

Chapter 13– Advanced Accounting, 3rd Edition by Hamlen, Huefner and Largay

Solutions to Practice Quiz

1. Topic: NFP financial statements

LO 1

Answer: b

Rationale: Expenses only reduce unrestricted net assets.

2. Topic: NFP financial statements

LO 1

Answer: a

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

3. Topic: Promised contributions

LO 2

Answer: d

Rationale: The university reported the documented promise as a receivable and an increase in temporarily restricted net assets in 2015. In 2016, the \$50,000 received is recorded as follows:

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

4. Topic: Donated services

LO 2

Answer: d

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

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

5. Topic: Contributions received on behalf of others

LO 2

Answer: a

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

6. Topic: Contributions with use restrictions

LO 2

Answer: c

Rationale: Contributions revenue of \$10,000,000 was reported as an increase in temporarily restricted net assets in 2015. As the contributions were used, they were released to unrestricted net assets and reported as expenses (reduction in unrestricted net assets). Unspent contributions remain in temporarily restricted net assets.

7. Topic: Investments in financial securities

LO 3

Answer: d

Rationale: The \$5,000,000 is a permanent donation. Therefore it is preserved as PRNA, and changes in the value of the securities are changes in UNA. The organization uses full accrual accounting, and the revenue is not restricted, so UNA also increases by \$200,000 for the dividend income. Total change in UNA: $(\$500,000) + \$200,000 = (\$300,000)$

8. Topic: Investments in financial securities

LO 3

Answer: c

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

9. Topic: Health care organizations

LO 4

Answer: b

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

10. Topic: Evaluation of NFP financial information

LO 5

Answer: c

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