

c2

Student: _____

1. Governmental funds are identical to governmental activities, proprietary funds are identical to business-type activities, and fiduciary funds are identical to fiduciary activities of a government.

True False

2. An objective of the accounting system for a state or a local government is to make it possible both to present fairly the funds and activities of the government in conformity with generally accepted accounting principles and to demonstrate compliance with finance-related legal and contractual provisions.

True False

3. Individual fund financial information is reported in separate columns of governmental and proprietary fund financial statements for only those funds that meet the GASB size-related criteria as major funds.

True False

4. Economic resources are cash or items expected to be converted into cash during the current period, or soon enough thereafter to pay current period liabilities.

True False

5. A fund is an accounting but not a fiscal entity.

True False

6. The types of funds that may be used in governmental accounting are classified into the three categories of governmental, proprietary, and fiduciary.

True False

7. The governmental funds category includes the General Fund, special revenue funds, debt service funds, capital projects funds, and internal service funds.

True False

8. Governments can, in part, demonstrate operational accountability by reporting proprietary and fiduciary fund financial information, as well as all government-wide financial information, using an economic resources measurement focus and the accrual basis of accounting.

True False

9. All capital assets acquired by or used by a fund should be reported in the fund balance sheet or statement of net assets.
- True False
10. Because budgetary accounts are used by governments, their financial statements can never be said to be in accord with generally accepted accounting principles.
- True False
11. The accounting system used by a state or local government must make it possible
- A. To present fairly the financial position and results of financial operations of the government as a whole, as well as fund financial activity in conformity with GAAP, and to demonstrate compliance with finance-related legal and contractual provisions.
 - B. To prepare financial statements as required by the Financial Accounting Standards Board.
 - C. To prepare consolidated accrual basis statements for the government as a whole.
 - D. To provide Web-based bond offering statements to investment firms.
12. Which of the following is *not* a characteristic of a fund as defined by GASB standards?
- A. An accounting entity.
 - B. A fiscal entity.
 - C. A segregated quantity of cash and other financial resources on deposit with a designated trustee.
 - D. A self-balancing set of accounts.
13. In accounting for state and local governments the modified accrual basis is required for
- A. Proprietary and fiduciary funds.
 - B. Governmental funds only.
 - C. Proprietary funds only.
 - D. All funds.
14. Under the modified accrual basis of accounting, revenues should be recognized when
- A. Earned.
 - B. Collected in cash.
 - C. Authorized by the budget ordinance.
 - D. Measurable and available.

15. The accrual basis of accounting applicable to proprietary fund types requires that exchange revenues be recognized when
- A. Earned.
 - B. Collected in cash.
 - C. Authorized by the budget ordinance.
 - D. Measurable and available.
16. 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.
17. Financial resources set aside to pay principal and interest on general long-term debt may be accounted for in which of the following fund types?
- A. Private-purpose trust fund.
 - B. Debt service fund.
 - C. Principal and interest trust fund.
 - D. Internal service fund.
18. According to GASB standards transfers should be recognized
- A. When earned.
 - B. When collected in cash.
 - C. When authorized by the budget ordinance.
 - D. In the period the interfund receivable and payable arise.
19. Generally accepted accounting principles applicable to state and local governments require that
- 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.

20. Which of the following is a proprietary fund?

- A. Special revenue fund.
- B. Investment trust fund.
- C. Debt service fund.
- D. Internal service fund.

21. Which of the following is a fiduciary fund?

- A. Investment trust fund.
- B. Special revenue fund.
- C. Debt service fund.
- D. Enterprise fund.

22. Which of the following funds would be most appropriate for accounting for an activity that provides goods or services to the public for a fee that is intended to make the activity self-supporting?

- A. Investment trust fund.
- B. Enterprise fund.
- C. Internal service fund.
- D. Special revenue fund.

23. Which of the following funds should be used if resources provided by a federal grant must be segregated and used for counseling of youthful offenders?

- A. Private-purpose trust fund.
- B. Enterprise fund.
- C. Internal service fund.
- D. Special revenue fund.

24. Which of the following funds would be used to account for an activity that provides centralized purchasing and sales of goods or services to other departments or agencies of the governmental, or to other governments, on a cost-reimbursement basis?

- A. Enterprise fund.
- B. Fiduciary fund.
- C. Internal service fund.
- D. Permanent fund.

25. Budgetary comparison schedules presenting 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 the General Fund and major special revenue funds for which an annual budget has been legally adopted.
 - D. Required by GAAP for all governmental fund types.
26. 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.
27. 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.
28. Reporting fund financial information in separate columns for each major fund and aggregate information for nonmajor funds
- A. Means that only those funds that meet the GASB's 10 percent and 5 percent rules are reported in separate columns.
 - B. Is optional under GAAP, but is generally required by state laws for governments.
 - C. Is the same manner of reporting used by business organizations.
 - D. Is required by generally accepted accounting principles for state and local governments.
29. Capital assets used by 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.

30. Which of the following funds are proprietary funds?

- A. Enterprise funds, investment trust funds, pension trust funds, and the General Fund.
- B. Enterprise funds and internal service funds.
- C. Internal service funds, special revenue funds, and enterprise funds.
- D. Proprietary funds are not used in governmental accounting.

31. Which of the following funds are governmental funds?

- A. General Fund, special revenue funds, capital projects funds, debt service funds, and private-purpose trust funds.
- B. General Fund, special revenue funds, private-purpose trust funds.
- C. General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.
- D. General Fund, special revenue funds, capital projects funds, debt service funds, and internal service funds.

32. The activities of a water utility department, which offers its services to the general public on a user charge basis, should be accounted for in

- A. An enterprise fund.
- B. A special revenue fund.
- C. The General Fund.
- D. An internal service fund.

33. The measurement focus and basis of accounting that are most *unlike* those used by business entities are those used by

- A. Governmental funds.
- B. Fiduciary funds.
- C. Proprietary funds.
- D. Contribution funds.

34. Which of the following organizations should *not* be included as part of the governmental reporting entity?

- A. A primary government.
- B. Legally separate organizations for which the primary government is financially accountable.
- C. 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. Organizations which are legally and fiscally independent of a primary government.

35. Under GASB reporting entity standards, a component unit is

- A. An organization 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. A not-for-profit organization that is authorized to operate within the boundaries of a city but is not accountable financially or in other way to the city.

36. 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	Accrual	Accrual

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

37. A major governmental fund is one that has one or more elements (e.g., assets, liabilities, revenues, or expenditures) that is at least:

- A. Five percent of the corresponding element(s) of total governmental funds and 10 percent of the corresponding element(s) of total governmental and enterprise funds combined.
- B. Ten percent of the corresponding element(s) of total governmental funds and 10 percent of the corresponding element(s) of total governmental and enterprise funds combined.
- C. Five percent of the corresponding element(s) of total governmental funds and five percent of the corresponding element(s) of total governmental and enterprise funds combined.
- D. Ten percent of the corresponding element(s) of total governmental funds and 5 percent of the corresponding element(s) of total governmental and enterprise funds combined.

38. The following are key terms in Chapter 2 that relate to principles of accounting and financial reporting for state and local governments:

- A. Fund equity
- B. Modified accrual basis
- C. Reporting entity
- D. Discrete presentation
- E. Component unit
- F. Accrual basis
- G. Blended presentation
- H. Governmental activities

For each of the following definitions, indicate the key term from the list above that best matches by placing the appropriate letter in the blank space next to the definition.

- _____ 1. **Separate government or agency that is combined for purposes of reporting on the whole entity**
- _____ 2. **Reporting financial data in columns separate from the reporting entity**
- _____ 3. **Revenues are recognized in the period in which they become measurable and available**
- _____ 4. **Excess of fund assets and resources over fund liabilities.**
- _____ 5. **Primary government and all related units**

39. The following are categories of funds described in Chapter 2:

- A. Governmental funds
- B. Proprietary funds
- C. Fiduciary funds

For each of the following descriptive phrases, indicate the type of fund from the list above that best matches by placing the appropriate letter in the blank space next to the phrase.

- _____ 1. Includes permanent funds held in trust to be used for public purposes
- _____ 2. Sometimes referred to as income-determination, business-like, or commercial-type funds
- _____ 3. Any fund held by a government in an agent or trustee relationship for an external party
- _____ 4. Used when the government collects taxes or amounts bequeathed from private citizens
- _____ 5. Enterprise and internal service funds

40. "Generally accepted accounting principles include both those principles established by the Governmental Accounting Standards Board and those required by state laws." Indicate whether this statement is true or false and explain why.

41. Explain the difference between measurement focus and basis of accounting. Also, explain the difference between the economic resources measurement focus and the current financial resources measurement focus as well as the difference between the accrual and modified accrual bases of accounting. Which funds and government-wide activities use each focus and each basis?
42. "The primary purpose of an accounting system for a state or a local government is to make it possible for financial statements to demonstrate compliance with finance-related legal and contractual provisions." Explain why you believe this statement to be correct or incorrect.
43. Distinguish between a blended presentation of financial data for a component unit and a discrete presentation.

44. "Capital assets of a government unit should always be reported on the same basis as a business—depreciated historical cost." Do you agree? Why or why not?
45. Describe the basic financial statements required by GASB standards and briefly explain their purposes.
46. "Because budgetary accounts are used by governments, their financial statements can never be said to be in accord with generally accepted accounting principles." Comment.
47. List the seven fund financial statements that are required as part of the basic financial statements by GASB standards. What measurement focus and basis of accounting should be used in preparing each of these statements?

48. Explain the nature of the three major activity categories of a state or local government: governmental activities, business-type activities, and fiduciary activities. Provide examples of each.
49. Describe why a combining balance sheet might be prepared for governmental funds of a government.
50. Describe the comprehensive annual financial report (CAFR) described in the Annual Financial Reports principle. What are the sections of the report and which components of the organization should it include? Is a CAFR required?

c2 Key

1. Governmental funds are identical to governmental activities, proprietary funds are identical to business-type activities, and fiduciary funds are identical to fiduciary activities of a government.

FALSE

There is a similarity among these pairs of terms; however, they are not a one-to-one match. For example, activities and funds may use different measurement focuses and bases of accounting; and the internal service fund is a proprietary fund, but most often will be reported along with governmental activities, not business-type activities.

*Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #1*

2. An objective of the accounting system for a state or a local government is to make it possible both to present fairly the funds and activities of the government in conformity with generally accepted accounting principles and to demonstrate compliance with finance-related legal and contractual provisions.

TRUE

*Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #2*

3. Individual fund financial information is reported in separate columns of governmental and proprietary fund financial statements for only those funds that meet the GASB size-related criteria as major funds.

FALSE

While it is true that only major funds are reported in separate columns of the fund financial statements mentioned, funds that do not meet the 10 percent and 5 percent criteria may also be reported as major if government managers feel they are of significant importance to financial statement users.

*Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #3*

4. Economic resources are cash or items expected to be converted into cash during the current period, or soon enough thereafter to pay current period liabilities.

FALSE

The definition provided describes current financial resources, not economic resources. Governmental type funds report on the inflows and outflows of current financial resources; proprietary and fiduciary funds report on the inflows and outflows of economic resources.

*Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #4*

5. A fund is an accounting but not a fiscal entity.

FALSE

Each fund has its own chart of accounts, general journal, general ledger from which trial balances and financial statements are prepared so it is considered an accounting entity. However, funds are also fiscal entities since they have inflows and outflows of resources, a balance of resources, and liabilities that will be settled with fund resources.

*Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #5*

6. The types of funds that may be used in governmental accounting are classified into the three categories of governmental, proprietary, and fiduciary.

TRUE

*Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #6*

7. The governmental funds category includes the General Fund, special revenue funds, debt service funds, capital projects funds, and internal service funds.

FALSE

The first four fund types are correct. Internal service funds are not governmental funds but rather are included in the proprietary funds category. However, financial information for internal service funds is typically reported in the Governmental Activities column of the government-wide financial statements.

*Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #7*

8. Governments can, in part, demonstrate operational accountability by reporting proprietary and fiduciary fund financial information, as well as all government-wide financial information, using an economic resources measurement focus and the accrual basis of accounting.

TRUE

Using an economic resources measurement focus and the accrual basis of accounting contributes to operational accountability by helping assess the cost of government operations. Such information, when combined with nonfinancial information about service outputs and outcomes, facilitates assessment of operational accountability.

*Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #8*

9. All capital assets acquired by or used by a fund should be reported in the fund balance sheet or statement of net assets.

FALSE

Proprietary and fiduciary funds report their capital assets in their respective statement of net assets. Capital assets used by or acquired by governmental funds, however, are called *general capital assets* and are not reported in the balance sheet of governmental funds. Rather, general capital assets are reported in the Governmental Activities column of the government-wide financial statements.

*Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #9*

10. Because budgetary accounts are used by governments, their financial statements can never be said to be in accord with generally accepted accounting principles.

FALSE

The Budgetary, Budgetary Control, and Budgetary Reporting principle requires the accounting system to provide the basis for budgetary control, as described in the Appendix to Chapter 2. Part c of the principle also requires that budgetary comparisons be presented as required supplementary information (RSI) for the General Fund and each major special revenue fund that has a legally adopted annual budget. Thus, to utilize budgetary accounts and include budgetary comparisons in financial statements is to be in conformity with GAAP.

*Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #10*

11. The accounting system used by a state or local government must make it possible
- A.** To present fairly the financial position and results of financial operations of the government as a whole, as well as fund financial activity in conformity with GAAP, and to demonstrate compliance with finance-related legal and contractual provisions.
 - B. To prepare financial statements as required by the Financial Accounting Standards Board.
 - C. To prepare consolidated accrual basis statements for the government as a whole.
 - D. To provide Web-based bond offering statements to investment firms.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #11

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

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #12

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

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #13

14. Under the modified accrual basis of accounting, revenues should be recognized when
- A. Earned.
 - B. Collected in cash.
 - C. Authorized by the budget ordinance.
 - D.** Measurable and available.

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #14

15. The accrual basis of accounting applicable to proprietary fund types requires that exchange revenues be recognized when

- A.** Earned.
- B. Collected in cash.
- C. Authorized by the budget ordinance.
- D. Measurable and available.

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #15

16. 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.

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #16

17. Financial resources set aside to pay principal and interest on general long-term debt may be accounted for in which of the following fund types?

- A. Private-purpose trust fund.
- B.** Debt service fund.
- C. Principal and interest trust fund.
- D. Internal service fund.

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #17

18. According to GASB standards transfers should be recognized

- A. When earned.
- B. When collected in cash.
- C. When authorized by the budget ordinance.
- D.** In the period the interfund receivable and payable arise.

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #18

19. Generally accepted accounting principles applicable to state and local governments require that
- 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.

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #19

20. Which of the following is a proprietary fund?
- A. Special revenue fund.
 - B. Investment trust fund.
 - C. Debt service fund.
 - D.** Internal service fund.

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #20

21. Which of the following is a fiduciary fund?
- A.** Investment trust fund.
 - B. Special revenue fund.
 - C. Debt service fund.
 - D. Enterprise fund.

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #21

22. Which of the following funds would be most appropriate for accounting for an activity that provides goods or services to the public for a fee that is intended to make the activity self-supporting?
- A. Investment trust fund.
 - B.** Enterprise fund.
 - C. Internal service fund.
 - D. Special revenue fund.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #22

23. Which of the following funds should be used if resources provided by a federal grant must be segregated and used for counseling of youthful offenders?

- A. Private-purpose trust fund.
- B. Enterprise fund.
- C. Internal service fund.
- D.** Special revenue fund.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #23

24. Which of the following funds would be used to account for an activity that provides centralized purchasing and sales of goods or services to other departments or agencies of the governmental, or to other governments, on a cost-reimbursement basis?

- A. Enterprise fund.
- B. Fiduciary fund.
- C.** Internal service fund.
- D. Permanent fund.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #24

25. Budgetary comparison schedules presenting 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 the General Fund and major special revenue funds for which an annual budget has been legally adopted.
- D. Required by GAAP for all governmental fund types.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #25

26. 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.

Difficulty: Medium

27. 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.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #27

28. Reporting fund financial information in separate columns for each major fund and aggregate information for nonmajor funds
- A. Means that only those funds that meet the GASB's 10 percent and 5 percent rules are reported in separate columns.
 - B. Is optional under GAAP, but is generally required by state laws for governments.
 - C. Is the same manner of reporting used by business organizations.
 - D.** Is required by generally accepted accounting principles for state and local governments.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #28

29. Capital assets used by 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.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #29

30. Which of the following funds are proprietary funds?
- A. Enterprise funds, investment trust funds, pension trust funds, and the General Fund.
 - B.** Enterprise funds and internal service funds.
 - C. Internal service funds, special revenue funds, and enterprise funds.
 - D. Proprietary funds are not used in governmental accounting.

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #30

31. Which of the following funds are governmental funds?
- A. General Fund, special revenue funds, capital projects funds, debt service funds, and private-purpose trust funds.
 - B. General Fund, special revenue funds, private-purpose trust funds.
 - C.** General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.
 - D. General Fund, special revenue funds, capital projects funds, debt service funds, and internal service funds.

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #31

32. The activities of a water utility department, which offers its services to the general public on a user charge basis, should be accounted for in
- A.** An enterprise fund.
 - B. A special revenue fund.
 - C. The General Fund.
 - D. An internal service fund.

Difficulty: Easy
Question Type: Concept
Wilson - Chapter 02 #32

33. The measurement focus and basis of accounting that are most *unlike* those used by business entities are those used by
- A.** Governmental funds.
 - B. Fiduciary funds.
 - C. Proprietary funds.
 - D. Contribution funds.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #33

34. Which of the following organizations should *not* be included as part of the governmental reporting entity?
- A. A primary government.
 - B. Legally separate organizations for which the primary government is financially accountable.
 - C. 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.** Organizations which are legally and fiscally independent of a primary government.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #34

35. Under GASB reporting entity standards, a component unit is
- A.** An organization 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. A not-for-profit organization that is authorized to operate within the boundaries of a city but is not accountable financially or in other way to the city.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #35

36. 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	Accrual	Accrual

- A. Choice A
- B. Choice B
- C.** Choice C
- D. Choice D

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #36

37. A major governmental fund is one that has one or more elements (e.g., assets, liabilities, revenues, or expenditures) that is at least:
- A. Five percent of the corresponding element(s) of total governmental funds and 10 percent of the corresponding element(s) of total governmental and enterprise funds combined.
 - B. Ten percent of the corresponding element(s) of total governmental funds and 10 percent of the corresponding element(s) of total governmental and enterprise funds combined.
 - C. Five percent of the corresponding element(s) of total governmental funds and five percent of the corresponding element(s) of total governmental and enterprise funds combined.
 - D.** Ten percent of the corresponding element(s) of total governmental funds and 5 percent of the corresponding element(s) of total governmental and enterprise funds combined.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #37

38. The following are key terms in Chapter 2 that relate to principles of accounting and financial reporting for state and local governments:
- A. Fund equity
 - B. Modified accrual basis
 - C. Reporting entity
 - D. Discrete presentation
 - E. Component unit
 - F. Accrual basis
 - G. Blended presentation
 - H. Governmental activities

For each of the following definitions, indicate the key term from the list above that best matches by placing the appropriate letter in the blank space next to the definition.

- _____ 1. **Separate government or agency that is combined for purposes of reporting on the whole entity**
- _____ 2. **Reporting financial data in columns separate from the reporting entity**
- _____ 3. **Revenues are recognized in the period in which they become measurable and available**
- _____ 4. **Excess of fund assets and resources over fund liabilities.**
- _____ 5. **Primary government and all related units**

1. E, 2. D, 3. B, 4. A, 5. C

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #38

39. The following are categories of funds described in Chapter 2:
- A. Governmental funds
 - B. Proprietary funds
 - C. Fiduciary funds

For each of the following descriptive phrases, indicate the type of fund from the list above that best matches by placing the appropriate letter in the blank space next to the phrase.

- _____ 1. Includes permanent funds held in trust to be used for public purposes
- _____ 2. Sometimes referred to as income-determination, business-like, or commercial-type funds
- _____ 3. Any fund held by a government in an agent or trustee relationship for an external party
- _____ 4. Used when the government collects taxes or amounts bequeathed from private citizens
- _____ 5. Enterprise and internal service funds

1. A, 2. B, 3. C, 4. C, 5. B

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #39

40. "Generally accepted accounting principles include both those principles established by the Governmental Accounting Standards Board and those required by state laws." Indicate whether this statement is true or false and explain why.

False. Only the principles established by the Governmental Accounting Standards Board are recognized as GAAP under Ethics Rule 203 of the American Institute of Certified Public Accountants (AICPA). Financial reports prepared in conformity with non-GAAP state laws or regulations are considered "special reports" and are not the general-purpose external financial statements required by GAAP.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #40

41. Explain the difference between measurement focus and basis of accounting. Also, explain the difference between the economic resources measurement focus and the current financial resources measurement focus as well as the difference between the accrual and modified accrual bases of accounting. Which funds and government-wide activities use each focus and each basis?

Measurement focus describes what is measured; that is, the nature of the resources, claims against resources, and flows of resources that are measured and reported by a fund or activity. The basis of accounting describes when things are measured. The economic resources measurement focus reports on the balances and flows of both current and noncurrent assets and liabilities, whereas the current financial resources focus reports only on the balances and flows of current assets and liabilities. The accrual basis of accounting recognizes revenues when earned and expenses when incurred, where the modified accrual basis recognizes revenues when measurable and available for current spending and expenditures when a current liability has been incurred. Governmental funds use the current financial resources measurement focus, and proprietary and fiduciary funds use the economic resources measurement focus. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Governmental and business-type activities at the government-wide level report on net assets and activities using the economic resources measurement focus and the accrual basis of accounting.

Difficulty: Hard
Question Type: Concept
Wilson - Chapter 02 #41

42. "The primary purpose of an accounting system for a state or a local government is to make it possible for financial statements to demonstrate compliance with finance-related legal and contractual provisions." Explain why you believe this statement to be correct or incorrect.

The statement is *not* correct. The GASB Accounting and Reporting Capabilities Principle specifies that a governmental accounting system must make it possible both to prepare statements in conformity with GAAP and to prepare legal compliance reports. The former are the basic financial statements on which auditors express an opinion; the latter are special purpose reports that may or may not be accompanied by auditors' reports.

Difficulty: Medium
Question Type: Essay
Wilson - Chapter 02 #42

43. Distinguish between a blended presentation of financial data for a component unit and a discrete presentation.

A blended presentation is the method of reporting in which the financial data of component units are combined in the same columns with that of the primary government. Discrete presentation means that the financial data of the component units are reported in one or more separate columns from that of the primary government. Current GASB reporting entity standards require that most component units be reported by discrete presentation.

Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #43

44. "Capital assets of a government unit should always be reported on the same basis as a business—depreciated historical cost." Do you agree? Why or why not?

Generally agree under *GASBS 34*. The Valuation of Capital Assets Principle provides that capital assets should be accounted for at historical cost including capitalized interest (clarification of the capitalization of interest rules for construction of general capital assets is provided in *GASBS 37* and is discussed in Chapter 5) and ancillary charges necessary to place the asset into its intended location and condition for use. Donated capital assets should be recorded at fair value at the time received. The Depreciation of Capital Assets principle specifies that capital assets should be depreciated over their estimated useful lives, unless they are either inexhaustible or are infrastructure assets using the modified approach.

Difficulty: Easy
Question Type: Essay
Wilson - Chapter 02 #44

45. Describe the basic financial statements required by GASB standards and briefly explain their purposes.

The basic financial statements include two government-wide financial statements, seven fund financial statements, and notes thereto. The government-wide statements are a statement of net assets and statement of activities designed to report on the operational accountability of the government as a whole. The fund financial statements that follow are designed to report on the government's fiscal accountability for spending according to legal budgets, laws, and agreements with resource providers. A balance sheet and statement of revenues, expenditures, and changes in fund balance are required for governmental-type funds, as well as a reconciliation of the change in fund balances to change in net assets at the government-wide level. A statement of net assets and a statement of revenues, expenses, and changes in fund net assets; and cash flows are required for proprietary-type funds. A statement of net assets and statement of changes in net assets are required for fiduciary funds.

*Difficulty: Medium
Question Type: Concept
Wilson - Chapter 02 #45*

46. "Because budgetary accounts are used by governments, their financial statements can never be said to be in accord with generally accepted accounting principles." Comment.

The Budgeting and Budgetary Control principle requires the accounting system to provide the basis for budgetary control, as discussed in Chapter 2. The Budgetary Reporting principle requires that budgetary comparisons be presented as required supplementary information (RSI) for the General Fund and each major special revenue fund that has a legally adopted annual budget. Thus, to utilize budgetary accounts and include budgetary comparisons in financial statements is to be in conformity with GAAP.

*Difficulty: Medium
Question Type: Essay
Wilson - Chapter 02 #46*

47. List the seven fund financial statements that are required as part of the basic financial statements by GASB standards. What measurement focus and basis of accounting should be used in preparing each of these statements?

These seven fund statements are required in the basic financial statements (assuming that an entity has funds in each of the three fund types):

- Balance sheet—governmental funds
- Statement of revenue, expenditures, and changes in fund balances—governmental funds
- Statement of net assets—proprietary funds
- Statement of revenues, expenses, and changes in fund net assets—proprietary funds
- Statement of cash flows—proprietary funds
- Statement of fiduciary net assets
- Statement of changes in fiduciary net assets

In addition, a reconciliation of (1) the total fund balance of governmental funds from the balance sheet—governmental funds to the governmental activities net assets from the government-wide statement of net assets, and (2) the change total fund balances of governmental funds from the statement of revenue, expenditures, and changes in fund balances—governmental funds to the change in governmental activities net assets from the government-wide statement of activities, are required on the face of the financial statements or as separate schedules.

The governmental funds are accounted for using the current financial resources measurement focus and modified accrual basis of accounting. The proprietary and fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting (except for certain liabilities of defined benefit pension plans and related postemployment healthcare plans).

*Difficulty: Hard
Question Type: Essay
Wilson - Chapter 02 #47*

48. Explain the nature of the three major activity categories of a state or local government: governmental activities, business-type activities, and fiduciary activities. Provide examples of each.

Governmental activities are those core governmental services, together with general administrative support. Examples include public safety, public works (e.g., road and bridge maintenance), parks and recreation, cultural, and social services. Business-type activities are those that are self-supporting through user charges for services they receive, although operating subsidies from general tax revenues are not uncommon. Typical examples include public utilities, such as water and sewer, transportation systems, golf courses, and swimming pools. Fiduciary activities are those in which the government acts in a fiduciary capacity, either as an agent or trustee, for parties outside the government. Examples include trust funds that benefit individuals and organizations outside of the government.

Difficulty: Medium
Question Type: Essay
Wilson - Chapter 02 #48

49. Describe why a combining balance sheet might be prepared for governmental funds of a government.

The government may want to present supplementary information about funds. GASB standards permit governments the choice of presenting a combining balance sheet that would contain columns of financial information for each nonmajor fund and a column for total nonmajor governmental funds.

Difficulty: Medium
Question Type: Essay
Wilson - Chapter 02 #49

50. Describe the comprehensive annual financial report (CAFR) described in the Annual Financial Reports principle. What are the sections of the report and which components of the organization should it include? Is a CAFR required?

The CAFR is recommended by the Annual Financial Reports principle, but not required. The CAFR is comprised of three sections: (1) introductory section, (2) financial section, and (3) statistical section. All activities of the primary government and its component units should be included in the reporting entity covered by the CAFR. The minimum financial reporting requirements include (1) MD&A, (2) basic financial statements, and (3) required supplementary information other than the MD&A.

Difficulty: Medium

c2 Summary

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