

## Chapter 12– Advanced Accounting, 3<sup>rd</sup> Edition by Hamlen, Huefner and Largay

### Solutions to Practice Quiz

**1. Topic: Components of the CAFR**

**LO 1**

*Answer:* b

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

**2. Topic: Government-wide financial statements**

**LO 2**

*Answer:* b

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

**3. Topic: Government-wide financial statements**

**LO 2**

*Answer:* d

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

**4. Topic: Fund statements, major funds**

**LO 3**

*Answer:* d

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

**5. Topic: Fund statements, reconciliation**

**LO 3**

*Answer: c*

*Rationale:* The reconciliation is:

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

**6. Topic: Fund statements, reconciliation**

**LO 3**

*Answer: a*

*Rationale:* The reconciliation is:

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

**7. Topic: Fund and government-wide financial statements**

**LO 2, 3**

*Answer: c*

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

**8. Topic: Budgetary comparison schedules**

**LO 4**

*Answer: c*

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

**9. Topic: Budgetary comparison schedules, outstanding encumbrances**

**LO 4**

*Answer: a*

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

**10. Topic: External reporting for infrastructure**

**LO 5**

*Answer: b*

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