Essentials of Accounting for Governmental and Not-for-Profit Organizations 14th edition Copley Solutions Manual

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INSTRUCTOR'S MANUAL

TO ACCOMPANY
ESSENTIALS OF ACCOUNTING FOR GOVERNMENTAL AND NOT-FOR-PROFIT ORGANIZATIONS: 14TH EDITION

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CHAPTER 1 Introduction to Accounting and Financial Reporting for Governmental and Not-for-Profit Organizations

1-1. THE SOLUTION TO THIS AND THE FIRST EXERCISE OF CHAPTERS 2 THROUGH 9 WILL DIFFER FROM STUDENT TO STUDENT ASSUMING EACH HAS A DIFFERENT CAFR.

1-2.

1) **ORGANIZATIONAL PURPOSES:** WHILE THE PURPOSE OF A COMMERCIAL BUSINESS IS TO GENERATE A PROFIT FOR THE BENEFIT OF ITS OWNERS, GOVERNMENTS EXIST FOR THE WELL BEING OF CITIZENS BY PROVIDING PUBLIC SERVICES – WHETHER OR NOT THE SERVICES ARE PROFITABLE UNDERTAKINGS.
2) **SOURCES OF REVENUES:** GOVERNMENTS DERIVE MANY OF THEIR RESOURCES FROM TAXES. INDIVIDUALS AND BUSINESSES PAY TAXES TO AVOID PENALTY, NOT VOLUNTARILY BECAUSE THEY PERCEIVE GOVERNMENT SERVICES TO BE OF VALUE AND FAIRLY PRICED. SINCE TAXES DO NOT INVOLVE AN EARNINGS PROCESS, THE TIMING OF THE RECOGNITION OF TAX REVENUE IS NOT ALWAYS CLEAR.
3) **POTENTIAL FOR LONGEVITY:** BECAUSE THE U.S. AND STATE CONSTITUTIONS GRANT STATE AND LOCAL GOVERNMENTS THE ABILITY TO TAX, GOVERNMENTS VERY RARELY GO OUT OF BUSINESS. THIS LONG-TERM VIEW OF OPERATIONS CHANGES THE FOCUS OF ACCOUNTING FROM ONE OF NEAR-TERM RECOVERY OF AMOUNTS INVESTED IN ASSETS TO A LONGER-TERM FOCUS ON THE SUSTAINABILITY OF SERVICES AND THE ABILITY TO MEET FUTURE DEMAND.
4) **RELATIONSHIP WITH STAKEHOLDERS:** TAXES ARE CREATED THROUGH THE LEGISLATIVE PROCESS BY OFFICIALS ELECTED BY THE CITIZENS. BECAUSE CITIZENS AND BUSINESSES ARE THEN REQUIRED TO PAY THESE TAXES, GOVERNMENTS HAVE AN OBLIGATION TO DEMONSTRATE ACCOUNTABILITY FOR THESE PUBLIC FUNDS.
5) **ROLE OF THE BUDGET:** GOVERNMENT BUDGETS ARE EXPRESSIONS OF PUBLIC POLICY AND OFTEN CARRY THE AUTHORITY OF LAW, PREVENTING PUBLIC OFFICIALS FROM SPENDING OUTSIDE THEIR BUDGETARY AUTHORITY. THE INCREASED IMPORTANCE OF BUDGETS IS REFLECTED IN GOVERNMENT FINANCIAL REPORTS BY A REQUIRED REPORT COMPARING BUDGETED AND ACTUAL AMOUNTS.

1-3. THE THREE STANDARDS SETTING BODIES IN QUESTION ARE THE FEDERAL ACCOUNTING STANDARDS ACCOUNTING ADVISORY BOARD (FASAB), THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB), AND THE FINANCIAL ACCOUNTING STANDARDS BOARD (FASB). THE FASAB ESTABLISHES ACCOUNTING AND REPORTING STANDARDS FOR THE FEDERAL GOVERNMENT AND ITS AGENCIES UNLESS OBJECTED TO BY ONE OF THE "PRINCIPALS" (THE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET, THE COMPTROLLER GENERAL OF THE UNITED STATES (GAO), AND THE SECRETARY OF THE TREASURY). WHEN THE "PRINCIPALS" APPROVE, THE FASAB STANDARDS BECOME GAAP. THE GASB SETS ACCOUNTING AND FINANCIAL REPORTING STANDARDS FOR STATE AND LOCAL GOVERNMENTAL ORGANIZATIONS, INCLUDING THOSE NOT-FOR-PROFIT ORGANIZATIONS THAT ARE DETERMINED TO BE STATE AND LOCAL GOVERNMENTS. THE FASB SETS ACCOUNTING AND FINANCIAL REPORTING STANDARDS FOR PROFIT SEEKING BUSINESSES AND FOR NONGOVERNMENTAL, NOT-FOR-PROFIT ENTITIES.

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1-4. THE DEFINITION OF A GOVERNMENT, AS AGREED TO BY THE FASB AND THE GASB IS AS FOLLOWS:

"PUBLIC CORPORATIONS AND BODIES CORPORATE AND POLITIC ARE GOVERNMENTAL ORGANIZATIONS. OTHER ORGANIZATIONS ARE GOVERNMENTAL ORGANIZATIONS IF THEY HAVE ONE OR MORE OF THE FOLLOWING CHARACTERISTICS:

1. POPULAR ELECTION OF OFFICERS OR APPOINTMENT (OR APPROVAL) OF A CONTROLLING MAJORITY OF THE MEMBERS OF THE ORGANIZATION'S GOVERNING BODY BY OFFICIALS OF ONE OR MORE STATE OR LOCAL GOVERNMENTS;

2. THE POTENTIAL FOR UNILATERAL DISSOLUTION BY A GOVERNMENT WITH THE NET ASSETS REVERTING TO A GOVERNMENT, OR

3. THE POWER TO ENACT AND ENFORCE A TAX LEVY.

FURTHERMORE, ORGANIZATIONS ARE PRESUMED TO BE GOVERNMENTAL IF THEY HAVE THE ABILITY TO ISSUE DIRECTLY (RATHER THAN THROUGH A STATE OR MUNICIPAL AUTHORITY) DEBT THAT PAYS INTEREST EXEMPT FROM FEDERAL TAXATION.

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1-5. The sources of authoritative GAAP for state and local governments are:

- Category A: GASB Statements (and Interpretations)
- Category B: GASB Implementation Guides, GASB Technical Bulletins and literature of the American Institute of Certified Public Accountants (AICPA) specifically cleared by the GASB

If the accounting treatment for a given transaction is not specified by a statement in Category A, a state and local government should consider whether it is covered by one of the sources identified in Category B. If the accounting treatment is not specified within one of these authoritative sources, the government should consider whether the transaction is sufficiently similar to ones covered by one of the authoritative sources that a similar accounting treatment can be applied. If not, the government may use non-authoritative sources for guidance, including:

- GASB Concept Statements,
- FASB, FASAB, or International Standards Board pronouncements,
- AICPA literature not specifically cleared by the GASB,
- Other sources provided by professional organizations, regulatory agencies, textbooks, and published articles, or
- Prevalent practices that evolved among governments without specific authoritative action.

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1-6.

A. CONCEPTUALLY, THE MEASUREMENT FOCUS DETERMINES *WHAT* IS MEASURED; THE BASIS OF ACCOUNTING DETERMINES *WHEN* SOMETHING IS MEASURED. THE ECONOMIC RESOURCES MEASUREMENT FOCUS MEASURES ALL ECONOMIC RESOURCES, INCLUDING CAPITAL ASSETS AND LONG-TERM DEBT. THE CURRENT FINANCIAL RESOURCES MEASUREMENT FOCUS MEASURES PRIMARILY FINANCIAL RESOURCES AND DOES NOT RECOGNIZE LONG-TERM ASSETS AND LIABILITIES. THESE RESOURCES ARE GENERALLY RESTRICTED TO CURRENT ASSETS, INVESTMENTS, AND SHORT-TERM LIABILITIES

THE ACCRUAL BASIS OF ACCOUNTING RECOGNIZES REVENUES WHEN EARNED AND EXPENSES WHEN INCURRED. THE MODIFIED ACCRUAL BASIS OF ACCOUNTING IS SOMEWHERE BETWEEN THE CASH AND ACCRUAL BASES OF ACCOUNTING AND RECOGNIZES REVENUES WHEN MEASURABLE AND AVAILABLE TO FINANCE EXPENDITURES OF THE CURRENT PERIOD. THE MODIFIED ACCRUAL BASIS OF ACCOUNTING RECOGNIZES EXPENDITURES GENERALLY WHEN THE FUND LIABILITY IS INCURRED (I.E. GOODS AND SERVICES ARE RECEIVED).

B. UNDER ACCRUAL ACCOUNTING REVENUES BASED ON EXCHANGE TRANSACTIONS ARE RECOGNIZED WHEN EARNED. UNDER MODIFIED ACCRUAL ACCOUNTING, REVENUE RECOGNITION IS MODIFIED TO REQUIRE THAT THE AMOUNT BE MEASURABLE AND AVAILABLE TO FINANCE EXPENDITURES OF THE CURRENT PERIOD.

C. UNDER ACCRUAL ACCOUNTING, EXPENSES ARE RECOGNIZED WHEN GOODS OR SERVICES ARE USED. EXPENSES ARE OFTEN MATCHED WITH THE REVENUES THOSE EXPENSES GENERATE, IN THE CASE OF EXCHANGE TRANSACTIONS. ACCRUALS ARE REQUIRED FOR INTEREST AND OTHER EXPENSES, REGARDLESS OF WHEN CASH IS TO BE TRANSFERRED. UNDER MODIFIED ACCRUAL ACCOUNTING, EXPENDITURES (NOT EXPENSES) ARE RECORDED GENERALLY WHEN GOODS OR SERVICES ARE RECEIVED. (TO THE INSTRUCTOR: THIS ANSWER IS BASED ON THE INFORMATION GIVEN IN CHAPTER 1; MORE SOPHISTICATION IS INTRODUCED IN LATER CHAPTERS.)

D. UNDER THE ECONOMIC RESOURCES MEASUREMENT FOCUS AND ACCRUAL ACCOUNTING, FIXED ASSETS ARE CAPITALIZED AND DEPRECIATED (EXCEPT FOR INFRASTRUCTURE ASSETS USING THE MODIFIED APPROACH). UNDER THE CURRENT FINANCIAL RESOURCES MEASUREMENT FOCUS AND MODIFIED ACCRUAL ACCOUNTING, FIXED ASSETS ARE NOT CAPITALIZED OR DEPRECIATED; RATHER FIXED ASSETS ARE CHARGED TO EXPENDITURES WHEN RECEIVED.

E. UNDER THE ECONOMIC RESOURCES MEASUREMENT FOCUS AND ACCRUAL ACCOUNTING, LONG-TERM DEBT IS RECORDED AS A LIABILITY. UNDER THE CURRENT FINANCIAL RESOURCES MEASUREMENT FOCUS AND MODIFIED ACCRUAL ACCOUNTING, LONG-TERM DEBT IS NOT RECORDED AS A LIABILITY. (LATER CHAPTERS WILL INDICATE THAT THE ISSUANCE OF DEBT RESULTS IN AN "OTHER FINANCING SOURCE" IN THE GOVERNMENTAL FUND STATEMENTS AND THAT THE REPAYMENT OF DEBT WILL RESULT IN AN EXPENDITURE IN THE GOVERNMENTAL FUND STATEMENTS.)

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1-7. PRIVATE SECTOR ORGANIZATIONS ARE ORGANIZATIONS THAT ARE NOT OWNED OR CONTROLLED BY GOVERNMENTS AND INCLUDE BUSINESSES AS WELL AS PRIVATE NOT-FOR-PROFIT ORGANIZATIONS. PUBLIC SECTOR ORGANIZATIONS ARE GOVERNMENTS OR ORGANIZATIONS OWNED OR CONTROLLED BY GOVERNMENTS.

1-8. ACCORDING TO THE WEB SITE, "THE MISSION OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD IS TO ESTABLISH AND IMPROVE STANDARDS OF STATE AND LOCAL GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING THAT WILL:

* RESULT IN USEFUL INFORMATION FOR USERS OF FINANCIAL REPORTS AND

* GUIDE AND EDUCATE THE PUBLIC, INCLUDING ISSUERS, AUDITORS, AND USERS OF THOSE FINANCIAL REPORTS."

1-9. THE APPROPRIATE FUNDS ARE:

a) CAPITAL PROJECTS FUND: THESE FINANCIAL RESOURCES ARE TO BE USED TO FINANCE CONSTRUCTION OF A CAPITAL ASSET. SINCE THE JAIL IS UNLIKELY TO CHARGE FOR ITS SERVICES, IT WOULD NOT BE PART OF A PROPRIETARY FUND.

b) SPECIAL REVENUE FUND: SINCE THE TAX REVENUE IS RESTRICTED BY STATE LAW FOR A PURPOSE OTHER THAN CAPITAL PROJECT OR DEBT SERVICE, THESE AMOUNTS WOULD BE REPORTED IN A SPECIAL REVENUE FUND.

c) ENTERPRISE FUND: ALTHOUGH THIS REPRESENTS A CAPITAL PROJECT, WATER DEPARTMENTS ARE TYPICALLY REPORTED AS ENTERPRISE FUNDS.

d) PRIVATE-PURPOSE TRUST FUND: THIS IS A TRUST FUND IN WHICH THE INCOME BENEFITS INDIVIDUALS. IF THE PURPOSE OF THE FUND WAS TO BENEFIT THE GOVERNMENT OR ITS CITIZENRY (BROADLY), THEN IT WOULD BE APPROPRIATE TO REPORT THESE RESOURCES IN A PERMANENT FUND.

e) SPECIAL REVENUE FUND: ALTHOUGH THE LIBRARY BENEFITS THE CITIZENRY IN GENERAL, THE ABSENCE OF A REQUIREMENT THAT PRINCIPAL BE MAINTAINED PRECLUDES THE RESOURCES BEING REPORTED IN A PERMANENT FUND. SINCE THE RESOURCES ARE RESTRICTED BY THE DONOR, THEY WOULD BE REPORTED IN A SPECIAL REVENUE FUND.

f) GENERAL FUND: THE RESOURCES ARE NEITHER FIDUCIARY NOR PROPRIETARY. SINCE THE RESOURCES ARE NOT RESTRICTED OR COMMITTED TO A PARTICULAR

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PURPOSE, THE GENERAL FUND WOULD BE THE APPROPRIATE FUND FOR REPORTING THE PROCEEDS OF THE SALE OF THE EQUIPMENT.

g) SEVERAL FUNDS WILL BE AFFECTED:
   - GENERAL FUND – CONTRIBUTIONS ON BEHALF OF THE TEACHERS AND PUBLIC SAFETY EMPLOYEES WILL BE PAID BY THE GENERAL FUND WHICH INCLUDES DEPARTMENTS WHERE THESE EMPLOYEES WORK.
   - ENTERPRISE FUND - WATER DEPARTMENTS ARE TYPICALLY REPORTED IN ENTERPRISE FUNDS AND CONTRIBUTIONS ON BEHALF OF WATER DEPARTMENT EMPLOYEES WILL BE PAID BY THIS FUND.
   - PENSION TRUST FUND – THE AMOUNTS CONTRIBUTED BY THE GENERAL AND ENTERPRISE FUNDS WILL BE RECEIVED BY THE PENSION TRUST FUND FOR INVESTMENT.

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