

Chapter 02

Principles of Accounting and Financial Reporting for State and Local  
Governments

**True / False Questions**

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

True   False

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

True   False

5. 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

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

True False

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

True False

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

True False

9. 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

10. 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

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

True False

12. Governments must present three sets of fund financial statements.

True False

13. 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

14. 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

15. A deferred inflow is defined as “an acquisition of net assets by the government that is applicable to a future reporting period.”

True   False

16. Expenditures are never recorded in governmental funds.

True   False

### **Multiple Choice Questions**

17. The accounting system used by a state or local government must make it possible

- A. To present fairly the financial position and results of financial operations of the government as a whole, as well as fund financial activity in conformity with GAAP.
- B. To prepare financial statements as required by the Financial Accounting Standards Board.
- C. To prepare consolidated accrual basis statements for the government as a whole.
- D. To provide Web-based bond offering statements to investment firms.

18. Which of the following is a difference between financial reporting for internal service and enterprise funds?
- A. Internal service funds are reported in the governmental fund financial statements.
  - B. Internal service funds are reported 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.
19. Which of the following is *not* a characteristic of a fund as defined by GASB standards?
- A. An accounting entity.
  - B. A fiscal entity.
  - C. A segregated quantity of cash and other financial resources on deposit with a designated trustee.
  - D. A self-balancing set of accounts.
20. In accounting for state and local governments the modified accrual basis is required for
- A. Proprietary and fiduciary funds.
  - B. Governmental funds only.
  - C. Proprietary funds only.
  - D. All funds.
21. 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.

22. 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.

23. 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.

24. 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.

25. 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.

26. 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 should be established.
  - D. All categories of funds must be established.
27. Which of the following is a proprietary fund?
- A. Special revenue fund.
  - B. Investment trust fund.
  - C. Debt service fund.
  - D. Internal service fund.
28. Which of the following is a fiduciary fund?
- A. Investment trust fund.
  - B. Special revenue fund.
  - C. Debt service fund.
  - D. Enterprise fund.
29. Which of the following funds would be most appropriate for accounting for an activity that provides goods or services to the public for a fee that is intended to make the activity self-supporting?
- A. Investment trust fund.
  - B. Enterprise fund.
  - C. Internal service fund.
  - D. Special revenue fund.

30. 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.
31. Which of the following funds would be used to account for an activity that provides centralized purchasing and sales of goods or services to other departments or agencies of the governmental, or to other governments, on a cost-reimbursement basis?
- A. Enterprise fund.
  - B. Fiduciary fund.
  - C. Internal service fund.
  - D. Permanent fund.
32. Budgetary comparison schedules presenting budgeted versus actual revenues and expenditures are
- A. Optional under GASB standards for all funds.
  - B. Required by GAAP for internal management reports only; not permitted for external financial reporting.
  - C. Required by GAAP for the General Fund and major special revenue funds for which an annual budget has been legally adopted.
  - D. Required by GAAP for all governmental fund types.
33. In which of the following funds would it *not* be appropriate to record depreciation of capital assets?
- A. Special revenue fund.
  - B. Enterprise.
  - C. Internal service.
  - D. Pension trust.

34. 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.
35. Reporting fund financial information in separate columns for each major fund and aggregate information for nonmajor funds
- A. Means that only those funds that meet the GASB's 10 percent and 5 percent rules are reported in separate columns.
  - B. Is optional under GAAP, but is generally required by state laws for governments.
  - C. Is the same manner of reporting used by business organizations.
  - D. Is required by generally accepted accounting principles for state and local governments.
36. 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.
37. 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.

38. 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.

39. 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.

40. 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.

41. Which of the following must be reported as a *major fund*?

- A. The General Fund.
- B. A fund having total assets, liabilities, revenues, or expenditures/expenses equaling at least 10 percent of the total governmental or enterprise fund amount for the same element (assets, liabilities, and so forth), as applicable, and at least 5 percent of the combined governmental and enterprise fund total amount for the same element.
- C. Both *a* and *b*.
- D. Neither *a* nor *b*.

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

|    | <u>Governmental funds</u> | <u>Proprietary funds</u> | <u>Fiduciary funds</u> |
|----|---------------------------|--------------------------|------------------------|
| A) | Modified accrual          | Accrual                  | Modified accrual       |
| B) | Modified accrual          | Modified accrual         | Modified accrual       |
| C) | Modified accrual          | Accrual                  | Accrual                |
| D) | Accrual                   | Accrual                  | Accrual                |

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

43. 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.

## Short Answer Questions

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

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

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

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

## Essay Questions

45. 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?
46. "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.

47. Describe the basic financial statements required by GASB standards and briefly explain their purposes.
48. "Because budgetary accounts are used by governments, their financial statements can never be said to be in accord with generally accepted accounting principles." Comment.
49. 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?

50. 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.

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

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

### True / False Questions

1. Governmental funds are further classified as governmental or business-type.

**FALSE**

At the government-wide level, activities are classified as governmental or business-type.

*Difficulty: Easy  
Question Type: Concept*

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**

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

*Difficulty: Easy  
Question Type: Concept*

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

**TRUE**

This is consistent with the discussion in Chapter 2.

*Difficulty: Easy*  
*Question Type: Concept*

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

**FALSE**

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

*Difficulty: Medium*  
*Question Type: Concept*

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

**FALSE**

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

*Difficulty: Easy*  
*Question Type: Concept*

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

**FALSE**

Under the modified accrual basis of accounting, governmental funds account for current assets and liabilities but not long-term assets or liabilities.

*Difficulty: Easy*  
*Question Type: Concept*

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

**TRUE**

Funds are classified as governmental, proprietary, and fiduciary.

*Difficulty: Easy*  
*Question Type: Concept*

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

**FALSE**

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

*Difficulty: Medium*  
*Question Type: Concept*

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

**TRUE**

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

*Difficulty: Medium*  
*Question Type: Concept*

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

**FALSE**

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

*Difficulty: Medium*  
*Question Type: Concept*

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

**FALSE**

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

*Difficulty: Medium*  
*Question Type: Concept*

12. Governments must present three sets of fund financial statements.

**TRUE**

In addition to government-wide statements, governments must also present three sets of *fund* financial statements - one set for each of the three fund categories: governmental, proprietary, and fiduciary.

*Difficulty: Medium*  
*Question Type: Concept*

13. 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**

When revenues are legally restricted by external resource providers or committed by enabling legislation for particular operating purposes, such as the operation of a library or maintenance of roads and bridges, a special revenue fund is created.

*Difficulty: Medium*

14. 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**

When revenues are legally restricted by external resource providers or committed by enabling legislation for particular operating purposes, such as the operation of a library or maintenance of roads and bridges, a special revenue fund is created.

Difficulty: Medium  
Question Type: Concept

15. A deferred inflow is defined as “an acquisition of net assets by the government that is applicable to a future reporting period.”

**TRUE**

This definition is consistent with that found in Chapter 2.

Difficulty: Medium  
Question Type: Concept

16. Expenditures are never recorded in governmental funds.

**FALSE**

Under the modified accrual basis of accounting, expenditures are recorded in governmental funds, but expenses are not.

Difficulty: Medium  
Question Type: Concept

## Multiple Choice Questions

17. The accounting system used by a state or local government must make it possible

- A. To present fairly the financial position and results of financial operations of the government as a whole, as well as fund financial activity in conformity with GAAP.
- B. To prepare financial statements as required by the Financial Accounting Standards Board.
- C. To prepare consolidated accrual basis statements for the government as a whole.
- D. To provide Web-based bond offering statements to investment firms.

*Difficulty: Medium*  
*Question Type: Concept*

18. Which of the following is a difference between financial reporting for internal service and enterprise funds?

- A. Internal service funds are reported in the governmental fund financial statements.
- B. Internal service funds are reported 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.

*Difficulty: Medium*  
*Question Type: Concept*

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

*Difficulty: Easy*  
*Question Type: Concept*

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

*Difficulty: Easy*  
*Question Type: Concept*

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

*Difficulty: Easy*  
*Question Type: Concept*

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

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

*Difficulty: Easy*  
*Question Type: Concept*

23. Which of the following funds is a governmental fund-type?

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

*Difficulty: Easy*  
*Question Type: Concept*

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

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

*Difficulty: Easy*  
*Question Type: Concept*

25. According to GASB standards transfers should be recognized

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

*Difficulty: Easy*  
*Question Type: Concept*

26. 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 should be established.
- D. All categories of funds must be established.

*Difficulty: Easy*  
*Question Type: Concept*

27. Which of the following is a proprietary fund?

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

*Difficulty: Easy*  
*Question Type: Concept*

28. Which of the following is a fiduciary fund?

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

*Difficulty: Easy*  
*Question Type: Concept*

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

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

*Difficulty: Medium*  
*Question Type: Concept*

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

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

*Difficulty: Medium*  
*Question Type: Concept*

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

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

*Difficulty: Medium*  
*Question Type: Concept*

32. Budgetary comparison schedules presenting budgeted versus actual revenues and expenditures are

- A. Optional under GASB standards for all funds.
- B. Required by GAAP for internal management reports only; not permitted for external financial reporting.
- C. Required by GAAP for the General Fund and major special revenue funds for which an annual budget has been legally adopted.**
- D. Required by GAAP for all governmental fund types.

*Difficulty: Medium*  
*Question Type: Concept*

33. In which of the following funds would it *not* be appropriate to record depreciation of capital assets?

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

*Difficulty: Medium*  
*Question Type: Concept*

34. Capital assets used by departments accounted for by the General Fund of a governmental unit should be accounted for in

- A. The General Fund.
- B.** The governmental activities journal.
- C. The business-type activities journal.
- D. The general capital assets fund.

*Difficulty: Medium*  
*Question Type: Concept*

35. Reporting fund financial information in separate columns for each major fund and aggregate information for nonmajor funds

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

*Difficulty: Medium*  
*Question Type: Concept*

36. Capital assets used by an enterprise fund should be accounted for in the

- A.** Enterprise fund and depreciation on the capital assets should be recorded.
- B. Business-type activities journal but no depreciation on the capital assets should be recorded.
- C. Governmental activities journal and depreciation on the capital assets should be recorded.
- D. Enterprise fund but no depreciation on the capital assets should be recorded.

*Difficulty: Medium*  
*Question Type: Concept*

37. Which of the following funds are proprietary funds?

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

*Difficulty: Easy*  
*Question Type: Concept*

38. Which of the following funds are governmental funds?

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

*Difficulty: Easy*  
*Question Type: Concept*

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

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

*Difficulty: Easy*  
*Question Type: Concept*

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

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

Difficulty: Medium  
Question Type: Concept

41. Which of the following must be reported as a *major fund*?

A. The General Fund.  
B. A fund having total assets, liabilities, revenues, or expenditures/expenses equaling at least 10 percent of the total governmental or enterprise fund amount for the same element (assets, liabilities, and so forth), as applicable, and at least 5 percent of the combined governmental and enterprise fund total amount for the same element.  
**C.** Both *a* and *b*.  
D. Neither *a* nor *b*.

Difficulty: Medium  
Question Type: Concept

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

|    | <u>Governmental funds</u> | <u>Proprietary funds</u> | <u>Fiduciary funds</u> |
|----|---------------------------|--------------------------|------------------------|
| A) | Modified accrual          | Accrual                  | Modified accrual       |
| B) | Modified accrual          | Modified accrual         | Modified accrual       |
| C) | Modified accrual          | Accrual                  | Accrual                |
| D) | Accrual                   | Accrual                  | Accrual                |

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

Difficulty: Medium

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

Difficulty: Medium  
Question Type: Concept

## Short Answer Questions

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

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

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

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

*Difficulty: Medium*  
*Question Type: Concept*

## Essay Questions

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

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

*Difficulty: Hard*  
*Question Type: Concept*

46. "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.

*Difficulty: Medium*  
*Question type: Essay*

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

*Difficulty: Medium*  
*Question Type: Concept*

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

*Difficulty: Medium*  
*Question type: Essay*

49. 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?

*Difficulty: Hard*  
*Question type: Essay*

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

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

*Difficulty: Medium*  
*Question type: Essay*

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

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

*Difficulty: Medium*  
*Question type: Essay*