

Chapter 2

Fund Accounting

Questions for Review and Discussion

1. In governmental accounting, a *fund* is a fiscal and accounting entity with a self-balancing set of accounts used to account for an organization's resources and claims against those resources. In business accounting, by contrast, the term *funds* generally refers either to working capital (current assets less current liabilities) or to selected components of working capital.
2. The accounting equation as applied in government accounting and not-for-profit accounting is essentially the same as that applied in business accounting. The primary difference is that in business, $\text{assets} = \text{liabilities} + \text{owner's equity}$, whereas in government and not-for-profit entities, since there are no "owners" as the term in used in business, $\text{assets} = \text{liabilities} + \text{fund balance}$.
3. Governments establish funds neither to account for specific functions nor to divide their resources evenly. Instead, they create funds mainly to promote control and accountability over restricted resources. The general fund of the city is probably larger than all of the special revenue funds combined because most of the city's assets are unrestricted and the unrestricted assets can be aggregated in a single fund.
4. There are no capital projects reported in capital projects funds and generally no long-term debts reported in debt service funds because these funds are maintained to account for the *financial resources* that will be used to construct or acquire capital assets or to pay the interest and principal on long-term debts. These resources are set apart from other resources because they can be used only for their specified purposes.
5. The presence of capital (fixed) assets and long-term debt on the balance sheets of enterprise and internal service funds indicates that the assets and debts are within the funds' measurement focus. It thereby implies that the funds are on a *full accrual basis* of accounting.
6. Proprietary funds are used to account for business-type activities and certain internal services and they generally adhere to business accounting principles. They typically charge for the goods or services they provide and need data on the full cost (including depreciation) of services provided so that they can establish prices. They record depreciation to ensure that the costs of capital (fixed) assets are incorporated in the computations of costs. Governmental funds, by contrast, are accounted for on

a modified accrual basis. They receive their revenues from taxes, grants, and other sources that are not necessarily tied to cost of service.

7. Fiduciary funds are used to account for resources held by the government as either a trustee (a party who administers property for a beneficiary, usually in accordance with a formal trust agreement) or an agent (one who acts on behalf of another, usually for a short period, such as a year). The two types of fiduciary funds are *trust* funds and *agency* funds. Trust funds are used to account for assets that the government holds in trust for the benefit of parties *other than* the government itself. Agency funds are used to account for assets (e.g., taxes collected by one government on behalf of another) that a government holds temporarily for other parties.
8. The principal must remain permanently intact. Permanent funds are a type of trust fund, but they benefit the government itself, rather than outside parties. Therefore, they are considered governmental funds, not fiduciary funds. However, like fiduciary funds, only the income of a permanent fund, not the principal, may be spent.
9. An agency fund is used to account for assets held on behalf of other governments, funds or individuals, usually for a short period, such as a year. Custodial in nature, agency funds have only assets and liabilities, no revenues and expenditures.
10. Per FASB standards for not-for-profits, *temporarily restricted* resources are those that must be used for a specific purpose (e.g., to support donor-designated programs or activities) or that cannot be spent until some time in the future (e.g., when a donor makes good on a pledge). *Permanently restricted* resources are typically endowments, only the income from which can be spent. *Unrestricted* resources, of course, are not subject to restrictions. Restrictions are based on donor mandates. Hence, “restrictions” imposed by other parties (e.g., creditors or the governing board) are not taken into account for purposes of resource classification.

Exercises and Problems

2-1

1. j
2. g
3. a
4. h
5. a
6. b
7. a
8. i
9. a
10. f

2-2

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

2-3

1. Journal entries in general fund (in millions)

(a)

Cash	\$20.0	
Proceeds from borrowing		\$20.0
<i>To record the issuance of bonds</i>		

(b)

Expenditure for land	\$ 4.0	
Cash		\$ 4.0
<i>To record the purchase of land</i>		

(c)

Cash	\$ 1.0	
Proceeds from sale of land		\$ 1.0
<i>To record sale of land</i>		

(d)

Expenditure for repayment of bonds	\$ 2.0	
Cash		\$ 2.0
<i>To record repayment of bonds</i>		

(e)

Expenditure for legal claims	\$ 3.0	
Cash		\$ 3.0
<i>To record payment of judgment</i>		

2. Modified accrual statementsSpecial District
Balance Sheet

Cash	<u>\$12</u>
Fund Balance	<u>\$12</u>

Special District
Statement of Revenues, Expenditures and Other Changes in Fund BalancesRevenues and other financing sources

Bond proceeds	\$20
Proceeds from sales of land	<u>1</u>
Total revenues and other financing sources	<u>21</u>

Expenditures and other financing uses

Repayment of bonds	2
Acquisition of land	4
Legal claims	<u>3</u>
Total expenditures and other financing sources	<u>9</u>

Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$12</u>
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- The balance sheet fails to capture key long-term (capital) assets and long-term obligations. But, of course, it is not intended to do so. Instead, it is intended to indicate the *current financial resources* available to meet current obligations.
- Similarly, the statement of revenues, expenditures and other changes in fund balances does not measure the cost of services (e.g., it recognizes borrowings as an increase in fund balance and the full cost of acquiring capital assets as a decrease). It is not designed to do so. Instead it is designed to report on flows of *current financial resources* — net assets that are likely of great interest to the district's governing body, managers and constituents.

2-4

1. Journal entries

(a)

Cash	\$160,000	
Contribution revenues		\$160,000
<i>To record contribution revenue (general fund)</i>		

Cash	\$ 40,000	
Contribution revenues		\$ 40,000
<i>To record contribution revenue (building fund)</i>		

(b)

Operating expenditures	\$130,000	
Cash		\$120,000
Accounts payable		10,000
<i>To record operating expenditures (general fund)</i>		

(c)

Cash	\$ 3,000	
Interest revenue		\$ 3,000
<i>To record interest revenue (building fund)</i>		

(d)

Transfer-out to building fund	\$ 17,000	
Cash		\$ 17,000
<i>To record transfer-out to building fund (general fund)</i>		

Cash	\$ 17,000	
Transfer-in from general fund		\$ 17,000
<i>To record transfer-in from general fund (building fund)</i>		

(e)

Expenditures for architectural services	\$ 12,000	
Cash		\$ 12,000
<i>To record fees paid to architect (building fund)</i>		

2. Financial Statements

Society for Ethical Teachings
Statement of Revenues, Expenditures, and Other Changes in Fund Balances

	<u>General Fund</u>	<u>Building Fund</u>
<u>Revenues</u>		
Contribution revenue	\$160,000	\$ 40,000
Interest		<u>3,000</u>
Total revenues	<u>160,000</u>	<u>43,000</u>
<u>Expenditures</u>		
Operating expenditures	130,000	
Architectural services		<u>12,000</u>
Excess of revenues over expenditures	30,000	31,000
Transfers from (to) other funds	<u>(17,000)</u>	<u>17,000</u>
Increase in fund balances	<u>\$ 13,000</u>	<u>\$ 48,000</u>

Society for Ethical Teachings
Balance Sheet

	<u>General Fund</u>	<u>Building Fund</u>
<u>Assets</u>		
Cash	<u>\$ 23,000</u>	<u>\$ 48,000</u>
<u>Liabilities and fund balances</u>		
Accounts payable	\$ 10,000	
Fund balances	<u>13,000</u>	<u>\$ 48,000</u>
Total liabilities and fund balances	<u>\$ 23,000</u>	<u>\$ 48,000</u>

2-5

1. h - agency
2. b - special revenue
3. g - permanent
4. e - enterprise
5. d- debt service
6. c - capital projects
7. a - general
8. f - internal service

2-61. Journal entries (in millions)a. General fund

Cash	\$110	
Tax revenue		\$110
<i>To record property tax revenue</i>		

b. Capital projects fund

Cash	\$ 30	
Proceeds from bonds		\$ 30
<i>To record issuance of bonds</i>		

c. Capital project funds

Expenditure for building	\$ 25	
Cash		\$ 25
<i>To record construction of building</i>		

The district would also have to keep a record of the \$25 asset that it created.

d. General fund

Operating expenditures	\$ 70	
Cash		\$ 63
Accounts payable		7
<i>To record operating expenditures</i>		

e. General fund

Transfer to debt service fund	\$ 12	
Cash		\$ 12
<i>To record transfer to debt service fund</i>		

Debt service fund

Cash	\$ 12	
Transfer from general fund		\$ 12
<i>To record transfer from general fund</i>		

f. Debt service fund

Interest expenditure	\$ 2	
Expenditure for payment of principal	6	
Cash		\$ 8
<i>To record payment of interest</i>		

In its record of long-term debts, the district would have to note a reduction of \$6.

g. Special revenue fund

Cash	\$ 4	
Hotel taxes		\$ 4
<i>To record hotel taxes</i>		

Tourism expenditures	\$ 3	
Cash		\$ 3
<i>To record tourism expenditures</i>		

h. Internal service fund

Cash	\$ 4	
Transfer in from general fund		\$ 4
<i>To record transfer from general fund</i>		

Supplies inventory	\$ 2	
Cash		\$ 2
<i>To record purchase of supplies</i>		

Cash	\$ 1	
Sales revenue		\$ 1
<i>To record sale of supplies</i>		

Cost of supplies sold	\$ 1	
Supplies inventory		\$ 1
<i>To record cost of supplies sold</i>		

General fund

Transfer-out to internal service fund	\$ 4	
Cash		\$ 4
<i>To record transfer to internal service fund</i>		

Supplies expenditure	\$ 1	
Cash		\$ 1
<i>To record acquisition and use of supplies</i>		

2. Combined balance sheetBuffalo School District
Combined Balance Sheet

	General <u>Fund</u>	Special Revenue <u>Fund</u>	Capital Projects <u>Fund</u>	Debt Service <u>Fund</u>	Internal Service <u>Fund</u>	<u>Total</u>
<u>Assets</u>						
Cash	\$30	\$ 1	\$ 5	\$ 4	\$ 3	\$43
Supplies inventory	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>1</u>
Totals	<u>\$30</u>	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$44</u>
<u>Liabilities and Fund Balances</u>						
Accounts payable	\$ 7					\$ 7
Fund balances	<u>23</u>	<u>1</u>	<u>5</u>	<u>4</u>	<u>4</u>	<u>37</u>
Totals	<u>\$30</u>	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$44</u>

3.

Buffalo School District
Combined Statement of Revenues, Expenditures, and Other Changes in Fund Balances
Governmental Funds

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<i>Revenues</i>					
Property taxes	\$110				\$110
Hotel taxes		<u>\$ 4</u>			<u>4</u>
Total revenues	<u>\$110</u>	<u>\$ 4</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$114</u>
<i>Expenditures</i>					
Operating	\$ 70				\$ 70
Supplies	1				1
Interest				2	2
Debt repayment				6	6
Tourism		3			3
Acquisition of building			<u>25</u>		<u>25</u>
Total expenditures	<u>\$ 71</u>	<u>\$ 3</u>	<u>\$25</u>	<u>\$ 8</u>	<u>\$107</u>
Excess of revenues over expenditures	<u>\$ 39</u>	<u>\$ 1</u>	<u>(\$25)</u>	<u>(\$ 8)</u>	<u>\$ 7</u>
<i>Other financing sources (uses)</i>					
Bond proceeds			\$30		\$ 30
Transfer to/from debt service fund	(\$12)			\$12	0
Transfer to internal service fund	<u>(4)</u>				<u>(4)</u>
Total other financing sources and uses	<u>(\$16)</u>	<u>\$ 0</u>	<u>\$30</u>	<u>\$12</u>	<u>\$ 26</u>
Net increase in fund balance	<u>\$ 23</u>	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ 4</u>	<u>\$ 33</u>

Buffalo School District
Statement of Revenues, Expenses, and Other Changes in Fund Balances
Internal Service Fund

Sales revenue	\$1
Cost of supplies sold	<u>1</u>
Excess of revenues over expenses	\$0
Transfer from general fund	<u>4</u>
Net increase in fund balance	<u>\$4</u>

2-71. Journal entries

(a)

Cash	\$100,000	
Revenues from grants		\$100,000
<i>To record revenues</i>		

(b)

Expenditures—computers	\$ 10,000	
Cash		\$ 10,000
<i>To record expenditure for purchase of five computers</i>		

(c)

Expenditures—wages	\$ 6,000	
Cash		\$ 6,000
<i>To record expenditure for payment of wages and salaries</i>		

(d)

Cash	\$ 24,000	
Proceeds from borrowing		\$ 24,000
<i>To record receipt of loan proceeds</i>		

(e)

Expenditures—automobile	\$ 24,000	
Cash		\$ 24,000
<i>To record the purchase of the automobile</i>		

(f)

Expenditures—interest	\$ 200	
Cash		\$ 200
<i>To record payment of interest on note</i>		

(g)

No entry is necessary. The computer is not reported as an asset in the general fund, so it need not be removed from it.

2.

Entrepreneurs Consultants
Balance Sheet
General Fund

Asset: Cash	<u>\$83,800</u>
Fund balance	<u>\$83,800</u>

Entrepreneurs Consultants
Statement of Revenues, Expenditures, and Other Changes in Fund Balances

Revenues:	
Grants	<u>\$100,000</u>
Expenditures:	
Acquisition of computers	10,000
Acquisition of automobile	24,000
Wages	6,000
Interest	<u>200</u>
Total expenses	<u>40,200</u>
Excess of revenues over expenditures	59,800
Other changes in fund balance:	
Proceeds of borrowing	<u>24,000</u>
Net increase in fund balances	<u>\$ 83,800</u>

2-8

1.

Bertram County
Combined Balance Sheet

	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Debt</u> <u>Service</u> <u>Fund</u>	<u>Total</u>
<u>Assets</u>				
Cash	\$ 400	\$150	\$ 50	\$ 600
Investments	<u>1,200</u>	<u>450</u>	<u>150</u>	<u>1,800</u>
Total assets	<u>\$1,600</u>	<u>\$600</u>	<u>\$200</u>	<u>\$2,400</u>
 <u>Fund Balances</u>	 <u>\$1,600</u>	 <u>\$600</u>	 <u>\$200</u>	 <u>\$2,400</u>

Both cash and investments were allocated on the basis of fund balances. Thus cash was allocated as follows:

General fund	$\$600 \times (1,600/2,400)$	=	\$400
Capital projects fund	$\$600 \times (600/2,400)$	=	150
Debt service fund	$\$600 \times (200/2,400)$	=	<u>50</u>
Total cash			<u>\$600</u>

Investments were allocated as follows:

General fund	$\$1,800 \times (1,600/2,400)$	=	\$1,200
Capital projects fund	$\$1,800 \times (600/2,400)$	=	450
Debt service fund	$\$1,800 \times (200/2,400)$	=	<u>150</u>
Total investments			<u>\$1,800</u>

2. The columnar presentation gives the more complete picture, as long as capital assets are presented elsewhere in the financial statements (e.g., separate schedules or full accrual statements). It shows the specific resources assigned to each of the funds. However, many users, particularly those with a background in business reporting, would find the combined balance sheet (as prepared by the comptroller) easier to understand.

Nevertheless, unless the balance sheet or accompanying notes make clear that some assets are restricted, the users risk being misled as to whether the assets are available for future expenditure.