

GOVERNMENTAL AND NONPROFIT ACCOUNTING

I. CHARACTERISTICS AND OBJECTIVES OF NONBUSINESS ORGANIZATIONS IN ACCORDANCE WITH SFAC 4--OBJECTIVES OF FINANCIAL REPORTING BY NONBUSINESS ORGANIZATIONS

A. Characteristics:

1. Receipts of significant amounts of resources from those who do not expect to receive either repayment or economic benefits proportional to resources provided.
2. No intention to provide goods or services at a profit or profit equivalent.
3. Absence of a defined ownership interest that can be sold, transferred, redeemed or convey entitlement to a share of a residual distribution of resources in the event of liquidation. Non-business organizations

B. Objectives of Financial Reporting:

Provide information that is useful to present and potential resource providers and others in making:

1. rational decisions about the allocation of resources;
2. assessing the services provided and ability to continue to provide said services;
3. assess how managers have discharged their stewardship and other aspects of their performance;
4. information @ economic resources, obligations, and net resources and the events that may affect these items
5. performance of the organization including:
 - a. inflows and outflows of resources
 - b. why and how resources changed presented by operations and other on an accrual basis
 - c. information @ the type and amount of resources spent of various programs offered
 - d. information @ the service accomplishments including quantitative (output) and qualitative (program results) information
6. how the organization obtains and spends liquid resources
7. explanations and interpretations to help users understand the information provided

II. GENERAL METHODOLOGY

A. Each major activity is to be accounted for separately with its own self balancing set of accounts.

1. Each activity is accounted for as a separate FUND while keeping the total number of funds at the minimum number necessary to meet legal and operational requirements.

B. There are three categories of funds:

1. Governmental Funds: Account for all activities not assigned to proprietary or fiduciary funds. Governmental funds are essentially "working capital" funds. These funds are monitored in terms of sources and uses of working capital.
 - a. The General Fund: accounts for resources with no specific restrictions and available for operational expenditures not relegated to one of the other four governmental funds.
 - b. Special Revenue Funds: account for resources that are legally restricted to expenditures for specific operational purposes.
 - c. Capital Projects Funds: account for resources to be used for the acquisition or construction of major capital facilities.
 - d. Special Assessment Funds: account for resources to be used to finance improvements or services that primarily benefit only a limited segment of the public, and will be paid for by that segment.
 - e. Debt Service Funds: account for resources to be used for payment of general long-term debt and interest.

NOTE: Investments in fixed assets are not recorded in the governmental funds (they are normally recorded only in Enterprise, Internal Service, Trust and Agency funds) but in the "general fixed asset group": This is not a fund but a memorandum account. Its purpose is to keep a record of fixed assets not appropriately recorded in these other funds. The general fixed assets are recorded at cost in appropriately titled asset accounts (see below) and the entry is balanced by a credit to Investment in General Fixed Asset-(financing source). No Depreciation is recorded to this account group.

Machinery and equipment.....	xxx
Land.....	yyy
Building.....	zzz
Investment in general fixed assets--general revenues.....	xxx
Investment in general fixed assets--bond issues.....	yyy
Investment in general fixed assets--federal grants.....	zzz

When assets are recorded in the non-governmental funds depreciation is recorded and the appropriate fund is credited.
(Study Exhibit 1 of this handout)

- 2. **Proprietary Funds:** Account for sales of goods or services for which a fee is charged (trash, gas, water etc.)
 - ***a. **Enterprise Funds:** Funds that serve the general public; account for profit activities (utilities)
 - ***b. **Internal Service Funds:** Funds that serve other governmental units.
- 3. **Fiduciary Funds:** Account for resources for which the governmental unit is acting as a trustee or agent.
 - a. **Trust Funds:** Trust funds are used to account for monies held for other (pensions, bonds etc.) for a long period of time. There are three types of trust funds:
 - 1. Expendable: account for as a governmental fund
 - *** 2. Non-expendable: account for as a proprietary fund
 - *** 3. Pension: account for as a proprietary fund.
 - *** b. **Agency Funds:** Agency funds are used to account for temporary deposits such as employee withholdings.

III. ACCOUNTING FOR GOVERNMENTAL FUNDS

A. Three types of account:

- 1. Permanent (Balance Sheet): Cash; Taxes Rec; Investments; Inventory
- 2. Temporary (Revenue & Expenditure): Rev; Exp; Encumbrances
- 3. Budgetary (Estimated Rev and Appropriations)

B. Two broad types of fund: Expendable (not concerned w/ preserving capital or measuring net income) and Non-expendable.

- 1. **Expendable funds** use the Modified Accrual Method: revenue is recognized when it is both measurable and available to meet liabilities of the current period. Expenditures are normally recognized when the liability is incurred (an exception is taxes, which become revenue when levied, less allowance for bad debts). The following definitions apply:
 - a. Revenues: inflows of resources for external parties that do not have to be repaid.
 - b. Expenditures: outflows of resources to external parties.

*** 2. **Non-expendable funds** use accrual accounting (recognize revenues when earned; expenses when incurred) (Enterprise funds; Internal service; non-expendable trusts)

C. THE BUDGETARY ACCOUNTS (estimated revenues and appropriations)

- 1. represent anticipatory assets and liabilities that are the result of the budgeting process. This process results in the adoption of a budget which is a formal plan of receipts and disbursements prepared for each fund.

Budget	Estimated Revenues.....	500,000	(anticipated)
Adopted	Appropriations.....	480,000	(anticipated)
	Fund Balance	20,000	(plug)

Fund Balance: This is a special "balancing" account designed to keep the double entry system in balance by adjusting the fund to its anticipated year-end balance. It is similar the equity account of a profit oriented concern. It represents an amount available to be spent in future periods.

Assets - (Liabilities and Reserves) = Fund Balance = Net Financial Resources

Estimated Revenues: This is an anticipatory asset account. At the end of the period actual revenues are compared to estimated revenues. If revenues exceeded estimated revenues (surplus) the fund balance is increased (credit). Actual revenues are considered a contra account to estimated revenues on interim financial statements.

Revenue.....	490,000	Closing entry
Fund balance.....	10,000	
Estimated Revenue.....	500,000	

Appropriations: This is an anticipatory liability (expenditure) account. Expenditures and encumbrances are closed to appropriations at the end of the period and are both considered contra accounts to appropriations on interim financial statements.

Appropriations.....	480,000	Closing entry
Fund balance.....	5,000	
Expenditures.....	450,000	
Encumbrances.....	35,000	

Encumbrances: A control account used to insure that expenditures do not exceed appropriations. When goods and services are ordered, appropriations are encumbered as follows:

Goods or services ordered:	
Encumbrances.....	35,000
Reserve for encumbrances.	35,000
Goods received:	
Reserve for encumbrances.....	35,000
Encumbrances.....	35,000
Expenditures.....	37,000
Vouchers payable.....	37,000

(NOTE #1: encumbrances are based on estimated amounts; expenditures are based on actual amounts)

(NOTE #2: if expenditures had been \$32,000 then there would be \$3,000 of unencumbered appropriations that could still be spent.)

Reserve for encumbrances: A real account (encumbrances is nominal) that is carried forward to subsequent periods to authorize expenditures. In the subsequent period a special "expenditures-prior years" account must be created when the ordered goods ultimately arrive. The difference between "expenditures prior years" and the prior year's reserve for encumbrances is closed to the fund balance. For example, assume that at 12/31/82 the balance in reserve for encumbrances is \$35,000. The goods arrive on 1/15/x3 and cost \$28,000. The following entry is made to record the receipt of the goods:

Closing entry at 12/31/x2:

Fund balance.....	35,000	
Reserve for encumbrances.		35,000

Goods arrive on 1/15/x3:

Expenditures prior years.....	28,000	
Vouchers payable.....		28,000
 Reserve for encumbrances.....	35,000	
Expenditures prior years.		28,000
Fund Balance.....		7,000

(NOTE #3: the AICPA suggests that outstanding encumbrances of routine purchase orders be considered expenditures and a liability account "encumbrances outstanding" be created. The effect of this variation is to recognize a liability rather than a deferred appropriation.

If the budget is adopted prior to the arrival of the goods, a provision for the goods encumbered in the prior period must be made. In this case the entry made as part of the budget process would be:

When budget is adopted and goods are still outstanding 1/1/x3:

Encumbrances prior years.....	35,000	
Appropriations prior years		35,000
 Goods arrive on 1/15/x3:		
Expenditures.....	28,000	
Vouchers payable.....		28,000

IV. FINANCIAL REPORTING

Governments prepare both interim and annual financial statements for both individual funds and account groups.

A. Interim Budgetary Comparison ("Operating Statement")

	Budget	Actual	Variance
Revenues (listed by source).....	a	b	c1
Other financing sources (operating transfers; bond proceeds).....	<u>a</u>	<u>b</u>	<u>c2</u>
Total revenues and other financing sources.....	aa	bb	c3
 Expenditures (listed by program type).....	x	y	z1
Other financing uses (operating transfers out).....	<u>x</u>	<u>y</u>	<u>z2</u>
Total expenditures and other financing uses.....	xx	yy	z3
 Excess of Revenues and other financing sources over expenditures and other financing uses.....	<u>aa-xx</u>	<u>bb-yy</u>	<u>c3-z3</u>

B. Interim Balance Sheet:

This statement will contain both real and budgetary accounts (the budgetary accounts are closed in the year end statements). The statement balances because the closing entries have not been made and the fund balance is stated at its planned pre-closing balance.

1. Similar to normal financial statements except:

- a. estimated revenues are shown as assets (revenues are contra)
- b. appropriations are shown as liabilities with encumbrances and expenditures as contra accounts

NOTE: THIS IS AN INTERIM STATEMENT	Cash.....	xxx	Vouchers payable.....	xxx
	Receivables.....	xxx	Appropriations.....	xxx
	Estimated revenues...xxx		Less: Encumbrances..... (xx)	
	Less: Revenue..... (xx) xxx		Expenditures..... (xx)	
			Unencumbered appropriations...	xxx
			Reserve for encumbrances.....	<u>xxx</u>
		<u>XXX</u>	Fund Balance.....	XXX

C. Comprehensive Annual Financial Report (CAFR)

1. "Combined" general purpose financial statements (GPF5): five required statements
 - a. Combined balance sheet- all fund types and account groups (follows GAAP)
 - b. Combined statement of revenues, expenditures, and changes in fund balances—all governmental (and similar fiduciary) fund types (follow GAAP)
 - c. Combined statement of revenues, expenditures, and changes in fund balances, budget and actual -- general and special revenue fund types (and similar governmental and fiduciary fund types for which an annual budget is legally adopted. (follows budgetary disclosure)
 - d. Combined statement of revenues, expenses and changes in retained earnings/fund equity -- all proprietary (and similar fiduciary) fund types.
 - e. combined statement of changes in financial position -- all proprietary (and similar fiduciary) fund types
2. "Notes" to the financial statements. These include only notes the GPF5. Any explanations accompanying the combining statements (see below), individual fund statements or narratives are referred to simply as "narrative explanations".
3. Combining statements -- statements in which separate columns present the data for each fund of a fund type. Combining statements are in more detail than the combined statements (above) and are intended to provide supporting data in greater detail than necessary in the combined statements
4. Individual fund statements -- statements of greater detail than the combining statements (#3 above) by fund.
5. Schedules--may be used to provide even greater detail are deemed appropriate.

V. HOSPITAL ACCOUNTING

- A. More similar to financial accounting; use accrual accounting and include depreciation (revenues, expenses and net income are accounted for and reported).
- B. Hospital financial statements include three sections:
 - 1. Balance Sheet
 - 2. Statement of Revenues and Expenses
 - 3. Statement of Changes in Fund Balances
- C. Hospitals have only two categories of funds: restricted and unrestricted. The differences between restricted and unrestricted funds is emphasized.
 - 1. **restricted funds** are:
 - a. specific purpose fund: resembles a municipal special revenue fund.
 - 1. used to account for financial resources and liabilities that are externally restricted e.g., federal research grants that are restricted for specific operating purposes.
 - 2. Revenues and expenses are not recognized in Specific Purpose funds. Specific purpose fund resources are credited to fund balance and expenditure
 - (1) decrease Specific Purpose Fund net assets and fund balance and
 - (2) are recorded as hospital revenues and expenses in the Unrestricted Fund.
 - b. plant replacement and expansion fund: similar to a municipal Capital Projects Fund.
 - 1. Used to account for financial resources that are externally restricted for capital outlays e.g., capital gift donations for building expansion.
 - 2. Increases in this funds assets are credited to fund balance (not revenues), and expenditures
 - (1) decrease the net assets and fund balance and
 - (2) result in fixed assets and contributed capital being recorded in the Unrestricted Fund.

Note: Neither the fixed assets acquired nor long-term debt issued are accounted for in this fund!

- c. endowment funds: similar to the a municipal Nonexpendable Trust Fund.
 - 1. Used to record the principal (corpus) of endowment gifts.
 - 2. Endowment fund earnings are not recognized in the Endowment Fund but as
 - (a) Unrestricted Fund revenues (if unrestricted as to use)
 - (b) Specific Purpose Fund increases in fund balance if restricted for specific operating purposes.
 - (c) Plant Replacement and Expansion fund increases in fund balance if restricted for capital outlays.
- 2. **The Unrestricted Fund**-- The primary hospital fund.
 - a. Used to account for all assets and liabilities that are not required to be accounted for in a restricted fund, together with the contributed capital, retained earnings, expense and loss and net income balances.

**Governmental units use enterprise funds to account for governmental hospitals.

VI. COLLEGES AND UNIVERSITIES

A. Major characteristics

- 1. Combines characteristics of both municipal and hospital accounting
- 2. Uses modified accrual as in municipal
- 3. Divides a few fund groups into major subdivisions (8-57 Theory) as in municipal
- 4. Uses budgetary accounts and encumbrances as in municipal accounting
- 5. Account for interfund transfers as do municipal entities
- 6. Recognize restricted revenues only when the restricted assets are actually expended for the specified purpose as in hospital accounting.
- 7. follow hospital procedures when recognizing donated goods and professional services.

B. Financial statements

- 1. Balance Sheet:
- 2. Statement of Current Funds Revenues, Expenditures, and Other Changes:
- 3. Statement of Changes in Fund Balances:

VII. VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS

A. Major characteristics

- 1. Fund structure is identical to that used by universities but VHWOs use only one fund of each type;
- 2. Use accrual accounting (as do hospitals) but records revenues and expenses in each fund whereas hospitals account for all revenues and expenses in a single unrestricted fund;
- 3. Do not defer recognition of restricted support and revenues (as do universities and hospitals) but recognize them immediately unless they are restricted to expenditure in a future period;

B. Financial statements

1. Balance Sheet:
2. Statement of Support, revenue, and Expenses and Changes in Fund Balances
3. Statement of Functional Expenses

Summary Table of Governmental Accounting

Characteristic	General Fund	Special Revenue	Debt Service	Capital Projects	Special Assessment	Enterprise	Internal Service	Agency & Trust	Long-Term Debt Group	Fixed Asset Group
Accrual Basis						X	X	X		
Modified Accrual	X	X	X	X	X					
Record Fixed Assets						X	X	X		X ₁
Record Long-Term Debt			X ²		X	X	X		X	
Record Budgetary Accounts	X	X	X	X ³						
Type of Financial Statements Issued:										
Balance Sheet	X	X	X	X	X	X	X	X	X	X
Statement of Revenues and Expenses	X ^{4,5}	X	X	X ⁴						
Statement of operations						X	X			
Statement of Cash Receipts and Disbursements					X			X		
Statement of Changes in Fund Balance	X	X	X	X	X			X		
Statement of Retained Earnings						X	X			
Statement of Cash Flows						X				

1. Does not record depreciation
2. At maturity date only
3. Records capital budget
4. Statement of Revenue--Actual and Estimated
- 5 Statement of Expenditures and Encumbrances compared with authorizations

(AICPA) **MUNICIPAL ACCOUNTING--COMPREHENSIVE**

The general fund trial balance of the city of Solna at 12/31/20x2 was as follows:

	Dr.	Cr.
Cash.....	\$ 62,000	
Taxes receivable-delinquent.....	46,000	
Estimated uncollectible taxes delinquent.....		\$ 8,000
Stores inventory program operations.....	18,000	
Vouchers payable.....	28,000	
Fund balance reserved for stores inventory...		18,000
Fund balance reserved for encumbrances.....		12,000
Unreserved undesignated fund balance.....		<u>60,000</u>
	\$ 126,000	\$ 126,000

Collectible delinquent taxes are expected to be collected within 60 days after the end of the year. Solna uses the "purchases" method to account for stores inventory.

The following data pertain to 20X3 general fund operations:

1. BUDGET ADOPTED:

Revenues and other financing sources		Expenditures and other financing uses	
Taxes.....	\$ 220,000	Program operations.....	\$ 300,000
Fines, forfeits, and penalties.....	80,000	General administration.....	120,000
Miscellaneous revenues.....	100,000	Stores-program operations.....	60,000
Share of bond issue proceeds.....	<u>200,000</u>	Capital outlay.....	80,000
	\$ 600,000	Periodic transfer to special assessment fund:	<u>20,000</u>
			\$ 580,000

2. Taxes were assessed at an amount that would result in revenues of \$220,000, after deduction of 4% of the tax levy as uncollectible.

3. ORDERS PLACED BUT NOT RECEIVED:

Program operations.....	\$ 176,000
General administration.....	80,000
Capital outlay.....	<u>60,000</u>
	\$ 316,000

4. The city council designated \$20,000 of the unreserved undesignated fund balance for possible future appropriation for capital outlay.

5. CASH COLLECTIONS AND TRANSFER:

Delinquent taxes.....	\$ 38,000
Current taxes.....	226,000
Refund of overpayment of invoice for purchase of equipment.	4,000
Fines, forfeits, and penalties.....	88,000
Miscellaneous revenues.....	90,000
Share of bond issue proceeds.....	200,000
Transfer of remaining fund balance of a discontinued fund....	<u>18,000</u>
	\$ 664,000

6. CANCELLED ENCUMBRANCES:

	Estimated	Actual
Program operations.....	\$ 156,000	\$ 166,000
General administration.	84,000	80,000
Capital outlay.....	<u>62,000</u>	<u>62,000</u>
	\$ 302,000	\$ 308,000

7. ADDITIONAL VOUCHERS:

Program operations.....	\$ 188,000
General administration.....	38,000
Capital outlay.....	18,000
Transfer to special assessment fund.	<u>20,000</u>
	\$ 264,000

8. Albert, a taxpayer, overpaid his 20X3 taxes by \$2,000. He applied for a \$2,000 credit against his 20X4 taxes. The city council granted his request.

9. Vouchers paid amounted to \$580,000

10. Stores inventory on 12/31/83 amounted to \$12,000

REQUIRED: Prepare journal entries to record the effects of the foregoing data. Omit explanations.

(AICPA) Solution: **MUNICIPAL ACCOUNTING--COMPREHENSIVE**

1. (a) Record adoption of the budget:

Estimated revenues.....	220,000	
Estimated revenues-fines, forfeits,penalties....	80,000	
Estimated revenues-miscellaneous.....	100,000	
Estimated revenues-other sources (bond proceeds)..	200,000	
Appropriations-program operations.....		360,000
Appropriations-general administration.....		120,000
Appropriations-capital outlays.....		80,000
Appropriations-other uses:transfer to SAF....		20,000
Fund balance (unreserved and undesignated)..		20,000

1. (b) Carry over reserve for encumbrances to 20X4 assuming no expenditure was recorded in 20X3.

Encumbrances-prior year.....	12,000	
Appropriations-prior years.....		12,000

2. Record tax levy

Taxes receivable-current (220,800/.96).....	230,000	
Estimated uncollectible taxes-current.....		9,200
Revenues-taxes.....		220,800

3. Record orders placed but not received

Encumbrances.....	316,000	
Fund balance reserved for encumbrances.....		316,000

4. Record appropriation for capital outlays

Fund balance (unreserved and undesignated).....	20,000	
Fund balance designated for capital outlays..		20,000

5. Record cash collections and transfers:

Cash.....	664,000	
Taxes receivable-delinquent.....		38,000
Taxes receivable-current.....		226,000
Expenditures-capital outlays.....		4,000
Revenues-fines,forfeits,penalties.....		88,000
Revenues-miscellaneous.....		90,000
Revenues-other sources (bond proceeds).....		200,000
Fund balance (unreserved/undesignated).....		18,000

6. Record cancelled encumbrances

Fund balance reserved for encumbrances.....	302,000	
Encumbrances-prior year.....		12,000
Encumbrances-current year.....		290,000

Expenditures-program operations.....	166,000	
Expenditures-general administration.....		80,000
Expenditures-capital outlays.....		62,000
Vouchers payable.....		308,000

7. Record additional vouchers

Expenditures-program operations.....	188,000	
Expenditures-general administration.....	38,000	
Expenditures-capital outlays.....	18,000	
Other use-transfer out of SAF.....	20,000	
Vouchers payable.....		244,000
Special Assessment Fund (SAF).....		20,000

8. Record \$2,000 tax credit to Albert, a taxpayer

Tax receivable.....	2,000	
Revenues-taxes.....		2,000

9. Record vouchers paid		
Vouchers payable.....	580,000	
Cash.....		580,000
10. Adjust stores inventory to EOY balance		
Fund balance reserved for stores inventory.....	6,000	
Stores inventory-program operations.....		6,000
11. Adjust Estimated taxes uncollectible to EOY balance		
Estimated uncollectible taxes-current.....	3,200	
Revenues-taxes.....		3,200

(AICPA) **SPECIAL FUNDS**

The accounting system of the municipality of Kemp is organized and operated on a fund basis. Among the types of funds use are a general fund, a special revenue fund, and an enterprise fund.

REQUIRED:

- A. Explain the basic differences in revenue recognition between the accrual basis of accounting and the modified accrual basis of accounting as it relates to governmental accounting
- B. What basis of accounting should be used for each of the following funds: Why?
 - General fund
 - Special revenue fund
 - Enterprise fund
- C. How should fixed assets and long-term liabilities related to the general fund and to the enterprise fund be accounted for?
- D. How should the balance sheets of the general fund, the special revenue fund, and the enterprise fund be handled when preparing the comprehensive annual financial report (CAFR)? Why?

SOLUTION:

- A. General Rule: In all cases, revenue must be earned prior to recognition.
Accrual Accounting: Revenue is recognized when measurable.
Modified Accrual Accounting: Revenue is recognized when it is both measurable and available to meet liabilities.
- B. General fund: modified accrual basis ; the general fund is a governmental fund
Special Revenue fund: modified accrual basis; the special revenue fund is a governmental fund
Enterprise fund: accrual basis; the enterprise fund is a proprietary fund and is closely related to the operations of private sector accounting and recognizes income, revenues/expenses and capital maintenance.
- C. General fund: Fixed assets are accounted for through the general fixed assets account group.
 Unmatured general long-term liabilities are accounted for through the long term debt account group.

Enterprise fund: Both fixed assets and long-term liabilities are accounted for within the enterprise fund.
- D. Five combined "General Purpose Financial Statements" are required in the CAFR, they are:
 - *** 1. Combined Balance Sheet: all fund types and account groups
 - 2. Combined Statement of Revenues, Expenditures, and Changes in Fund Balances: all governmental and similar fiduciary fund types.
 - 3. Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget and Accrual: general and special revenue fund types for which annual budgets have been legally adopted.
 - 4. Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Equity: All proprietary funds
 - 5. Combined Statement of Changes in Financial Position: All proprietary fund types.

(AICPA) COLLEGE AND UNIVERSITY ACCOUNTING

The following transactions of LBSU occurred during 20x2. The funds involved are the Endowment Fund, the Annuity Fund, the Plant Fund Unexpended, Plant Fund Investment in Plant, Student Loan Fund, Unrestricted Current fund, and the Restricted Current Fund.

January 1

LBSU, which previously held no endowment funds, received five gifts as a result of an appeal for funds. The campaign closed 12/31/x2 and all gifts received are to be recorded as of January 1. Gifts are as follows:

- a. From A.B. Smith, \$10,000, the principal to be held intact and the income to be used for any purpose that the Board of Trustees of LBSU should indicate.
- b. From C.D. Jones, \$20,000, the principal to be held intact and the income to be used to endow scholarships for worthy students.
- c. From E.F. Green, \$30,000, the principal to be held intact and the interest only to be loaned to students. All income is to be re-loaned; all losses from student loans are to be charged against income.
- d. From G.H. White, \$200,000. During the lifetime of the donor, semiannual payments of \$2,500 are to be made to the donor. After white's death, the fund is to be used to construct or purchase a residence hall for students. Since White is seriously ill, no present value of the annuity is established.
- e. From I.H. Brown, 1,000 shares of XYZ stock, which had a market value on this date of \$150 per share. Such shares are to be held for not more than five years and all income received there from held intact. At any date designated by the Board of Trustees during this period, all assets are to be liquidated and the proceeds used to build a student hospital.
- f. The Board of Trustees consolidated the assets of the Smith and Jones funds into a pooled investments account (in the proportion of their principal accounts) and purchased \$30,000 of Electric Power Company bonds at par. Interest rate, 4%. Interest dates January 1 and July 1.
- g. The cash of the Green fund is used to purchase \$30,000, 5% bonds of the Steam Company at par plus accrued interest. Interest dates April 1 and October 1.
- h. The \$200,000 cash of the White fund is used to purchase \$200,000, 2% U.S. Treasury notes at par. Interest dates, January 1 and July 1.

April 1 -- July 1

- i. All interest has been received as stipulated on bonds and notes owned and have been transferred to the proper fund when necessary. Dividends of \$4,000 are received on XYZ stock.
- j. Payment is made to G.H. White in accordance with the terms of the gift. A loan of cash is authorized from the Endowment Fund to cover the overdraft created.
- k. \$20,000 par of Electric Power Company bonds are sold at 102. No commissions are involved. Gain is an addition to principal.
- l. Loan made to M.N. Black, \$300, from the Green student loan fund.

October 1

- m. Notice is received of the death of G. H. White. Since there is no liability to the estate, no entry need be made at this point.
- n. An award of \$200 is made from the Jones scholarship fund.
- o. \$200,000 pay of U.S. Treasury notes held by the White fund are sold at 101 and accrued interest. The Endowment Fund loan is repaid.
- p. Interest due on bonds is received.

December 31

- q. M.N. Black paid \$100 principal and \$5 interest on student loan.
- r. The board of Trustees purchased a building suitable for a residence hall for \$250,000, using the available funds from the G.H. White gift as part payment therefore and giving a 20-year mortgage payable from the balance.

REQUIRED:

Prepare the journal entries to record the previous events, indicating in what fund each entry would appear. Do not prepare year-end adjusting entries. Use the following format:

EVENT	FUND	JOURNAL ENTRY	Explanation
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SOLUTION (AICPA) COLLEGE AND UNIVERSITY PROBLEM

EVENT	FUND	JOURNAL ENTRY		EXPLANATION
a,b,c	Endowment	Cash.....	60,000	Record pure endowments received
		Fund bal: Endowment.	60,000	
d.	Annuity	Cash.....	200,000	Record White donation
		Fund Bal: Annuity	200,000	
e.	Plant Fund- Unexpended	Investments.....	150,000	Record XYZ stock received
		Fund Bal.....	150,000	
f.	Endowment	Pooled Investment..	30,000	Record pooling of Smith/Jones gifts and 4% Bond Purchase
		Cash.....	30,000	
g.	Endowment	Investments.....	30,000	Record purchase of Steam Cop bonds plus accrued interest
		Interest Rec on Inv..	375	
		Cash.....	30,375	
h.	Annuity	Investments.....	200,000	Record purchase of 2% treasury notes
		Cash.....	200,000	
i. (g)	Endowment	Cash.....	375	Replace cash used to purchase accrued interest in (g)
		Int Rec on Inv	375	
(g)	Student Loan	Cash.....	375	Record earning on Stam Co. bonds available for loans
		Fund Bal.....	375	
(e,i)	Plant Fund- Unexpended	Cash.....	4,000	Record dividends on XYZ stock
		Fund Balance..	4,000	
(a,f)	Unrestricted Current	Cash.....	200	Endowment income
		Revenue: End.Inc	200	
(a,f)	Restricted Current	Cash.....	400	Record Interest on Pooled Smith/Jones gifts
		Revenue: End.Inc	400	
(h)	Annuity	Cash.....	2,000	Record Interest on Treasury notes
		Annuity Fund Bal	2,000	
j.	Endowment	Due from Annuity Fund	500	Record loan to Endowment Fund to cover shortage of cash
		Cash.....	500	
	Annuity	Cash.....	500	Record Loan received from annuity fund to cover shortage
		Due to End Fund	500	
	Annuity	Annuity Fund Bal	2,500	Record Semiannual payment to White
		Cash.....	2,500	
k.	Endowment	Cash.....	20,400	Record sale of \$20,000 Electric Pwr Bonds @ \$102
		Pooled Inv....	20,000	
		Fund Bal.....	400	
l.	Student Loan	Loans Receivable.....	300	Record loan to Black
		Cash.....	300	
m.	NO ENTRY			
n.	Restricted Current	Fund Balance....	200	Record Scholarship granted
		Cash.....	200	
o.	Annuity	Cash.....	203,000	Record sale of Treasury notes at 101 plus \$1,000 acrd int
		Investments....	200,000	
		Annuity Fund Bal	3,000	
	Annuity	Due to End Fund..	500	Record loan repayment
		Cash.....	500	
	Endowment	Cash.....	500	Record loan repayment
		Due from Annuity Fund	500	
	Annuity	Annuity Fund bal	202,500	Transfer White gift to Unexpended Plant Fund
		Cash.....	202,500	
	Plant Fund- Unexpended	Cash.....	202,500	Record receipt of White resources
		Fund Balance..	202,500	
p.	Loan	Cash.....	750	Record receipt of interest on Steam Co. bonds
		Fund Balance..	750	
q.	Loan	Fund Balance....	105	Record receipt of loan payment
		Loans Rec....	100	
		Fund Bal.....	5	
r.	Plant Fund- Unexpended	Fund Balance....	202,500	Record cash expenditure for building purchase
		Cash.....	202,500	
	Plant Fund- Inv in Plant	Buildings.....	250,000	Record purchase of building
		Mortgage pay..	47,500	
		Net inv in plant	202,500	

(AICPA) Voluntary Health and Welfare Organizations

Following are the adjusted current funds trial balances of Community Association for Handicapped Children, a voluntary health and welfare organization, at June 30, 20X4:

Community Association For Handicapped Children
 ADJUSTED CURRENT FUNDS TRIAL BALANCES
 June 30, 20X4

	Unrestricted		Restricted	
	Dr.	Cr.	Dr.	Cr.
Cash.....	\$ 40,000		\$ 9,000	
Bequest receivable.....			5,000	
Pledges receivable.....	12,000			
Accrued interest receivable.....	1,000			
Investments (at cost that approx Market)	100,000			
Accounts payable and accrued expenses...		\$ 50,000		\$ 1,000
Deferred revenue.....		2,000		
Allowance for uncollectible pledges.....		3,000		
Fund balances, July 1, 20X3:				
Designated.....		12,000		
Undesignated.....		26,000		
Restricted.....				3,000
Transfers of endowment fund income.		20,000		
Contributions.....		300,000		15,000
Membership dues.....		25,000		
Program service fees.....		30,000		
Investment income.....		10,000		
Deaf children's program.....	120,000			
Blind children's program.....	150,000			
Management and general services....	45,000		4,000	
Fund raising services.....	8,000		1,000	
Provision for uncollectible pledges	2,000			
	\$ 478,000	\$ 478,000	\$ 19,000	\$ 19,000

Required:

- Prepare a statement of support, revenue, and expenses and changes in fund balances, separately presenting each current fund, for the year ended June 30, 20X4.
- Prepare a balance sheet separately presenting each current fund as of June 30, 20X4.

PII#5 Voluntary Health and Welfare Organizations--SOLUTION

REQUIREMENT A: Community Association for Handicapped Children
Statement of Support, Revenue, and Expenses
and Changes if Fund Balances for Current Funds
Year Ended June 30, 20X4

	Unrestricted	Restricted	Total
Public Support and Revenue:			
Public Support Contributions (net of provision for uncollectible pledges of \$2,000).....	\$ 298,000	\$ 15,000	\$ 313,000
Revenue:			
Membership dues.....	25,000	--	25,000
Program service fees.....	30,000	--	30,000
Investment Income.....	10,000	--	10,000
Total Revenue.....	65,000	--	65,000
TOTAL PUBLIC SUPPORT AND REVENUE.....	\$ 363,000	\$ 15,000	\$ 378,000
Expenses:			
Program services:			
Blind children.....	150,000	--	150,000
Deaf children.....	120,000	--	120,000
Total program services.....	270,000	--	270,000
Supporting services:			
Management and general.....	45,000	4,000	49,000
Fund-raising.....	8,000	1,000	9,000
Total supporting services.....	53,000	5,000	58,000
TOTAL EXPENSES.....	\$ 323,000	\$ 5,000	\$ 328,000
Excess of public support and revenue over expenses:	40,000	10,000	50,000
Other Changes in funds balances:			
Transfers of endowment fund income.....	20,000	--	20,000
Beginning fund balance (July 1, 20X3).....	38,000	3,000	41,000
Ending fund balance (June 30, 20X4).....	\$ 98,000	\$ 13,000	\$ 111,000

REQUIREMENT B:

Community Association for Handicapped Children
Current Funds Balance Sheet
July 30, 20X4

Assets		Liabilities and Fund Balances	
UNRESTRICTED			
Cash.....	\$ 40,000	Accounts payable and accrued expenses....	\$ 50,000
Investments (at cost which approximates market).....	100,000	Deferred revenue.....	2,000
Pledges receivable (net of allowance of \$3,000).....	9,000	Total liabilities and deferred revenue...	52,000
Accrued interest receivable...	1,000	Fund balances:	
		Designated.....	12,000
		Undesignated.....	86,000
TOTAL UNRESTRICTED.....	\$ 150,000		\$ 150,000
RESTRICTED			
Cash.....	\$ 9,000	Accounts payable and accrued expenses....	\$ 1,000
Bequest receivable.....	5,000	Fund balance.....	13,000
TOTAL RESTRICTED.....	\$ 14,000		\$ 14,000