Solution to Chapter 17
E17-1,3,4,8,9,10,12

E17-1 Multiple-Choice Questions on the General Fund [AICPA Adapted]

1. b
2. a
3. b
4. b
5. c
6. b

E17-3 Multiple-Choice Questions on Budgets, Expenditures, and Revenue [AICPA Adapted]

1. c
2. d
3. c
4. a
5. b
6. c
7. d
8. b
9. c
10. d

E17-4 Multiple-Choice Questions on the General Fund

1. b
2. d
3. c The balances in the ENCUMBRANCES CONTROL and the FUND BALANCE- RESERVED FOR ENCUMBRANCES accounts are the same. Therefore, an excess of one account over the other indicates a recording error.
4. c The following entry is made when a purchase order is approved:

ENCUMBRANCES CONTROL
BUDGETARY FUND BALANCE – RESERVED FOR ENCUMBRANCES

5. b The 60-day rule for property tax revenues states that property taxes collected within 60 days after the end of a fiscal year (within first 60 days of 2007) may be classified as revenues of the prior fiscal year (2006). The entry to record the tax levy would be:

Property Taxes Receivable 700,000
Allowance for Uncollectible Taxes 10,000
Revenue – Property Taxes 600,000
Deferred Revenue (reported as a liability on the general fund balance sheet) 90,000
[Note: The estimated uncollectibles are on the property taxes reported as deferred revenue.]

6. a Upon receipt of the order, Oak would record the following entries:

BUDGETARY FUND BALANCE – RESERVED FOR ENCUMBRANCES 5,000
ENCUMBRANCES CONTROL 5,000
Expenditures Control 4,950
Vouchers Payable 4,950

7. a Johnson would record the following entry:

ESTIMATED REVENUES CONTROL 9,000,000
ESTIMATED OTHER FINANCING SOURCE – TRANSFER IN (Internal Service) 1,000,000
ESTIMATED OTHER FINANCING SOURCE – TRANSFER IN (Debt Service) 500,000
APPROPRIATIONS CONTROL XXXXXX
BUDGETARY FUND BALANCE – UNRESERVED XXX

8. c

9. a

10. b

E17-8 Computation of Revenues Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund
Gilbert City
Revenue Reported by the General Fund
For the Year Ended June 30, 20X8

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property tax revenue</td>
<td>$1,862,000</td>
</tr>
<tr>
<td>Interest revenue on advance</td>
<td>1,500</td>
</tr>
<tr>
<td>Grant revenue used to acquire computer equipment</td>
<td>235,000</td>
</tr>
<tr>
<td>Sales tax revenue</td>
<td>125,000</td>
</tr>
<tr>
<td>Liquor license revenue</td>
<td>66,000</td>
</tr>
<tr>
<td><strong>Total revenue reported</strong></td>
<td><strong>$2,289,500</strong></td>
</tr>
</tbody>
</table>

Notes:
(1) The amount reported for property tax revenue, $1,862,000 is computed in the following way:

   - **Levy**: $2,000,000
   - **Less:**
     - Property taxes expected to be collected after August 31, 20X8 – the 60 day rule for property tax: (100,000)
     - Property taxes expected to be collected after August 31, 20X8 – report in balance sheet as deferred revenue at June 30, 20X8, net of $2,000 allowance for uncollectible taxes (2%): (38,000)
   - **Property tax revenue for year ended June 30, 20X8**: $1,862,000

(2) The receipt of $50,000 for the repayment of the advance is recorded in the following manner by the general fund:

   - **Cash**: 51,500
   - Advance to Internal Service Fund: 50,000
   - Interest revenue: 1,500

(3) Collection of property taxes during the year ended June 30, 20X8, does not affect the recognition of revenue. The revenue was recognized at the levy date, not the collection date.

(4) Revenue recognition related to the State grant is based upon spending the grant to acquire computer equipment. Therefore, revenue from the State grant is $235,000, the amount of the grant expended. The $15,000 remainder of the grant monies received is shown as unearned revenue, a liability.

(5) Revenue from the sales tax is the amount collected during the year ended June 30, 20X8, or $125,000. The additional sales taxes of $25,000 will be revenue of the next fiscal year when the taxes are received from the State and are available to pay for expenditures incurred in the next fiscal year.

(6) The borrowing of the $800,000 using the property tax levy as collateral represents a liability in the general fund. This amount is not revenue.

(7) The $30,000 received from a terminated debt service fund is reported as an other financing source – transfer in, not revenue.
(8) The revenue from liquor licenses is the amount collected, not the amount expected to be collected. Therefore, revenue of $66,000 is recognized from the sale of liquor licenses for the year ended June 30, 20X8.

(9) The $15,000 reimbursement is not reported as revenue in the general fund. Reimbursements are recorded as reductions in expenditures.

(10) The collection of the delinquent property taxes is not reported as revenue by the general fund for the year ended June 30, 20X8. The revenue associated with the delinquent property taxes was reported in the preceding fiscal year, because the property taxes were expected to be collected within 60 days of the end of the fiscal year.

E17-9 Computation of Expenditures Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund

Benson City
Amount Reported for Expenditures by the General Fund
For the Year Ended June 30, 20X8

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer equipment acquisitions in September, 20X7</td>
<td>$202,000</td>
</tr>
<tr>
<td>Reimbursement to special revenue fund in May, 20X8</td>
<td>15,000</td>
</tr>
<tr>
<td>Use of city water during the fiscal year</td>
<td>12,000</td>
</tr>
<tr>
<td>Supplies acquisitions</td>
<td>35,000</td>
</tr>
<tr>
<td>Salaries and wages of general fund employees</td>
<td>900,000</td>
</tr>
<tr>
<td>Interest paid on loan from local bank</td>
<td>15,000</td>
</tr>
<tr>
<td>Employer’s pension contribution to pension trust</td>
<td>95,000</td>
</tr>
<tr>
<td>Lease payments</td>
<td>10,000</td>
</tr>
<tr>
<td>Total amount reported for expenditures</td>
<td>$1,284,000</td>
</tr>
</tbody>
</table>

Notes:
(1) The $150,000 transfer to the capital projects fund in March, 20X8, is reported as an other financing use – transfer out. Therefore, it should not be included in the amount reported for expenditures for the year ended June 30, 20X8.

(2) The amount paid for the computer equipment is the amount reported for expenditures. Therefore, $202,000 is included in expenditures for equipment, not the estimated amount of $200,000 that was recorded for the order (encumbrances).

(3) None of the $500,000 transferred to the internal service fund should be reported as expenditures. The $200,000 that must be repaid by the internal service fund should be accounted for as an advance (a receivable in the general fund), while the $300,000 that represented a permanent contribution should be accounted for as an other financing use – transfer out.

(4) The $15,000 reimbursement to the special revenue fund should be included in the expenditures of the general fund for the year ended June 30, 20X8.
(5) The $12,000 of billings from the water department should be accounted for as expenditures by the general fund. Billings for water usage constitute an interfund services provided and used transaction. Note that the amount paid by the general fund, $11,500, is not the correct amount of the expenditures. The correct amount is $12,000.

(6) The acquisition of supplies and the payment of salaries and wages by the general fund should be accounted for as expenditures. The entire cost of the supplies purchased should be reported as expenditures because the general fund uses the purchase method of accounting for supplies.

(7) The outstanding encumbrances at June 30, 20X8, are not included in expenditures. The outstanding encumbrances will be reported on the general fund balance sheet as a reservation of fund equity.

(8) The repayment of the principal of the bank loan is not an expenditure. However, the amount paid for interest, $15,000, should be included in expenditures for the year ended June 30, 20X8.

(9) The general fund’s $95,000 contribution to the city’s pension trust should be included in expenditures of the general fund for the year ended June 30, 20X8. The employer’s contribution to a pension trust is an example of an interfund services provided or used transaction.

(10) The general fund’s lease payments should be included in the amount reported for expenditures for the year ended June 30, 20X8.

(11) For proper reporting on the statement of revenues, expenditures and changes in fund balance, each expenditure should be associated with a governmental function, such as General Governmental or Streets and Highways.
a. Closing entries for the general fund:

(1) APPROPRIATIONS CONTROL 1,145,000
ESTIMATED OTHER FINANCING
USES – TRANSFER OUT 25,000
BUDGETARY FUND BALANCE – UNRESERVED 30,000
ESTIMATED REVENUES CONTROL 1,200,000
Close budgetary accounts.

(2) BUDGETARY FUND BALANCE – RESERVED FOR ENCUMBRANCES 32,000
ENCUMBRANCES 32,000
Close remaining encumbrances by reversing remaining budgetary balance.

(3) Fund Balance – Unreserved 32,000
Fund Balance – Reserved for Encumbrances 32,000
Reserve fund balance for encumbrances that lapse, but are expected to be honored in 20X2.

(4) Property Tax Revenue 1,130,000
Miscellaneous Revenue 40,000
Expenditures 1,140,000
Fund Balance – Unreserved 30,000
Close operating statement accounts.

(5) Fund Balance – Unreserved 25,000
Other Financing Uses – Transfer Out 25,000
Close transfer out.
b. General fund balance sheet:

Lone Wolf
General Fund
Balance Sheet
December 31, 20X1

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$90,000</td>
</tr>
<tr>
<td>Property Taxes Receivable – Delinquent</td>
<td>$100,000</td>
</tr>
<tr>
<td>Less: Allowance for Uncollectibles – Delinquent</td>
<td>(7,200)</td>
</tr>
<tr>
<td>Due from Other Funds</td>
<td>14,600</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$197,400</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Fund Balance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vouchers Payable</td>
<td>$65,000</td>
</tr>
<tr>
<td>Due to Other Funds</td>
<td>8,400</td>
</tr>
<tr>
<td>Fund Balance:</td>
<td></td>
</tr>
<tr>
<td>Reserved for Encumbrances</td>
<td>$32,000</td>
</tr>
<tr>
<td>Unreserved</td>
<td>92,000</td>
</tr>
<tr>
<td><strong>Total Liabilities and Fund Balance</strong></td>
<td><strong>$197,400</strong></td>
</tr>
</tbody>
</table>

**E17-12 Matching Questions Involving Interfund Transactions and Transfers in the General Fund**

1. B
2. C
3. C
4. C
5. C
6. B
7. A
8. D
9. A
10. B