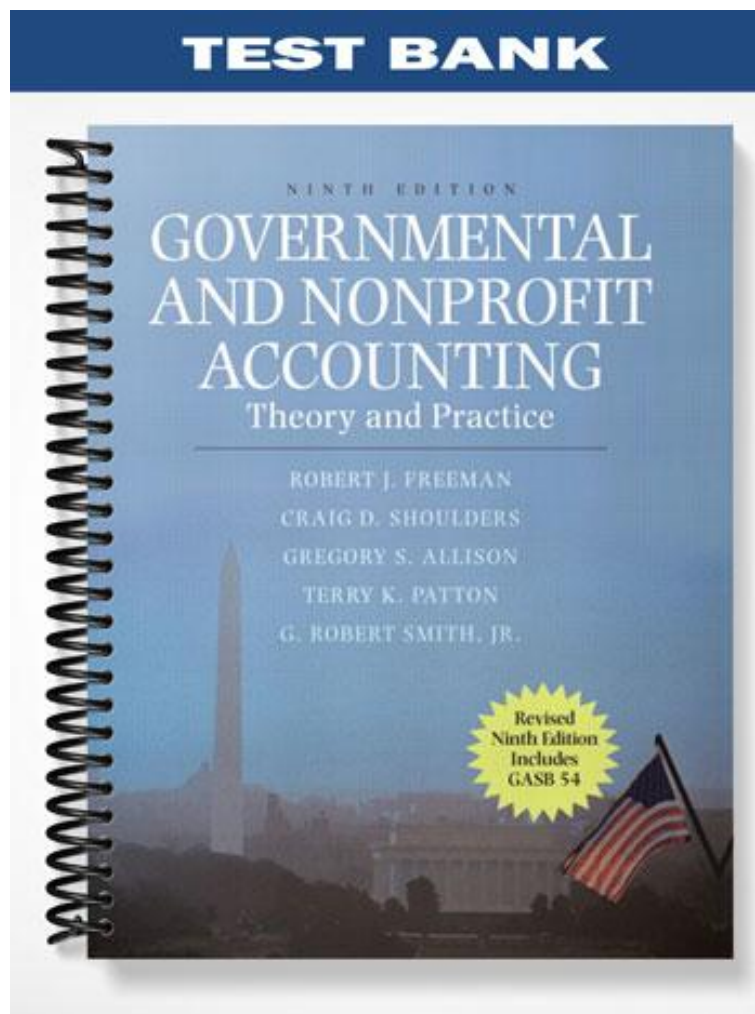


TEST BANK



NINTH EDITION

**GOVERNMENTAL
AND NONPROFIT
ACCOUNTING**
Theory and Practice

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

Revised
Ninth Edition
Includes
GASB 54

Governmental and Nonprofit Accounting: Theory and Practice, 9e Update (Freeman)
Chapter 2 State and Local Government Accounting and Financial Reporting Model—The Foundation

- 1) General purpose external financial reports for state and local government entities must include
- A) Government-wide financial statements.
 - B) Management's discussion and analysis.
 - C) Fund financial statements.
 - D) Note disclosures.
 - E) All of the above should be included in general purpose external financial reports.
 - F) Items A and C only.

Answer: E

- 2) The *operation* of a municipality's recreation facilities and sites such as ball fields, gymnasiums, and tracks are most likely to be accounted for in a
- A) General Fund.
 - B) Enterprise Fund.
 - C) Capital Projects Fund.
 - D) Internal Service Fund.
 - E) Permanent Fund.

Answer: A

- 3) The General Capital Assets nonfund account would be used to account for
- A) All capital assets acquired by a government entity regardless of the fund purchasing the asset.
 - B) Capital assets acquired with governmental fund resources that will be used in governmental fund activities.
 - C) Capital assets acquired with debt proceeds only.
 - D) Capital assets that are used by a variety of governmental and proprietary funds.
 - E) Capital assets that are solely *revenue producing* in nature.

Answer: B

- 4) Assume that the city of Wakefield purchased a tract of land to be used as a public park. The purchase was financed with proceeds from a five-year note issued by a local lending institution. The park itself will not be ready for public use, however, for at least two years. At the date of purchase, the city would most likely account for the transaction in
- A) The General Fund and General Long-Term Liabilities account.
 - B) The Enterprise Fund.
 - C) The General Fund.
 - D) The General Fund, the General Capital Assets account, and the General Long-Term Liabilities account.
 - E) The Enterprise Fund and the Capital Projects Fund.

Answer: D

5) Capital outlay expenditures would be *least likely* in a

- A) General Fund.
- B) Debt Service Fund.
- C) Permanent Fund.
- D) Capital Projects Fund.
- E) Special Revenue Fund.

Answer: B

6) Which of the following scenarios regarding the fund *type* reporting practices for the city of Leesville *would* be allowed by GAAP?

- A) One General Fund, three Special Revenue Funds, one Enterprise Fund, two Enterprise Capital Project Funds, and two Agency Funds.
- B) Two General Funds, two Debt Service Funds, and one Internal Service Fund.
- 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.

Answer: D

7) Which of the following funds is reported as a *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.

Answer: C

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.

Answer: D

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.

Answer: C

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.

Answer: D

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.

Answer: B

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.

Answer: C

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

Answer: A

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.

Answer: C

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.

Answer: F

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.

Answer: E

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.

Answer: F

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

- A) The General Fund.
- B) The Enterprise Fund.
- C) The Capital Projects Fund only.
- D) The General Fund, General Capital Assets Nonfund Account, and the General Long-Term Liability Nonfund Account.
- E) The Capital Projects Fund, General Capital Assets and General Long-Term Liabilities Nonfund Accounts.

Answer: E

19) Which of the following is not a fund category used by state and local governments?

- A) Fiduciary funds
- B) Current funds
- C) Governmental funds
- D) Proprietary funds

Answer: B

20) Which of the following is an official fund category used by state and local governments?

- A) Current funds
- B) Expendable funds
- C) Governmental funds
- D) General capital asset funds

Answer: C

21) Which of the following is not considered a governmental fund?

- A) General Fund
- B) Debt Service Fund
- C) Permanent Fund
- D) Internal Service Fund

Answer: D

22) Which of the following is considered a proprietary fund?

- A) General Fund
- B) Special Revenue Fund
- C) Permanent Fund
- D) Internal Service Fund

Answer: D

23) Which of the following is not considered a fiduciary fund?

- A) Agency Fund
- B) Investment Trust Fund
- C) Permanent Fund
- D) Private-purpose Trust Fund

Answer: C

24) A government issues 10-year bonds to finance construction of an addition to city hall. The bonds payable should be reported in the

- A) General Fund.
- B) Capital Projects Fund.
- C) Special Revenue Fund.
- D) None of the above

Answer: D

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) A Capital Projects Fund.
- B) A Debt Service Fund.
- C) The General Fund.
- D) A Special Revenue Fund.

Answer: B

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.

Answer: A

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.

Answer: D

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

Answer: B

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

Answer: C

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
- E) Both items B and C

Answer: D

31) A city adds a new entry to its downtown fire station. This is considered a relatively minor addition. Which fund could be used to account for the construction costs associated with the addition?

- A) Enterprise Fund
- B) General Fund
- C) Capital Projects Fund
- D) All of the above
- E) Both items B and C

Answer: E

32) A city levies a special property tax that is legally restricted to pay off the principal and interest on bonds issued to build the city's new police headquarters. Which fund should be used to account for the proceeds from the tax levy?

- A) Debt Service Fund
- B) General Fund
- C) Capital Projects Fund
- D) Enterprise Fund
- E) None of the above

Answer: A

33) A state enacts a gasoline tax that is restricted for new highway construction. Which fund should be used to account for the proceeds from the tax?

- A) Debt Service Fund
- B) General Fund
- C) Capital Projects Fund
- D) Enterprise Fund
- E) None of the above

Answer: C

34) 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.

Answer: D

35) 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.

Answer: A

36) 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

Answer: C

37) Which one of the following accounts is not found in the General Capital Assets and General Long-Term Liabilities accounts?

- A) Cash (Restricted for capital asset purchases)
- B) Buildings
- C) Equipment
- D) Textbooks and library books (of a city school)

Answer: A

38) 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?

- A) Current assets decrease.
- B) Capital assets increase.
- C) Current liabilities do not change.
- D) Fund balance decreases.

Answer: B

39) Which of the following uses the flow of economic resources measurement focus?

- A) General Fund
- B) Debt Service Fund
- C) Special Revenue Fund
- D) Internal Service Fund

Answer: D

40) Which of the following uses the flow of current financial resources measurement focus?

- A) Agency Fund
- B) Enterprise Fund
- C) Special Revenue Fund
- D) Internal Service Fund

Answer: C

41) Which of the following is the basic proprietary fund accounting equation?

- A) $\text{Assets} - \text{Liabilities} = \text{Net Assets}$.
- B) $\text{Current Assets} - \text{Current Liabilities} = \text{Fund Balance}$.
- C) $\text{Financial Assets} - \text{Related Liabilities} = \text{Fund Balance}$.
- D) $\text{General Capital Assets} - \text{Unmatured General Long-Term Liabilities} = \text{Net Assets}$.
- E) None of the above.

Answer: A

42) Which of the following is the basic governmental fund accounting equation?

- A) $\text{Assets} - \text{Liabilities} = \text{Net Assets}$.
- B) $\text{Financial Assets} - \text{Related Liabilities} = \text{Fund Balance}$.
- C) $\text{General Capital Assets} - \text{Unmatured General Long-Term Liabilities} = \text{Net Assets}$.
- D) None of the above.
- E) Both A and B.
- F) Both B and C.

Answer: B

43) A government can only have one

- A) Capital Projects Fund.
- B) General Fund.
- C) Expendable Trust Fund.
- D) Special Revenue Fund.

Answer: B

44) The availability criterion for recognizing revenues applies to all of the following funds *except*

- A) Capital Projects Funds.
- B) Debt Service Funds.
- C) Internal Service Funds.
- D) Special Revenue Funds.

Answer: C

45) 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.

Answer: C

46) 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.

Answer: D

47) 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.

Answer: B

48) \$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.

Answer: A

49) 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.

Answer: A

50) 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.

Answer: D

51) 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.

Answer: B

52) 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

Answer: B

53) 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.

Answer: C

54) 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.

Answer: C

55) 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.

Answer: A

56) 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.

Answer: D

57) 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.

Answer: C

58) 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

Answer: C

59) 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

Answer: A