Accounting for Governmental and Nonprofit Entities 17th edition Reck Test Bank

SKU: 9780078025822-TEST-BANK

Chapter 02

Principles of Accounting and Financial Reporting for State and Local Governments

True / False Questions

1. Governmental activities are to be classified as governmental or business-type.

   True False

2. 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

3. Only those governmental and proprietary funds that meet the GASB size criteria for major funds are reported in separate columns of the governmental and proprietary fund financial statements.

   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. Governmental funds account for assets but not the liabilities.

   True False

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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 position.

   True False

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

    True False

11. The maximum sets of fund financial statements a government would present are three.

    True False

12. When revenues are legally restricted by external resource providers or committed by enabling legislation for particular operating purposes, a private purpose trust fund is created.

    True False

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13. A debt service fund is used to account for financial resources segregated for the purpose of making principal and interest payments on general long-term debt.

True False

14. A deferred inflow of resources is defined as "an acquisition of net assets by the government that is applicable to a future reporting period."

True False

15. Expenditures are never recorded in governmental funds.

True False

16. Deferred outflow of resources is a type of asset that is unique to government.

True False

17. Revenues is an example of what the GASB terms an inflow of resources.

True False

18. An expenditure is an example of what the GASB terms an outflow of resources.

True False

19. Deferred inflow of resources and deferred outflow of resources would be shown in separate sections of a government's statement of net position.

True False

20. In accordance with GASB standards, a deferred inflow of resources is reported on the financial statements the same as an unearned revenue.

True False

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21. The GASB concept statements indicate that an asset that is going to be converted to cash should be reported at a remeasured amount at the financial statement date.

True False

22. Proprietary funds primarily provide services to the general public for a fee.

True False

23. A permanent endowment is an example of a nonspendable fund balance.

True False

24. Assigned fund balances can be either positive or negative.

True False

25. The General Fund is the only fund that can have a positive unassigned fund balance.

True False

26. The positive fund balance in a special revenue fund must at a minimum be reported as assigned.

True False

27. Nonmajor funds are not reported on the fund financial statements.

True False

Multiple Choice Questions

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28. Which of the following is true regarding financial reporting for internal service funds?

A. Internal service funds are reported in the governmental fund financial statements.
B. Internal service funds are aggregated and reported as a major fund in the proprietary fund financial statements.
C. Internal service funds are generally reported in the Business-type Activities column of the government-wide financial statements.
D. Internal service funds are generally reported in the Governmental Activities column of the government-wide financial statements.

29. 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 reporting entity.
D. A self-balancing set of accounts.

30. In accounting for state and local governments the modified accrual basis is required for

A. Proprietary and fiduciary funds.
B. Governmental funds.
C. Governmental and fiduciary funds.
D. Governmental and internal service funds.

31. 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.

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32. 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.

33. 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.

34. 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.

35. 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.

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

A. Only governmental funds and proprietary funds should be established.
B. Only those funds required by law, GASB standards, and sound financial administration should be established.
C. Only those funds required by law and sound financial administration should be established.
D. All categories of funds must be established.

37. Which of the following is a proprietary fund?

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

38. Which of the following is a fiduciary fund?

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

39. Which of the following funds would be most appropriate when 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.

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40. 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.

41. 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 government on a cost-reimbursement basis?

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

42. Which of the following funds would record depreciation of capital assets?

A. Special revenue fund.
B. Permanent fund.
C. Internal service fund.
D. Agency fund.

43. 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.

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44. 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.

45. 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.

46. 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.

47. 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.

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48. 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.

49. Which of the following governmental funds must be reported as a major fund?

A. The General Fund.
B. Any fund with total assets, liabilities, revenues, or expenditures that are 10% or more of the General Fund and 5% or more of total General Fund and Business-type Activities.
C. The government may opt to include or exclude any fund it choses as a major fund.
D. Only the General Fund and special revenue funds that meet the 10% and 5% size criteria.

50. The basis of accounting that should be used in preparing fund financial statements is:

	Governmental funds	Proprietary funds	Fiduciary funds
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

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51. 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.

52. A city received resources that the state indicates can only be used for public works projects, such as road construction. Assuming the resources have not been expended by year end, how would the resources the city received be shown in the city's fund balances?

A. Spendable-Designated Fund Balance.
B. Spendable-Committed Fund Balance.
C. Spendable-Restricted Fund Balance.
D. Spendable-Assigned Fund Balance.

53. Which of the following would be reported as a nonspendable fund balance?

A. Inventory.
B. Restricted assets.
C. Assets whose use is limited.
D. Capital assets.

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54. Under GASB standards which of the following funds can report a positive amount for unassigned fund balance?

A. Capital projects fund.
B. Special revenue fund.
C. General Fund.
D. All of the above.

55. Use the following information to determine whether the Development Special Revenue and the Debt Service Funds should be reported as major funds based on asset amounts provided. Development Special Revenue Fund Assets $740,000 Debt Service Fund Assets $150,000 Total Governmental Fund Assets $7,500,000 Total Governmental Fund and Enterprise Fund Assets $8,750,000

A. The Development Special Revenue Fund should be reported as major.
B. The Debt Service Fund should be reported as major.
C. Both the Development Special Revenue Fund and the Debt Service Fund should be reported as major.
D. Neither the Development Special Revenue Fund nor the Debt Service Fund should be reported as major.

56. Which of the following is not one of the seven elements defined by the GASB concept statements?

A. Deferred inflow of resources.
B. Expenses.
C. Assets.
D. Net position.

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57. The GASB concept statements indicate that in certain instances a remeasured value for an asset or liability should be reported on the financial statements. Which of the following is not one of the methods recommended by the GASB for remeasured amounts?

A. Historical cost.

B. Lower of cost or market.

C. Fair value.

D. Replacement cost.

Short Answer Questions

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58. 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 purpose
_____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 collect taxes or amounts bequeathed from private citizens
_____5.	Enterprise and internal service funds

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59. The following are fund balance classifications described in Chapter 2:

A. Nonspendable
B. Spendable—Restricted
C. Spendable—Committed
D. Spendable—Assigned
E. Spendable—Unassigned

For each of the following scenarios, indicate how they would be classified for fund balance reporting purposes using the classification list above. Place the appropriate letter in the blank space next to each scenario.

_____1.	Bond proceeds of $15,000,000 that must be used for construction of a fire substation remain unspent at the end of the fiscal year.
_____2.	Prepaid rent of $6,000 remains at the end of the fiscal year.
_____3.	The city council adopted a plan to set aside 2% of revenues over the next three years to help build cash reserves. At the end of the fiscal year 2% of the revenues were set aside.
_____4.	The state transportation department provided $1,000,000 in state funds to be used for street widening. At the end of the fiscal year $750,000 remained unspent.
_____5.	The county received a $3,000,000 endowment during the year.

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60. Following are some of the county's governmental funds. The county has asked you to determine is any of the funds listed should be classified as major funds based on the GASB size criteria. Clearly indicate which fund(s) you believe should be classified as major and provide support for your choice(s).

	General Fund	Special Revenue Fund	Debt Service Fund	Total of all Governmental Funds	Total of all Governmental &Enterprise Funds
Assets	12,000,000	1,000,000	500,000	15,000,000	21,000,000
Liabilities	3,000,000	250,000	30,000	4,580,000	5,890,000
Revenues	10,000,000	600,000	1,450,000	13,770,000	17,123,000
Expenditures/Expenses	9,859,000	725,000	1,300,000	13,460,000	16,665,000

Essay Questions

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61. List the basic financial statements required by GASB standards and briefly explain their purposes.

62. "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.

63. 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?

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64. 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?

65. 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.

66. Describe the comprehensive annual financial report (CAFR). What are the sections of the report and which components of the organization should it include? Is a CAFR required?

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Chapter 02 Principles of Accounting and Financial Reporting for State and Local Governments Answer Key

True / False Questions

1. Governmental activities are to be classified as governmental or business-type.

TRUE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Explain the nature of the three major activity categories of a state or local government: governmental activities, business-type activities, and fiduciary activities.
Topic: Financial reporting model

2. 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

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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3. Only those governmental and proprietary funds that meet the GASB size criteria for major funds are reported in separate columns of the governmental and proprietary fund financial statements.

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Discuss the nature of major fund reporting and the criteria used to determine whether a fund should be reported as a major fund.
Topic: Reporting major funds

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

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

5. Governmental funds account for assets but not the liabilities.

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each

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fund category and characteristics of each fund type.
Topic: Financial reporting model

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

TRUE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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

AACSB: Knowledge application

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AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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11. The maximum sets of fund financial statements a government would present are three.

TRUE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 3 Hard
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

12. When revenues are legally restricted by external resource providers or committed by enabling legislation for particular operating purposes, a private purpose trust fund is created.

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

13. A debt service fund is used to account for financial resources segregated for the purpose of making principal and interest payments on general long-term debt.

TRUE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-

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wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

14. A deferred inflow of resources is defined as "an acquisition of net assets by the government that is applicable to a future reporting period."

TRUE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

15. Expenditures are never recorded in governmental funds.

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

16. Deferred outflow of resources is a type of asset that is unique to government.

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember

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Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

17. Revenues is an example of what the GASB terms an inflow of resources.

TRUE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

18. An expenditure is an example of what the GASB terms an outflow of resources.

TRUE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

19. Deferred inflow of resources and deferred outflow of resources would be shown in separate sections of a government's statement of net position.

TRUE

AACSB: Knowledge application

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AICPA: FN Reporting
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Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

20. In accordance with GASB standards, a deferred inflow of resources is reported on the financial statements the same as an unearned revenue.

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

21. The GASB concept statements indicate that an asset that is going to be converted to cash should be reported at a remeasured amount at the financial statement date.

TRUE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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22. Proprietary funds primarily provide services to the general public for a fee.

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

23. A permanent endowment is an example of a nonspendable fund balance.

TRUE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

24. Assigned fund balances can be either positive or negative.

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.

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Topic: Financial reporting model

25. The General Fund is the only fund that can have a positive unassigned fund balance.

TRUE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

26. The positive fund balance in a special revenue fund must at a minimum be reported as assigned.

TRUE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

27. Nonmajor funds are not reported on the fund financial statements.

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Discuss the nature of major fund reporting and the criteria used to determine whether a fund should

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be reported as a major fund.
Topic: Reporting major funds

Multiple Choice Questions

28. Which of the following is true regarding financial reporting for internal service funds?

A. Internal service funds are reported in the governmental fund financial statements.
B. Internal service funds are aggregated and reported as a major fund in the proprietary fund financial statements.
C. Internal service funds are generally reported in the Business-type Activities column of the government-wide financial statements.
D. Internal service funds are generally reported in the Governmental Activities column of the government-wide financial statements.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Discuss the nature of major fund reporting and the criteria used to determine whether a fund should be reported as a major fund.
Topic: Internal service fund

29. 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 reporting entity.
D. A self-balancing set of accounts.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember

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Difficulty: 1 Easy

Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.

Topic: Definition of a fund

30. In accounting for state and local governments the modified accrual basis is required for

A. Proprietary and fiduciary funds.
B. Governmental funds.
C. Governmental and fiduciary funds.
D. Governmental and internal service funds.

AACSB: Knowledge application

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.

Topic: Modified accrual basis of accounting

31. 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.

AACSB: Knowledge application

AICPA: FN Reporting

Accessibility: Keyboard Navigation

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each

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fund category and characteristics of each fund type.
Topic: Modified accrual basis of accounting

32. 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Focus and basis of accounting for fund financial statements

33. 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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34. 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

35. 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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

A. Only governmental funds and proprietary funds should be established.
B. Only those funds required by law, GASB standards, and sound financial administration should be established.
C. Only those funds required by law and sound financial administration should be established.
D. All categories of funds must be established.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

37. Which of the following is a proprietary fund?

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

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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38. Which of the following is a fiduciary fund?

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

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Reporting in an agency or trustee capacity

39. Which of the following funds would be most appropriate when 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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40. 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

41. 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 government on a cost-reimbursement basis?

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

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Internal service fund

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42. Which of the following funds would record depreciation of capital assets?

A. Special revenue fund.
B. Permanent fund.
C. Internal service fund.
D. Agency fund.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Internal service fund

43. 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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44. 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

45. 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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46. 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

47. 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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48. 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.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Common elements between governmental and for-profit financials

49. Which of the following governmental funds must be reported as a major fund?

A. The General Fund.
B. Any fund with total assets, liabilities, revenues, or expenditures that are 10% or more of the General Fund and 5% or more of total General Fund and Business-type Activities.
C. The government may opt to include or exclude any fund it choses as a major fund.
D. Only the General Fund and special revenue funds that meet the 10% and 5% size criteria.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Discuss the nature of major fund reporting and the criteria used to determine whether a fund should be reported as a major fund.
Topic: Reporting major funds

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50. The basis of accounting that should be used in preparing fund financial statements is:

	Governmental funds	Proprietary funds	Fiduciary funds
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

AACSB: Knowledge application
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

51. 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.

AACSB: Knowledge application

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AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Discuss the nature of major fund reporting and the criteria used to determine whether a fund should be reported as a major fund.
Topic: Reporting major funds

52. A city received resources that the state indicates can only be used for public works projects, such as road construction. Assuming the resources have not been expended by year end, how would the resources the city received be shown in the city's fund balances?

A. Spendable-Designated Fund Balance.
B. Spendable-Committed Fund Balance.
C. Spendable-Restricted Fund Balance.
D. Spendable-Assigned Fund Balance.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Restricted fund balances

53. Which of the following would be reported as a nonspendable fund balance?

A. Inventory.
B. Restricted assets.
C. Assets whose use is limited.
D. Capital assets.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

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Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

54. Under GASB standards which of the following funds can report a positive amount for unassigned fund balance?

A. Capital projects fund.
B. Special revenue fund.
C. General Fund.
D. All of the above.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

55. Use the following information to determine whether the Development Special Revenue and the Debt Service Funds should be reported as major funds based on asset amounts provided. Development Special Revenue Fund Assets $740,000 Debt Service Fund Assets $150,000 Total Governmental Fund Assets $7,500,000 Total Governmental Fund and Enterprise Fund Assets $8,750,000

A. The Development Special Revenue Fund should be reported as major.
B. The Debt Service Fund should be reported as major.
C. Both the Development Special Revenue Fund and the Debt Service Fund should be reported as major.
D. Neither the Development Special Revenue Fund nor the Debt Service Fund should be reported as major.

AACSB: Knowledge application

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AICPA: FN Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Discuss the nature of major fund reporting and the criteria used to determine whether a fund should be reported as a major fund.
Topic: Reporting major funds

56. Which of the following is not one of the seven elements defined by the GASB concept statements?

A. Deferred inflow of resources.
B. Expenses.
C. Assets.
D. Net position.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

57. The GASB concept statements indicate that in certain instances a remeasured value for an asset or liability should be reported on the financial statements. Which of the following is not one of the methods recommended by the GASB for remeasured amounts?

A. Historical cost.
B. Lower of cost or market.
C. Fair value.
D. Replacement cost.

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Remember

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Difficulty: 1 Easy

Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.

Topic: Financial reporting model

Short Answer Questions

58. 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 purpose
_____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 collect taxes or amounts bequeathed from private citizens
_____5.	Enterprise and internal service funds

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

AACSB: Knowledge application

AICPA: FN Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each

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fund category and characteristics of each fund type.
Topic: Financial reporting model

59. The following are fund balance classifications described in Chapter 2:

A. Nonspendable
B. Spendable—Restricted
C. Spendable—Committed
D. Spendable—Assigned
E. Spendable—Unassigned

For each of the following scenarios, indicate how they would be classified for fund balance reporting purposes using the classification list above. Place the appropriate letter in the blank space next to each scenario.

_____1.	Bond proceeds of $15,000,000 that must be used for construction of a fire substation remain unspent at the end of the fiscal year.
_____2.	Prepaid rent of $6,000 remains at the end of the fiscal year.
_____3.	The city council adopted a plan to set aside 2% of revenues over the next three years to help build cash reserves. At the end of the fiscal year 2% of the revenues were set aside.
_____4.	The state transportation department provided $1,000,000 in state funds to be used for street widening. At the end of the fiscal year $750,000 remained unspent.
_____5.	The county received a $3,000,000 endowment during the year.

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

AACSB: Knowledge application
AICPA: FN Reporting
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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60. Following are some of the county's governmental funds. The county has asked you to determine is any of the funds listed should be classified as major funds based on the GASB size criteria. Clearly indicate which fund(s) you believe should be classified as major and provide support for your choice(s).

	General Fund	Special Revenue Fund	Debt Service Fund	Total of all Governmental Funds	Total of all Governmental &Enterprise Funds
Assets	12,000,000	1,000,000	500,000	15,000,000	21,000,000
Liabilities	3,000,000	250,000	30,000	4,580,000	5,890,000
Revenues	10,000,000	600,000	1,450,000	13,770,000	17,123,000
Expenditures/Expenses	9,859,000	725,000	1,300,000	13,460,000	16,665,000

Debt Service Fund – The size criteria states that a fund must be at least 10% of the total of all governmental funds for at least one of the elements (assets, liabilities, revenues, expenditures/expenses), and it must be at least 5% of the total of all governmental funds and enterprise funds for the same element. The debt service fund meets the size criteria for revenues since 10% of the total of all governmental funds is $1,377,000 and 5% of the total of all governmental and enterprise funds is $856,150, both of which the debt service fund exceeds. (The thresholds for the other three elements are: assets—10% is $1,500,000, 5% is $1,050,000; liabilities—10% is $458,000, 5% is $294,500; expenditures/expenses—10% is $1,346,000, 5% is $833,250.)

General Fund – the General Fund is always classified as a major fund and it meets the size criteria for all of the elements.

AACSB: Knowledge application
AICPA: FN Measurement
Blooms: Apply
Difficulty: 3 Hard
Learning Objective: 02-03 Discuss the nature of major fund reporting and the criteria used to determine whether a fund should be reported as a major fund.
Topic: Reporting major funds

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Essay Questions

61. List 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 position 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 position at the government-wide level. A statement of net position; a statement of revenues, expenses, and changes in fund net position; and statement of cash flows are required for proprietary-type funds. A statement of net position and statement of changes in net position are required for fiduciary funds.

AACSB: Communication
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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62. "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 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.

AACSB: Communication
AICPA: FN Reporting
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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63. 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 position and activities using the economic resources measurement focus and the accrual basis of accounting.

AACSB: Communication
AICPA: FN Reporting
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.
Topic: Financial reporting model

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64. 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 position-proprietary funds
- Statement of revenues, expenses, and changes in fund net position-proprietary funds
- Statement of cash flows-proprietary funds
- Statement of fiduciary net position
- Statement of changes in fiduciary net position

In addition, a reconciliation of (1) the total fund balance of governmental funds from the balance sheet-governmental funds to the governmental activities net position from the government-wide statement of net position, and (2) the change in 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 position 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).

AACSB: Communication
AICPA: FN Reporting
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.

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Topic: Financial reporting model

65. 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 provide, 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.

AACSB: Communication
AICPA: FN Reporting
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Explain the nature of the three major activity categories of a state or local government: governmental activities, business-type activities, and fiduciary activities.
Topic: Financial reporting model

66. Describe the comprehensive annual financial report (CAFR). What are the sections of the report and which components of the organization should it include? Is a CAFR required?

The CAFR is recommended, 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) MDamp;A, (2) basic financial statements, and (3) required supplementary information other than the MDamp;A.

AACSB: Communication
AICPA: FN Reporting

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Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 02-02 Explain the Governmental Accounting Standards Board's (GASB) integrated accounting and financial reporting model, including: Elements and measurement approaches for the elements of the financial statements; Government-wide financial statements; Fund financial statements; Definition of fund and principles of fund accounting; Types of funds in each fund category and characteristics of each fund type.

Topic: Financial reporting model

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