated revenues	\$180,000
Revenues	50,000
Total assets and resources	250,000
Appropriations	170,000
Expenditures	40,000
Encumbrances	10,000
Total liabilities	60,000

64. The amount of Turner City's total assets as of the end of the first quarter is
- A) \$120,000.
 - B) \$150,000.
 - C) \$70,000.
 - D) Some other amount.
65. Assuming there were no reservations of fund equity at the end of the previous fiscal year and none currently other than reserve for encumbrances, Turner City's fund balance at the end of the previous fiscal year and at the end of the first quarter was (is) ___ and ___, respectively
- A) \$50,000 and \$10,000.
 - B) \$50,000 and \$70,000.
 - C) \$70,000 and \$50,000.
 - D) \$50,000 and \$60,000.
66. If a government issues debt to finance capital acquisition by another government and the proceeds of the debt are delivered directly to the intended beneficiaries, how should the related long-term debt be reflected in a governmental fund?
- A) Other financing source and other financing use.
 - B) Revenue and expenditure.
 - C) Other financing source and expenditure.
 - D) Not reported because there are no actual flows of financial resources.
67. The governmental fund operating statement presents
- A) Net income (loss).
 - B) Other financing sources and uses.
 - C) Revenues and expenditures.
 - D) Both B and C.

68. In which fund would you most likely account for the assets confiscated in drug arrests and subsequently used for drug prevention education?
- A) General Fund.
 - B) Permanent fund.
 - C) Enterprise fund.
 - D) Special revenue fund.
69. Proceeds from general obligation bonds for capital construction should generally be recorded in the
- A) Business-type activities.
 - B) General Fund.
 - C) Capital projects funds.
 - D) Debt service funds.
70. Which of the following types of nonexchange transactions recognize revenue when all the eligibility requirements are met?
- A) Voluntary nonexchange transactions
 - B) Government-mandated nonexchange transactions.
 - C) Derived tax revenues.
 - D) A and B.
71. Which of the following would be considered a general capital asset?
- A) A vehicle purchased from general fund revenues.
 - B) A vehicle purchased and maintained by an enterprise fund.
 - C) A computer purchased from revenues of an internal service fund and used by the supplies department.
 - D) Real estate purchased with the assets of a pension trust fund.
72. The following items were included in Prairie City's General Fund expenditures for the year ended June
- | | |
|--|----------|
| Personal computer for the city treasurer | \$4,000 |
| Furniture for the mayor's office | \$10,000 |
- How much should be classified as capital assets in Prairie City's General Fund balance sheet at June 30?
- A) \$ 0.
 - B) \$ 4,000.
 - C) \$10,000.
 - D) \$14,000.

73. A wealthy local merchant donated a building to the city of Rosewood during the year. The original cost of the building was \$300,000. Accumulated depreciation at the date of the gift amounted to \$250,000. Fair market value at the date of the gift was appraised at \$600,000, of which \$40,000 was appraised as value of the land on which the building was situated. At what amount should Rosewood record this donated property in the governmental activities accounts at the government-wide level?
- A) \$50,000.
 B) \$250,000.
 C) \$600,000.
 D) \$ 0.
74. Equipment in general governmental service that had been acquired several years ago by a capital projects fund at a cost of \$40,000 was sold for \$15,000 cash. Accumulated depreciation of \$30,000 existed at the time of the sale. The journal entry to be made in the governmental activities journal will include all of the following *except*
- A) A debit to cash for \$15,000.
 B) A debit to accumulated depreciation of \$30,000.
 C) A credit to equipment for \$40,000.
 D) All of the entries above will be made.
75. The city of Columbus issued bonds at par for the construction of a new city office building. Receipt of the bond proceeds would result in journal entries in which funds?
- A) Capital Projects Fund: Yes; Debt Service Fund: No
 B) Capital Projects Fund: No; Debt Service Fund: Yes
 C) Capital Projects Fund: Yes; Debt Service Fund: Yes
 D) Capital Projects Fund: No; Debt Service Fund: No
76. Five trucks were leased by Pleasantville under terms qualifying as a capital lease. These trucks are to be used in the fire department. This transaction would require an entry in
- A) Internal service fund.
 B) Special revenue fund.
 C) Plant and equipment fund.
 D) Governmental activities.
77. With regard to depreciation of general capital assets
- A) Depreciation expense should be charged in the appropriate governmental funds, and reported in the governmental activities accounts.
 B) Depreciation expense must be recorded in the governmental fund, but no depreciation expense can be recorded in the governmental activities accounts.
 C) No depreciation can be recorded in any governmental fund, but depreciation expense must be reported in the governmental activities accounts.
 D) No depreciation can be recorded in any governmental fund, nor is it permissible to record depreciation expense in the governmental activities accounts.

78. The sale of tax-supported bonds at par for the eventual construction of a new city jail would require recognition in which of the following funds and/or activities?
- A) Capital projects and debt service funds.
 - B) Debt service fund, capital projects, and governmental activities.
 - C) Debt service fund and the governmental activities.
 - D) Capital projects fund and the governmental activities.
79. The city of Milan was notified that it had been approved for a grant from the state government in the amount of \$1,000,000 as partial financing for a new city jail. The money from the grant will be received later in the current fiscal year. The journal entry to record this transaction will include
- A) A credit to "other financing sources" upon notification.
 - B) A credit to "revenues" when all eligibility requirements are met.
 - C) A credit to "revenues" upon receipt of the money from the state.
 - D) A credit to "other financing sources" upon receipt of the money from the state.
80. Interest expenditures incurred during the period of construction of capital projects
- A) May not be capitalized as part of the cost of general capital assets reported in governmental activities.
 - B) Must be capitalized as part of the cost of general capital assets reported in the governmental activities accounts at the government-wide level.
 - C) Must be capitalized as part of the cost of general capital assets reported in the capital projects fund.
 - D) May optionally be capitalized as part of the cost of general capital assets reported in the capital projects fund.
81. Premiums received on tax-supported bonds are generally transferred to what fund?
- A) Internal service fund.
 - B) Debt service.
 - C) General.
 - D) Special revenue.

Use the following information to answer Questions 82-83.

In late June, the Everready Construction Co. submitted a progress billing on a construction contract for \$600,000. On July 2, the bill was approved for payment, subject to a five-percent retention, as provided by the contract.

82. Construction expenditure should be debited when
- A) The bill is approved for payment.
 - B) The bill is received.
 - C) The bill is paid (except for the five percent retention).
 - D) The final five percent of the bill is paid.

83. The amount that should be debited to construction expenditure is
- A) \$0.
 - B) \$30,000.
 - C) \$570,000.
 - D) \$600,000.
84. For which of the following assets can the "modified approach" be elected in lieu of depreciation?
- A) Buildings and equipment.
 - B) All general capital assets.
 - C) All capital assets.
 - D) Eligible infrastructure assets.
85. Which of the following is one of the requirements that must be met to elect *not* to depreciate certain eligible infrastructure assets?
- A) The government omits the cost of the assets from the government-wide statement of net assets.
 - B) The government maintains the assets in a condition level that far exceeds the prescribed level.
 - C) The government manages the assets using an asset management system that meets specific criteria.
 - D) The government gets permission of the Government Accounting Standards Board.
86. The liability for special assessment bonds that carry a secondary pledge of a city's general credit, if reported in conformity with GAAP, should be reported in the balance sheet(s) of
- A) A debt service fund.
 - B) An agency fund.
 - C) The governmental activities accounts.
 - D) An agency fund and disclosed in the notes to the financial statements.
87. General obligation bonds issued for the benefit of enterprise funds, with the intent of paying bond principal and interest from revenues of the enterprise fund, should be reported as a liability in the balance sheet of the
- A) Enterprise fund.
 - B) Governmental activities.
 - C) Both the enterprise fund and the governmental activities accounts.
 - D) Enterprise fund and a note to the financial statements explaining the contingent liability of the general government if enterprise funds are insufficient to pay principal and interest.
88. For which of the following would bond discount or premium be amortized?
- A) Bonds Issued: No; Bonds Held as Investments: No
 - B) Bonds Issued: No; Bonds Held as Investments: Yes
 - C) Bonds Issued: Yes; Bonds Held as Investments: No
 - D) Bonds Issued: Yes; Bonds Held as Investments: Yes

89. Under *GASBS 34*, combining financial statements would be prepared

- A) For all nonmajor governmental funds.
- B) For all internal service funds.
- C) For each fund-type.
- D) A and B.

90. Interest expenditures on bonds payable should be recorded in a debt service fund

- A) At the end of the fiscal period if the interest due date does not coincide with the end of the fiscal period.
- B) When bonds are issued.
- C) When paid.
- D) When legally payable.

91. Valencia Village issued the following bonds during the year ended June 30, 2008:

For installation of street lights, to be assessed against properties benefited, but secondarily backed by the village:	\$600,000
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For construction of public golf course; bonds to be paid from pledged fees collected from golf course users:	800,000
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How much should be accounted for through debt service funds for payments of principal over the life of the bonds?

- A) \$0.
- B) \$600,000.
- C) \$800,000.
- D) \$1,400,000.

92. The liability for general obligation bonds should be recorded in

- A) General Fund.
- B) Capital projects fund.
- C) Governmental activities journal.
- D) Debt service fund.

93. On the due date for bond interest, the debt service fund journal entry (or entries) will include a debit to

- A) Expenditures—bond interest.
- B) Transfers in.
- C) Appropriations.
- D) Interest expense.

94. When bonds are sold at a premium for a capital project, the premium amount generally
- A) Increases the cash available to the capital projects fund.
 - B) Is transferred to the debt service fund.
 - C) Is transferred to the General Fund.
 - D) Is ignored by both the capital projects fund and any other fund.
95. If a government issues debt to finance capital acquisition by another government and the proceeds of the debt are delivered directly to the intended beneficiaries, how should the related long-term debt be reflected in a governmental fund?
- A) Other financing source and other financing use.
 - B) Other financing source and expenditure.
 - C) Revenue and expenditure.
 - D) Not displayed on the face of the financial statements because there are no actual flows of financial resources; however, disclosed in the notes to the financial statements.
96. The city of Sparr's fiscal year ends on December 31. On July 1, 2008, the city issued \$1,000,000 of 6%, 10-year term bonds with semi-annual interest payments due on July 1 and January 1 each year, beginning on January 1, 2009. What amount of expenditures should the city recognize in its debt service fund for the years 2008 and 2009?
- A) \$30,000 in 2008; \$60,000 in 2009.
 - B) \$60,000 in 2008; \$60,000 in 2009.
 - C) \$3,000 in 2008; \$6,000 in 2009.
 - D) \$0 in 2008; \$60,000 in 2009.
97. Which of the following is a true statement regarding in-substance defeasance of bonds?
- A) The government must place cash or other assets in an irrevocable trust sufficient to pay all future interest and principal payments for the debt being defeased.
 - B) The government must agree to maintain sufficient cash and investment balances in its debt service fund to cover all interest and principal payments for the debt being defeased.
 - C) The government must pledge to transfer amounts to an escrow agent prior to the due date for each interest and principal payment for the debt being defeased.
 - D) Any of the above approaches are acceptable under GAAP.
98. When the debt service fund makes a payment of principal and interest on an outstanding long-term debt, the governmental activities accounts
- A) Reflect the principal payment only.
 - B) Reflect the interest payment only.
 - C) Has no record of the transaction.
 - D) Reflects both principal and interest payments.
99. Internal service funds should be used only if
- A) The reporting government is the predominant participant in the activity.
 - B) The reporting government provides services primarily to external participants.
 - C) Either A and B.
 - D) Neither A nor B.

100. Which of the following is a difference between enterprise funds and internal service funds?
- A) The use of cost accounting by enterprise funds but not internal service funds.
 - B) The identity of those who benefit from the fund's service.
 - C) The number of basic financial statements required.
 - D) The measurement focus on economic resources for enterprise funds and current financial resources for internal service funds.
101. Depreciation on capital assets used by an enterprise fund of a government
- A) Should not be recorded for infrastructure assets.
 - B) Should be recorded in the General Fund as an expenditure.
 - C) Should be recorded in the enterprise fund by a debit to an expense account.
 - D) Should be recorded in the governmental activities accounts.
102. In order to conform to GASB standards, goods and services provided by internal service funds to other departments of the government must be priced to
- A) Cover variable costs only.
 - B) Cover full costs (both fixed and variable).
 - C) Cover full costs, plus an additional charge to cover inflation and anticipated needs for expansion.
 - D) None of the above. Each government determines its own operating and pricing policies, which may include subsidizing the cost of operating an internal service fund.
103. GASB accounting and financial reporting standards for risk financing activities provide that an internal service fund should recognize claims expense and a related liability when a claim has been asserted and
- A) It is reasonably possible that a loss has been incurred and the amount can be reasonably estimated.
 - B) It is probable that a loss has been incurred and the amount can be reasonably estimated.
 - C) A loss has been incurred, but the amount cannot be reasonably estimated.
 - D) A municipal court has awarded a judgment to a claimant fund (e.g., the General Fund).
104. Which of the following account balances would only be reported if a city-owned utility followed regulatory accounting principles?
- A) Depreciation expense.
 - B) Pumping expense.
 - C) Restricted Assets—Cash.
 - D) Utility Plant Acquisition Adjustments.
105. Customers' meter deposits, which cannot be spent for normal operating purposes, would be classified as restricted cash in the balance sheet of which fund type?
- A) Internal service.
 - B) Private-purpose trust fund.
 - C) Enterprise.
 - D) Special revenue.

106. Which of the following is a feasible means of dissolving an internal service fund that the government no longer needs or wants?
- A) Conversion of the fund's noncash assets to cash and distribution of the cash to another fund or funds.
 - B) Transfer the fund's assets to another fund that will continue the same or similar operating activities.
 - C) Distribute the fund's assets in kind to another fund or funds that will not continue the same or similar operating activities.
 - D) Any of the above, in any combination, would be feasible.
107. Which of the following organizations or units would least likely be accounted for by an enterprise fund?
- A) A hospital.
 - B) An airport.
 - C) The health department.
 - D) A sports stadium.
108. Which of the following accounts would be included in the Fund Equity section of an enterprise fund balance sheet?
- A) Fund Balance: Yes; Net Assets: Yes
 - B) Fund Balance: Yes; Net Assets: No
 - C) Fund Balance: No; Net Assets: No
 - D) Fund Balance: No; Net Assets: Yes
109. The water utility fund of the City of Houghton uses cycle billing procedures. Under these procedures, the City of Houghton will likely do which of the following on December 31, the end of its fiscal year
- A) Read meters and bill all customers on December 31.
 - B) Accrue revenue and a receivable for the number of days from the last billing date for each customer until December 31.
 - C) Ignore water power consumed by customers from their last billing date until December 31.
 - D) Any of the above are acceptable under GAAP.
110. Which of the following is a true statement about the Allowance for Funds Used During Construction (AFUDC)?
- A) AFUDC may have either a debt component or an equity component.
 - B) The amount credited to AFUDC may exceed the amount of interest paid during the period on bonds issued for construction.
 - C) AFUDC may be credited for an imputed amount of interest on the utility's own funds used for construction.
 - D) All of the above are true statements.

111. A municipal solid waste landfill (MSWLF) accounted for by an enterprise fund should recognize an expense and liability for the year in the amount of
- A) The estimated total current costs for closure and postclosure of the MSWLF determined at the time the landfill is placed into initial operation divided by the estimated number of years the landfill will be operated.
 - B) The estimated total current costs for closure and postclosure of the MSWLF as reevaluated at the end of each fiscal year divided by the remaining estimated number of years the landfill will be operated.
 - C) A portion of the estimated total current costs for closure and postclosure of the MSWLF, determined at the time the landfill is placed into initial operation, equal to the ratio of landfill used during the year to its total capacity.
 - D) A portion of the estimated total current costs for closure and postclosure of the MSWLF, as reevaluated at the end of the fiscal year, equal to the ratio of landfill used to its total capacity.
112. Under utility regulatory accounting principles (RAP), the account "Utility Plant Acquisition Adjustment" reflects
- A) The difference between the amount paid for utility plant and the amount originally paid by the utility that first placed the plant into public service, less accumulated depreciation.
 - B) The difference between the fair market value of the utility plant and the amount paid for it, less accumulated depreciation.
 - C) The difference between the amount paid for the utility plant less its current replacement cost.
 - D) The difference between the amount paid for the utility plant less the fair market value of its tangible plant assets.
113. Sales revenues of a utility for a certain fiscal period
- A) Are equivalent to total debits to Customer Accounts Receivable for that period.
 - B) Include receivables billed during a fiscal period, plus receivables billed early in the next year if meters were read before year-end.
 - C) Should be reported on the cash basis for the sake of conservatism.
 - D) Include billed receivables and an accrual for unbilled receivables as of the balance sheet date.
114. Which of the following activities would be most appropriately recorded by an agency fund?
- A) Assets held for employees' federal and state withholding taxes.
 - B) Deposits held for customers of a city-owned electric utility.
 - C) Assets held for special assessment bondholders when the city is secondarily liable for the bonds.
 - D) Assets held for investment, the earnings from which are used for maintenance of the City Cemetery.
115. Which of the following is a valid reason for establishing a tax agency fund and charging a collection fee to other governments?
- A) To help eliminate a General Fund deficit.
 - B) To increase the total amount of taxes levied.
 - C) To avoid overlapping taxes.
 - D) To realize administrative efficiencies from centralizing tax billing and collection activities.

116. Which of the following accounts is *least* likely to be used by a tax agency fund?
- A) Cash.
 - B) Revenues.
 - C) Taxes receivable for other funds and units.
 - D) Due to other funds and units.
117. The long-term liability for special assessment bond issues for which the city is *not* obligated in any manner should be recorded in a (an):
- A) Agency fund only.
 - B) Special assessment fund.
 - C) Agency fund and private-purpose trust fund.
 - D) None of the funds but should be disclosed in the notes to the financial statements.
118. If special assessment receivables are recorded in the accounts of an agency fund, the appropriate account(s) to credit is (are):
- A) Fund balance.
 - B) Revenues and deferred revenues.
 - C) Due to special assessment Bondholders.
 - D) Interfund transfers in.
119. Which of the following grants received by a city would most appropriately be recorded in a "pass-through" agency fund?
- A) A federal grant for various purposes, for which the ultimate allocation of funds will be decided by a state agency.
 - B) A state grant for summer employment of juveniles.
 - C) A federal grant for repairing and overhauling bridges.
 - D) A federal grant for upgrading low-rent housing.
120. When a cash and investment pool of a certain city was established, the debt service fund transferred investments to the pool having a cost of \$3,000,000 but a current fair market value of \$3,100,000. To record this transaction, the journal entry made by the debt service fund will include:
- A) A debit to Equity in Pooled Cash and Investments in the amount of \$3,100,000.
 - B) A credit to Revenues—Change in Fair Value of Investments in the amount of \$100,000.
 - C) A credit to Investments in the amount of \$3,000,000.
 - D) All of the above.
121. The cash and investment pool of Riverside City allocates dividends, interest, and capital gains and losses on a periodic basis. When the cash and investment pool accrues interest earned on investments in debt securities, pending allocation to participating funds, it would credit which of the following accounts?
- A) Interfund Loans.
 - B) Undistributed Earnings on Pooled Investments.
 - C) Revenues.
 - D) Interfund Receivables.

122. Which of these fiduciary fund types has no fund equity?
- A) Investment trust funds.
 - B) Pension trust funds.
 - C) Agency funds.
 - D) Private-purpose trust funds.
123. A difference between agency funds and governmental funds is
- A) Agency funds are not included on any fund financial statements.
 - B) Agency funds use a different basis of accounting.
 - C) Agency funds do not report fund balances; only assets and liabilities.
 - D) B and C.
124. A local golfer contributed \$100,000 to the city stipulating that the money be invested and that the earnings thereon be used for maintenance of the city golf course. The \$100,000 would most appropriately be recorded in a (an)
- A) Agency fund.
 - B) Private-purpose trust fund.
 - C) A permanent fund.
 - D) Investment trust fund.
125. A private-purpose trust fund sold investments in securities having a cost of \$32,000 for \$34,000, resulting in a \$2,000 realized gain. The gain is
- A) Generally transferred to an operating fund or the General Fund.
 - B) Generally used to maintain the principal of the trust.
 - C) Generally reported as income of the trust.
 - D) Generally transferred to a permanent fund.
126. Employer contributions to a public employees retirement system (PERS) should be reported as
- A) An expenditure of the General Fund for employees paid by the General Fund.
 - B) An expense of a proprietary fund for employees paid by a proprietary fund.
 - C) An addition to net assets of the PERS.
 - D) All of the above.
127. A statement of cash flows should be prepared for which of the following fiduciary fund types?
- A) Agency.
 - B) Pension trust.
 - C) Private-purpose trust.
 - D) None of the above.

128. The financial position of the Policemen's Pension Fund administered by a city should be reported in the city's basic financial statements as a column in the
- A) Statement of fiduciary net assets.
 - B) Statement of assets, liabilities, and fund balances.
 - C) Balance sheet—governmental funds.
 - D) None of the above; the assets belong to the policemen, not to the city.
129. Which of the following is the appropriate basis of accounting for an agency fund?
- A) Accrual basis.
 - B) Modified accrual basis.
 - C) Cash basis.
 - D) None of the above.
130. Which of the following activities would be accounted for by a trust fund?
- A) Deposits held for customers of a city-owned electric utility.
 - B) Assets passed-through the state government to the local government.
 - C) Assets held for special assessment bondholders for which the city has no liability.
 - D) Assets which are used for maintenance of a private golf course, which is used by many city residents.
131. Under GASB standards effective for 2006 and beyond, how will a government report other post-employment retirement benefits (OPEB)?
- A) By disclosing information about OPEB in the notes to the financial statements, but without display of OPEB expenses or liabilities on the face of the financial statements.
 - B) In a manner that is quite similar to the reporting requirements for pension plans.
 - C) Using two different methods, one for health care plans other types of OPEB.
 - D) By using a modified accrual basis, which requires only expenditures of the current period be reported.

Note 132 - 138 are based on New Hanover County CAFR

132. Which of the following is **NOT** a blended component Unit of New Hanover County:
- a. New Hanover County Parks Foundation
 - b. Lower Cape Fear Hospice
 - c. New Hanover County Tourism Development authority
 - d. New Hanover County Water & Sewer Distribution
133. In the statement of activities of New Hanover County, which governmental activity has the largest deficit?
- a. Human resources
 - b. Public safety
 - c. Education
 - d. General government

134. Which of the following is the largest source of revenue for New Hanover County:
- Sales tax
 - Property tax
 - State reimbursement
 - Room occupancy taxes
135. Which of the following is not a reconciling item between the net change in fund balances - total governmental funds to the change in net assets of governmental funds:
- Certain long term debt items
 - Certain revenue amounts
 - Capital additions net of depreciation
 - Cash and investing differences
136. On which fund of New Hanover County does the non-current liability "Accrued Landfill closure and post closure care costs" appear
- General fund
 - Water & Sewer district
 - Environmental Management fund
 - Debt Service fund
137. Which of the following funds has significant capital contributions:
- Water and sewer distribution
 - Room occupancy tax fund
 - Public school fund
 - General fund
138. Which of the following funds has a statement of cash flow:
- Water and sewer distribution
 - Room occupancy tax fund
 - Public school fund
 - General fund
139. On which fund of New Hanover County does the non-current liability "Accrued Landfill closure and post closure care costs" appears
- General fund
 - Water & Sewer district
 - Environmental Management fund
 - Debt Service fund
140. Which of the following funds has significant capital contributions:
- Water and sewer distribution
 - Room occupancy tax fund
 - Public school fund
 - General fund

141. Which of the following funds has a statement of cash flow:
- Water and sewer distribution
 - Room occupancy tax fund
 - Public school fund
 - General fund
142. Which combination of inventory costing and systems does New Hanover County use?
- FIFO and perpetual
 - FIFO and periodic
 - LIFO and perpetual
 - LIFO and periodic
143. See attached exhibit II, What label should go in the four spaces indicated by "143":
- General Fund
 - Total
 - Component units
 - Blended Units
144. What label should go in "144"
- Primary government
 - Program net expenses
 - Net fund expenditures
 - Program revenues
145. What label should go in "145"
- Expenses
 - Expenditures
 - Charges for services
 - General revenues
146. What label should go in 146?
- Expenses
 - Expenditures
 - Charges for services
 - General revenues
147. What label should go in "147"
- Government deficits
 - Total
 - Net income
 - Net expenses
148. What label should go in 148
- Net assets(deficit) ending
 - Net governmental equity
 - Net surplus (deficit) unreserved
 - Net earnings

149. What label should go in "149"

- a. Revenues
- b. Expenses
- c. Expenditures
- d. Activities

150. Which of the following is **NOT** a blended component Unit of New Hanover County:

- a. New Hanover County Parks Foundation
- b. Lower Cape Fear Hospice
- c. New Hanover County Tourism Development authority
- d. New Hanover County Water & Sewer Distribution

Problem II twenty five points

Given the following information for New Hanover County:

- 1. Total taxable property assessed value \$18,000,000,000 (18 billion)
- 2. Direct Property tax rate New Hanover County .68 (68 cents) per \$100 of valuation
- 3. City of Wilmington overlapping property tax rate per \$100 valuation is 46 cents
- 4. New Hanover County Debt Limit based on 8% of assessed value \$1,440,000,000
- 5. New Hanover County General Obligation debt at 6-30-05 \$404,000,000,000
- 6. Percent of uncollectible tax levies during current period 4%
- 7. New Hanover population 177,692 current bonded debt per capita \$988

Required: If the County decides to build a football stadium in Ogden (instead of letting Walmart build a new store there) by issuing general obligation bonds of \$40,000,000, the annual cost of debt service and operation to the general fund of the County would be \$2,000,000. Show all calculations

- a. Assuming voter approval, does the county have the debt capacity to issue \$40,000,000 of new general obligation debt (hint, calculate the debt margin)

- b. How much will the property tax rate of a County resident have to be increased to fund the annual cost of the project.

- c. How much will bonded debt per capita increase?

Problem III General Journal Entries (25 points)

Prepare Journal entries for the following four Transactions. On the left, prepare the entry in the general fund and on the right prepare the entry (if any) on the Governmental activities (modified accrual) statement of net assets/statement of activities(Accrual)

1. The annual operating budget was approved by City Council of \$890,000 of Appropriations and \$900,000 estimated revenues.

GENERAL FUND

Governmental Activities

2. A new Squad car was ordered for \$32000.

GENERAL FUND

Governmental Activities

3. Property taxes were levied of \$320,000 of which \$15,000 are expected to be uncollectible.

GENERAL FUND

Governmental Activities

4. The new squad car arrived and a bill for \$33,100 was received and processed for payment.

GENERAL FUND

Governmental Activities