

Chapter 11— Advanced Accounting, 3rd Edition by Hamlen, Huefner and Largay

Solutions to Practice Quiz

1. Topic: Special purpose activities

LO 1

Answer: a

Rationale: The endowment of \$5,000,000 is nonspendable, whether in the form of investments or cash. The \$20,000 available to spend on summer art programs is restricted by the external foundation.

2. Topic: Capital projects fund

LO 2

Answer: b

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

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

3. Topic: Capital projects fund

LO 2

Answer: d

Rationale: The capital projects fund balance sheet at the end of 2016 is:

Cash	\$6,900,000	Accounts payable	\$ 100,000
Grant receivable	<u>200,000</u>	Fund balance—restricted	<u>7,000,000</u>
Total	\$7,100,000	Total	\$7,100,000

The entire fund balance is restricted due to external requirements of the bond issue and the state and federal grants.

4. Topic: Debt service fund

LO 3

Answer: c

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

5. Topic: Debt service fund

LO 3

Answer: b

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

6. Topic: Proprietary funds

LO 4

Answer: a

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

7. Topic: Agency funds

LO 5

Answer: c

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

8. Topic: Investments

LO 6

Answer: d

Rationale: SGAS 31 requires investments to be reported at fair value, regardless of the fund in which the investments are reported. Unless the investment is a derivative that qualifies for hedge accounting, unrealized gains and losses are reported in the fund's operating statement.

9. Topic: Compensated absences

LO 6

Answer: a

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

10. Topic: Leases

LO 6

Answer: d

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