E5-33. (Judgments and claims) LO 4 Homework MBC

A citizen sued a city because he was accidentally shot by a police officer. The city acknowledges responsibility for the accident, and based on ongoing negotiations, the city's attorney believes the citizen's claim will probably be settled for about $750,000. The accident occurred on March 14, 2019; the government's fiscal year ends June 30, 2019; and the city's attorney believes it might take more than a year to reach a settlement. Prepare the journal entry, if any, the city should make regarding this event when it closes its General Fund books for fiscal year 2019. To support your answer, state the principle that governs the accounting for this event in the General Fund.

E5-34. (Interfund transactions) LO 5 Homework MBC

The following interfund transactions occurred in Becca City's General Fund during the year ended December 31, 2019. For each transaction, describe its nature (e.g., is it an interfund transfer, an interfund loan), prepare the journal entry in the General Fund, and prepare the journal entry in the other affected fund.

1. Received an invoice for $15,000 from the City's Electric Utility Fund for electricity service in October.
2. Loaned $30,000 to the Parks Special Revenue Fund in May 2019 (the Special Revenue Fund was to repay the loan in September 2019).
3. Gave $50,000 to the City's Mass Transit Authority as a subsidy because transit fares were insufficient to pay the authority's operating expenses.

E5-35. (Treatment of inventories—purchases method) LO 6 Homework MBC

The City of Nickston uses the purchases method to account for the acquisition of supplies by its General Fund. At the end of fiscal 2018, the supplies inventory was valued at $63,000. At the end of fiscal 2019, the supplies inventory was valued at $71,000. Prepare the journal entry that needs to be made at the end of fiscal 2019 to adjust the amount of the supplies inventory.

E5-36. (Classification of fund balance) LO 8 Homework MBC

The General Fund of Attmore County has a total fund balance of $850,000 at December 31, 2019. The total includes the 4 items shown below. Taking account of those 4 items, prepare the fund balance section of its General Fund balance sheet.

1. Attmore uses the purchases method to record supplies acquisitions. Attmore considers its year-end inventory of $112,000 to be material.
2. During the year, the General Fund loaned the Internal Service Fund $100,000. The loan will be fully repaid to the General Fund in 3 years.
3. The General Fund received a federal grant of $100,000 to help Attmore plan for anti-terrorism activities. The grant has no time restrictions. At year-end, the General Fund had unspent resources of $40,000 under the grant.
4. In accordance with the authority delegated to him, the Attmore County manager decided to set aside $75,000 of the fund balance of the General Fund for future spending to upgrade its computer systems.

E5-37. (Year-end accounting for encumbrances) LO 8 Homework MBC

A local government's budget policy allows open encumbrances to lapse at the end of the year. Its budget for the following year takes the open encumbrances into account, and expenditures resulting from those encumbrances are charged against the following year's appropriations. Its General Fund has open encumbrances of $75,000 at the end of fiscal year 2019. There are no restrictions or commitments on the use of these resources.

1. What journal entry or entries should be made at the end of fiscal 2019?
2. What journal entry or entries should be made at the start of fiscal 2020?

E5-38. (Individual research) LO 7 ~~Homework MBC~~

Assignment E5-38 is not available in myBusinessCourse.

Visit the website of a state or local government to review its latest Comprehensive Annual Financial Report (CAFR). (You can generally start at www.statelocalgov.net, then select your state in the local government box, then select your city, and finally find the official or office most likely connected with the accounting activity in your city. Look for the word "finance" or search "CAFR" or "financial statements.") Review the details of the General Fund financial statements, noting the captions, the interfund transfers, the "due from" and "due to" accounts, and the classification of fund balance, and the deferred items. Read the notes and relate them to the subjects covered in this chapter. Identify at least three interesting items in the financial statements and describe them.

Review 7-4

1.

Intangible asset—lease	566,265	
Lease payable		566,265
To record long-term computer lease.		

2.

Lease payable	150,000	
Cash		150,000
To record initial lease payment due on January 2, 2019.		

[Note: Because the first lease payment is made at the beginning of the lease term, there is no interest cost associated with the first year of using the computer.]

3.

Amortization expense	141,566	
Accumulated amortization—intangible leased asset		141,566
To record amortization expense for leased asset. *[$566,265 ÷ 4 = $141,566]*		

4.

Lease payable	133,349	
Interest expense	16,651	
Cash		150,000
To record second lease payment due January 2, 2020. *[Interest calculation: ($566,265 − $150,000) × 0.04 = $16,651]*		

5.

Amortization expense	141,566	
Accumulated Amortization --intangible leased asset		141,566
To record amortization expense for leased asset.		

MC14-16. A hospital has NOT insured itself for malpractice claims with a third-party insurer. Which of the following statements best expresses the general rule regarding the reporting of liabilities for malpractice claims on the face of the balance sheet? LO 4 Homework MBC

a. They should be reported only to the extent that judgments and settlements are due and payable.
b. Outstanding claims should be described in the notes to the statements; adjudicated and settled claims should be reported if they have not been paid.
c. They should be reported if it is highly likely that the disputes ultimately will be resolved in favor of the claimants.
d. They should be reported if it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated.

MC14-17. Beta Hospital provided services to patients who were covered by the Kelly Health Plan. Beta's arrangement with Kelly called for interim billing rates at 25 percent less than the established rates, as well as a retrospective rate adjustment. Based on its established billing rates, Beta provided services amounting to $4,000,000 to patients covered by Kelly during the year ended December 31, 2018. At year-end, Beta estimated that it would need to refund $150,000 to Kelly in accordance with the cost standards set forth in the retrospective rate arrangement. What amount should Beta report as patient service revenue in its year 2018 financial statements? LO 2 Homework MBC

a. $2,850,000
b. $3,000,000
c. $3,850,000
d. $4,000,000

MC14-18. Gamma Hospital provided services amounting to $10 million at its established billing rates in the year ended December 31, 2018. Included in the $10 million were services of $8 million to Medicare patients. Medicare paid Gamma at 60 percent of Gamma's established rates. Also included in the $10 million were $2 million of services to self-pay patients who did not meet Gamma's criteria for charity care when admitted. Gamma collected $1.5 million from the self-pay patients during the year and estimated that 40 percent of the uncollected amount would not be collected. What amount should Gamma report as patient service revenue in its year 2018 financial statements? LO 2 Homework MBC

a. $\boxed{\$5.1 \text{ million}}$
b. $6.6 million
c. $6.8 million
d. $10 million

MC14-19. On January 10, 2018, Delta Hospital received a bequest in the form of equity securities. Delta was required to hold the securities in perpetuity, but it could spend the income. The securities had cost the donor $2.7 million, but their fair value was $3.4 million when Delta received them. The fair value of the securities fluctuated during the year, and Delta's comptroller calculated that the average fair value during the year was $3.1 million. When Delta prepared its financial statements as of December 31, 2018, the fair value of the securities was $3.3 million. At what amount should Delta report the securities in its financial statements at December 31, 2018? LO 3 Homework MBC

a. $2.7 million
b. $3.1 million
c. $3.3 million
d. $3.4 million

MC14-20. Abbott and Costello Labs donated drugs to Epsilon Hospital, a nonprofit entity, in January 2018. If Epsilon had purchased the drugs, it would have paid $600,000. During the year, Epsilon used all the drugs in providing services to patients. How should Epsilon report the donation in its financial statements for the year ended December 31, 2018? LO 3 Homework MBC

a. Report nothing
b. Report the donation in a note to its financial statements
c. Report $600,000 as other revenues (or gains)
d. Report $600,000 as a reduction of operating expenses

P14-36. (Comprehensive set of journal entries and financial statements) **LO 2, 3, 4, 5**

Assignment P14-36 is not available in myBusinessCourse.

Cort Hospital was established as a nonprofit organization on January 1, 2019, to take over the assets of an existing hospital. It had the following transactions during 2019.

1. The hospital sold revenue bonds in the amount of $40 million. The hospital received $38 million in cash from sale of the bonds. To provide security for payment of the debt service, the other $2 million was deposited in an escrow account with a trustee. The trustee immediately invested the cash in U.S. Treasury bills.
2. The physical assets of the existing hospital were purchased for $35 million in cash. The appraised values of the assets were as follows: land—$3 million; buildings—$28 million; and equipment—$4 million.
3. The hospital provided services of $20 million at its established rates to Medicare patients. Its agreement with Medicare provided for contractual adjustments of 30 percent against the established rates. By year-end, the hospital had collected $12.5 million against the billings.
4. The hospital provided services of $10 million at its established rates to patients insured by a third-party payer. Its agreement with the third party provided for contractual adjustments of 20 percent from the established rates. It also provided for a retrospective adjustment, based on a cost submission by the hospital 30 days after the end of the year. By year-end, the hospital had collected the entire amount that it was owed by the third-party payer. When it prepared its financial statements, the hospital estimated that it owed the third party $80,000, but the final settlement had not yet been negotiated.
5. The hospital provided services to members of an HMO at rates per member, per month, receiving cash premiums totaling $15 million for the year. The hospital's internal records showed that, if billings had been made at its established rates, it would have charged the HMO $18 million for these services.
6. The hospital provided care to charity patients amounting to $2 million at its established billing rates. It estimated the direct and indirect costs of that care to be $1.4 million.
7. The hospital provided care to self-pay patients in the amount of $5 million at its established rates. The hospital collected $2 million against these billings. At year-end, the hospital established an allowance for uncollectible receivables of 40 percent of the remaining amount due from the self-pay patients.
8. The hospital had the following functional expenses. Of the amounts shown, $29 million was paid in cash. Depreciation on building and equipment (included in each function) was $1.4 million and $600,000, respectively.

Health care services	$22 million
Dietary services	4 million
Maintenance expenses	2 million
Administrative expenses	3 million

9. The hospital paid debt service of $4 million on its bonds ($1.6 million in amortization of principal and $2.4 million in interest). It also made a year-end journal entry, reclassifying $1.6 million of long-term debt as current.
10. The hospital recorded accrued expenses at year-end as follows:

Health care services	$2 million
Administrative expenses	500,000

11. The hospital paid $1 million for a claims-made policy for medical malpractice insurance through December 31, 2019. Because the policy did not transfer risk to the insurance carrier for incurred but not reported (IBNR) claims, the hospital accrued $300,000 as a liability. (Note: Charge the expenses to the health care services function.)
12. The hospital received a check from the trustee for $100,000, representing earnings on the investment made by the trustee with the escrow money. The investment income is available for the hospital's general operations.
13. The hospital received equity securities from a donor who specified that the securities, together with any earnings thereon, be used for the purpose of upgrading the hospital buildings. The securities had a fair value of $250,000 when the donor made the gift. During the year, the hospital received dividends of $10,000 on the securities. At year-end, when the hospital prepared its financial statements, the securities had a fair value of $270,000. (Assume the hospital's accounting policy

7. Payments of accounts payable totaled $1,900,000.
8. The use of inventories was recorded as follows:

Health care services	$30,000
General expenses	$20,000

9. Depreciation was recorded as follows: building, $40,000; equipment, $50,000.
10. During the year, the hospital paid debt service of $220,000 on the outstanding bonds, consisting of interest of $120,000 and principal of $100,000. At year-end, the hospital made an entry to report $100,000 of its outstanding long-term debt as current. (Assume the debt was used to finance the purchase of the hospital's capital assets.)
11. During the year, a self-pay patient instituted legal action in the amount of $200,000 against the hospital for medical malpractice. The hospital does not carry insurance. Hospital attorneys have started negotiations with the claimant and believe it is highly probable that the claim can be settled for $50,000. (Charge the expense to Health care services.)
12. At year-end, the hospital reviewed its cost accounting records in connection with the retrospective billing arrangement made with the third-party payer in transaction 1.b. The hospital believes it will need to refund $40,000 to that third party in accordance with that agreement. (The third party had paid all the billings made by the hospital in 1.b.)

Use the preceding information to do the following:

a. Prepare all the journal entries necessary to record these transactions.
b. Prepare a statement of revenues, expenses, and changes in net position for 2019.
c. Prepare a balance sheet as of December 31, 2019.

P14-38. **(Journal entries using funds and net asset classifications; preparation of financial statements)** Prepare journal entries to record the 2018 transactions below in the records of the Christy General Hospital, a nonprofit organization. Identify the appropriate net asset classification. Also, prepare a statement of changes in net assets with donor restrictions for 2018.

LO 2, 3, 4, 5

Homework MBC

Assignment (14-38 is not available in myBusinessCourse.

1. The hospital received a gift of $300,000 in equity securities from Brady Johnson. The terms of the gift specified that the principal amount of the gift and any investment gains must be maintained intact permanently. The gift terms also stipulated that the income from the investments could be spent only for cancer research.
2. Beynon Associates gave the hospital a cash gift of $50,000 and equity securities having a fair value of $150,000 at the date of the gift. The donor stipulated that the gift and all income derived from the gift (including proceeds from sale of the securities) could be used only for cancer research.
3. Diane Shaw promised to donate $50,000 to the hospital to provide equipment for the hospital's new gastroenterology unit, provided the hospital raised an equal amount of cash from other donors.
4. The hospital undertook a fundraising campaign to purchase equipment for its new gastroenterology unit and raised cash of $80,000. Diane Shaw immediately sent the hospital a check for $50,000.
5. The hospital spent the entire $130,000 to buy equipment for its gastroenterology unit.
6. The hospital received interest and dividends totaling $20,000 on the gifts made by Brady Johnson and Beynon Associates.
7. The hospital sold some of the securities donated by Beynon so it could hire a well-known cancer researcher. It received $35,000 in cash from investments that had a fair value of $30,000 at the time of the gift. (The hospital uses a single account to record both realized and unrealized gains and losses on securities held in net assets *with donor restrictions*.)
8. The hospital spent $70,000 on cancer research, using the resources provided by the Johnson and Beynon gifts.
9. At year-end, the fair values of the equity securities from the Johnson and Beynon gifts were as follows:

Johnson	$310,000
Beynon	$122,000

10. The hospital created the Christy General Hospital Foundation, over which it had full control. At year-end, the foundation notified the hospital that it had received $25,000 in cash donations, to be used only to purchase equipment for its gastroenterology unit.