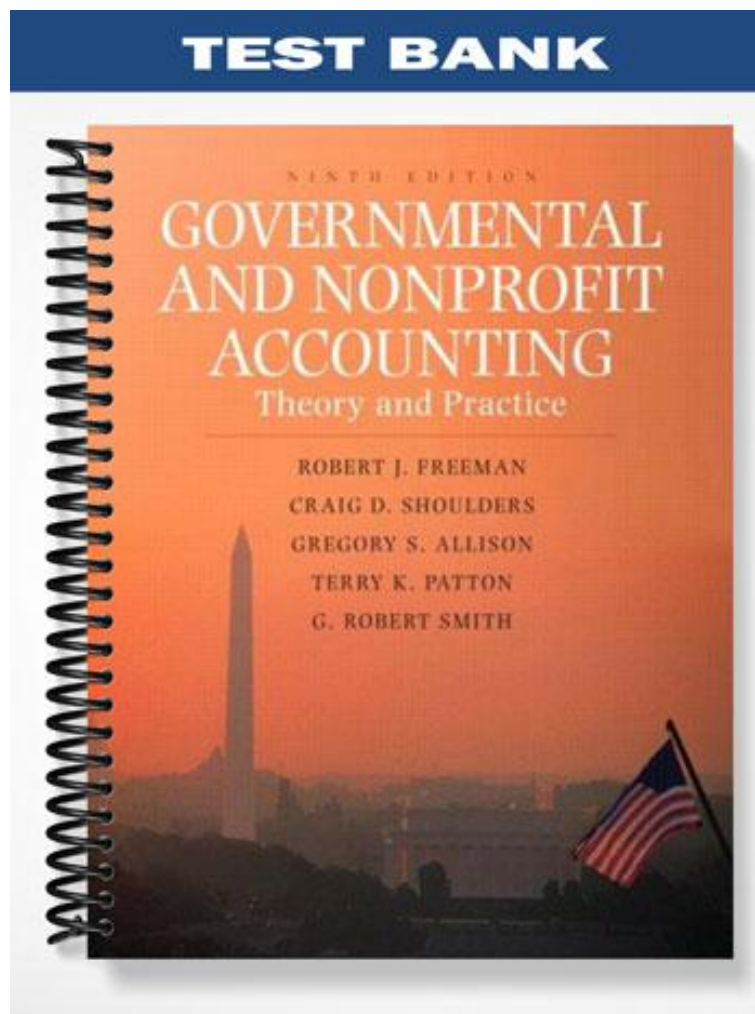


TEST BANK



SIXTH EDITION

**GOVERNMENTAL
AND NONPROFIT
ACCOUNTING**

Theory and Practice

ROBERT J. FREEMAN
CRAIG D. SHOULDERS
GREGORY S. ALLISON
TERRY K. PATTON
G. ROBERT SMITH

- c. An Operating General Fund, A Capital General Fund, three Capital Projects Funds, One Permanent Fund, and six Enterprise Funds.
 - d. One General Fund, one Special Revenue Fund, one Debt Service Fund, three Enterprise Funds, one Investment Trust Fund, and two Pension Trust Funds.**
 - e. One General Fund and one Endowment Fund.
7. Which of the following funds is reported as *governmental* fund even though it is not considered to be *expendable* in nature?
- a. Special Revenue Fund
 - b. Capital Projects Fund
 - c. Permanent Fund**
 - d. Pension Trust Fund
 - e. All of the above funds are considered to be expendable in nature.
8. Assume that Kelly County issues \$3,000,000 in general obligation bonds to build a new fire station and \$7,000,000 in revenue bonds to finance the upgrade of their water treatment facility. How will these transactions affect the funds of the county?
- a. Financial assets of the Capital Projects Fund will increase by \$10,000,000, as will the related fund liabilities.
 - b. Financial assets and related fund liabilities of the Capital Projects Fund will increase by \$3,000,000; current assets and long-term liabilities will increase by \$7,000,000 in the Water Enterprise Fund.
 - c. Financial assets, but not the related fund liabilities, will increase in the General Fund by \$10,000,000.
 - d. Financial assets, but not the related fund liabilities, will increase in the Capital Projects Fund by \$3,000,000; current assets and the long-term liabilities will increase by \$7,000,000 in the Water Enterprise Fund.**
 - e. Financial assets and related fund liabilities will increase in the Debt Service Fund by \$10,000,000.
9. Ashley Woods Village issued \$4,000,000 in general obligation bonds to finance the widening of a local thoroughfare. This transaction will *most likely*
- a. increase fund balance in the General Fund by \$4,000,000.
 - b. decrease fund balance in the General Fund by \$4,000,000.
 - c. increase fund balance in the Capital Projects Fund by \$4,000,000.**
 - d. decrease fund balance in the Capital Projects Fund by \$4,000,000.
 - e. have no effect on the fund balance of the Capital Projects Fund.
10. Ashley Woods Village paid \$1,000,000 principal and \$200,000 interest on its general obligation bonds that it issued to finance widening of a local thoroughfare. This transaction will *most likely*
- a. decrease fund balance in the Capital Projects Fund by \$1,000,000.
 - b. decrease fund balance in the Capital Projects Fund by \$1,200,000.
 - c. decrease fund balance in the Debt Service Fund by \$1,000,000.
 - d. decrease fund balance in the Debt Service Fund by \$1,200,000.**
11. The police department of the city of Newport purchased 10 new patrol cars at the beginning of the new budget year at a total cash price of \$250,000. This purchase will
- a. increase capital assets reported in the General Fund by \$250,000.
 - b. have no effect on capital assets in the General Fund, but will decrease fund balance in the General Fund by \$250,000.**

- c. increase capital assets reported in the General Fund by \$250,000, as well as decrease fund balance in the General Fund by the same amount.
 - d. have no effect on capital assets or fund balance.
 - e. increase both capital assets and fund balance in the General Fund by \$250,000.
12. The City of Ruth owns and operates an electric utility. The utility purchases new electric transmission lines for \$6,000,000 so that it can provide electricity to new customers. This purchase will *most likely*
- a. increase expenditures reported in the General Fund by \$6,000,000.
 - b. increase capital assets reported in the Capital Projects Fund by \$6,000,000.
 - c. increase capital assets reported in the Enterprise Fund by \$6,000,000.**
 - d. increase expenses reported in the Enterprise Fund by \$6,000,000.
13. A municipality operates a local landfill. How could the landfill facility's operations be reported in the municipality's financial statements?
- a. Either in the General Fund or an Enterprise Fund.**
 - b. Only in a General Fund.
 - c. Only in an Enterprise Fund.
 - d. Either in the General Fund or a Capital Projects Fund.
 - e. Only in an Internal Service Fund.
14. Which of the following would *not* be classified as an *expenditure*?
- a. Salaries and wages
 - b. Departmental supplies
 - c. Depreciation**
 - d. Capital outlay
 - e. Debt service – principal and interest
 - f. All of the above would be classified as expenditures.
15. GAAP requirements for external financial reporting include
- a. a comprehensive annual financial report.
 - b. note disclosures.
 - c. management's discussion and analysis.
 - d. All of the above.
 - e. Items a and b only.
 - f. Items b and c only.**
16. Government-wide financial statements include
- a. a statement of net assets.
 - b. a statement of activities.
 - c. a statement of cash flows.
 - d. All of the above.
 - e. Items a and b only.**
 - f. None of the above.
17. Basic financial statements include
- a. management's discussion and analysis.
 - b. government-wide financial statements.
 - c. fund financial statements.
 - d. All of the above.
 - e. Items a and b only.
 - f. Items b and c only.**

18. Caraway County financed its new \$6,000,000 courthouse by issuing general obligation bonds. In the year financing was secured and construction began, the fund(s) and/or nonfund fund accounts that would most likely be affected would be
- the General Fund.
 - the Enterprise Fund.
 - the Capital Projects Fund only.
 - the General Fund, General Capital Assets Nonfund Account, and the General Long-Term Liability Nonfund Account.
 - the Capital Projects Fund, General Capital Assets and General Long-Term Liabilities Nonfund Accounts.**
19. Which of the following is not a fund category used by state and local governments?
- Fiduciary funds
 - Current funds**
 - Governmental funds
 - Proprietary funds
20. Which of the following is an official fund category used by state and local governments?
- Current funds
 - Expendable funds
 - Governmental funds**
 - General capital asset funds
21. Which of the following is not considered a governmental fund?
- General Fund
 - Debt Service Fund
 - Permanent Fund
 - Internal Service Fund**
22. Which of the following is considered a proprietary fund?
- General Fund
 - Special Revenue Fund
 - Permanent Fund
 - Internal Service Fund**
23. Which of the following is not considered a fiduciary fund?
- Agency Fund
 - Investment Trust Fund
 - Permanent Fund**
 - Private-purpose Trust Fund
24. A government issues 10-year bonds to finance construction of an addition to city hall. The bonds payable should be reported in the:
- General Fund.
 - Capital Projects Fund.
 - Special Revenue Fund.
 - None of the above**
25. General government financial resources that are required to be used to pay principal and interest on general government long-term debt are accounted for in
- a Capital Projects Fund.
 - a Debt Service Fund.**
 - the General Fund.

- d. a Special Revenue Fund.
26. General government financial resources to be used to finance construction of a general government construction project typically should be accounted for in
- a. **a Capital Projects Fund.**
 - b. a Debt Service Fund.
 - c. the General Fund.
 - d. a Special Revenue Fund.
27. General government financial resources that are required to be used to pay teacher salaries for a special education program are typically accounted for in
- a. a Capital Projects Fund.
 - b. a Debt Service Fund.
 - c. a Permanent Fund.
 - d. **a Special Revenue Fund.**
28. In which accounting entities may a government report capital assets?
- a. Capital Projects Funds
 - b. **Enterprise Funds**
 - c. General Fund
 - d. Debt Service Fund
29. Which of the following accounts is not included in a balance sheet of a governmental fund?
- a. Cash
 - b. Investments
 - c. **Equipment**
 - d. Salaries Payable
30. Incurring construction costs on a major general government capital project should require entries in a
- a. Capital Projects Fund.
 - b. Debt Service Fund.
 - c. a General Capital Assets accounts.
 - d. **Both items a and c**
31. A transaction in which a government issues general obligation bonds to finance the construction of a new police station would
- a. increase liabilities in a Debt Service Fund.
 - b. increase liabilities in a Capital Projects Fund.
 - c. decrease fund balance in a Debt Service Fund.
 - d. **increase fund balance in a Capital Projects Fund.**
32. Incurring construction costs on a major general government capital project would
- a. **Decrease fund balance in a Capital Projects Fund**
 - b. Decrease cash in the General Capital Assets accounts
 - c. Increase capital assets in a Capital Projects Fund
 - d. Increase capital assets in the General Fund
33. Which one of the following accounts is not found in the General Capital Assets and General Long-Term Liabilities accounts?
- a. Bonds Payable
 - b. Long-Term Claims and Judgments Payable
 - c. **Investments**
 - d. Land

34. Which one of the following accounts is not found in the General Capital Assets and General Long-Term Liabilities accounts?
- Cash (Restricted for capital asset purchases)**
 - Buildings
 - Equipment
 - Textbooks and library books (of a city school)
35. A computer was purchased from unrestricted resources for a general government department. The government paid cash for the computer at the purchase date. Which of the following is not an effect of this transaction in the General Fund?
- Current assets decrease.
 - Capital assets increase.**
 - Current liabilities do not change.
 - Fund balance decreases.
36. Which of the following uses the flow of economic resources measurement focus?
- General Fund
 - Debt Service Fund
 - Special Revenue Fund
 - Internal Service Fund**
37. Which of the following uses the flow of current financial resources measurement focus?
- Agency Fund
 - Enterprise Fund
 - Special Revenue Fund**
 - Internal Service Fund
38. Which of the following is the basic proprietary fund accounting equation?
- Assets – Liabilities = Net Assets.**
 - Current Assets – Current Liabilities = Fund Balance.
 - Financial Assets – Related Liabilities = Fund Balance.
 - General Capital Assets – Unmatured General Long-Term Liabilities = Net Assets.
 - None of the above.
39. Which of the following is the basic governmental fund accounting equation?
- Assets – Liabilities = Net Assets.
 - Financial Assets – Related Liabilities = Fund Balance.**
 - General Capital Assets – Unmatured General Long-Term Liabilities = Net Assets.
 - None of the above.
 - Both a and b.
 - Both b and c.
40. A government can only have one
- Capital Projects Fund.
 - General Fund.**
 - Expendable Trust Fund.
 - Special Revenue Fund.
41. The availability criterion for recognizing revenues applies to all of the following funds except
- Capital Projects Funds.
 - Debt Service Funds.

- c. **Internal Service Funds.**
 - d. Special Revenue Funds.
42. Governmental funds recognize
- a. expenditures when the governmental unit incurs a liability for goods or services.
 - b. expenses when the governmental unit uses goods or services.
 - c. **expenditures when the fund incurs a liability.**
 - d. expenses when the fund assets are consumed.
43. Proprietary funds recognize
- a. expenditures when the fund incurs a liability for goods or services.
 - b. expenditures when the fund uses goods or services.
 - c. expenses when the fund incurs a liability for goods or services.
 - d. **expenses when the fund uses goods or services.**
44. A government's General Fund departments purchased electric services from the government's own Electric Utility Enterprise Fund. This transaction is an example of an interfund
- a. transfer.
 - b. **services provided and used transaction.**
 - c. reimbursement transaction.
 - d. loan.
45. \$1,000,000 of General Fund cash was contributed to provide permanent capital for a newly established municipal landfill Enterprise Fund. This transaction is an example of an interfund
- a. **Transfer**
 - b. Services provided and used transaction
 - c. Reimbursement transaction
 - d. Loan
46. General Fund resources of \$500,000 were contributed to a Capital Projects Fund to finance a portion of the cost of a major capital project. This transaction is an example of an interfund
- a. **transfer.**
 - b. services provided and used transaction.
 - c. reimbursement transaction.
 - d. loan.
47. General Fund resources are provided to a Capital Projects Fund to finance a portion of a major capital project. The Capital Projects Fund is required to repay the resources that it received from the General Fund. This transaction is an example of an interfund
- a. transfer.
 - b. services provided and used transaction.
 - c. reimbursement transaction.
 - d. **loan.**
48. All of the following transactions decreases the fund balance of a governmental fund except
- a. purchase of equipment.
 - b. **retirement of the principal of a short-term note.**
 - c. transfer to a Debt Service Fund.
 - d. purchase and use of supplies.
49. In which of the following financial statements should a government not report depreciation expense?
- a. Fiduciary fund financial statements
 - b. **Governmental fund financial statements**

- c. Proprietary fund financial statements
 - d. Government-wide financial statements
50. The Basic Financial Statements include all of the following except
- a. government-wide financial statements.
 - b. fund financial statements.
 - c. combining financial statements.**
 - d. notes to the financial statements.
51. All of the following financial statements should be presented for a General Fund except a
- a. balance sheet.
 - b. statement of revenues, expenditures, and changes in fund balance.
 - c. statement of cash flows.**
 - d. statement of revenues, expenditures, and changes in fund balance: budget and actual.
52. A statement of revenues, expenditures, and changes in fund balance is required for each
- a. Special Revenue Fund.**
 - b. Internal Service Fund.
 - c. Private-purpose Trust Fund.
 - d. Enterprise Fund.
53. All of the following financial statements should be presented for an Internal Service Fund except for a
- a. balance sheet.
 - b. statement of revenues, expenses, and changes in fund net assets.
 - c. statement of cash flows.
 - d. statement of revenues, expenses, and changes in fund net assets: budget and actual.**
54. The government-wide financial statements include all of the following except
- a. a statement of net assets.
 - b. a statement of activities.
 - c. a statement of cash flows.**
 - d. All of the above are required government-wide financial statements
55. Which of the following would not be considered a fund financial statement?
- a. Balance sheet
 - b. Statement of cash flows
 - c. Statement of activities**
 - d. Statement of changes in fiduciary net assets
56. A statement of cash flows is required for which of the following?
- a. Enterprise Fund**
 - b. General Fund
 - c. Investment Trust Fund
 - d. Agency Fund