1. A government must capitalize the cost of improvements such as roads, bridges, sidewalks, and so forth, because the GASB requires the cost of such assets to be displayed in the basic financial statements.

TRUE
Reporting of such "infrastructure" assets had been an option until GASBS 34; infrastructure assets are now required to be capitalized, depending on the government’s capitalization policy. There are phase in effectives dates for capitalizing and depreciating infrastructure.

2. The net cost of demolishing a building on land purchased as a site for an addition to city hall should be debited to the buildings account in the governmental activities accounts.

FALSE
This item is a necessary part of preparing the land for use, and therefore, should be considered part of the cost of the land.

3. When a project has been completed, inspected, and accepted, retained percentages of contract billings may be paid.

TRUE
The reason for the retainage no longer exists, and it is in accord with customary contractual provisions to pay the amount previously retained.

4. A wealthy local merchant donated a building to the city of Rosewood during the year. The original cost of the building was $300,000. Accumulated depreciation at the date of the gift amounted to $250,000. Fair market value at the date of the gift was appraised at $600,000, of which $40,000 was appraised as value of the land on which the building was situated. At what amount should Rosewood record this donated property in the governmental activities accounts at the government-wide level?

a. $50,000.
b. $250,000.
C. $600,000.
d. $0.

5. With regard to depreciation of general capital assets

a. Depreciation expense should be charged in the appropriate governmental funds, and reported in the governmental activities accounts.
b. Depreciation expense must be recorded in the governmental fund, but no depreciation expense can be recorded in the governmental activities accounts.
C. No depreciation can be recorded in any governmental fund, but depreciation expense must be reported in the governmental activities accounts.
d. No depreciation can be recorded in any governmental fund, nor is it permissible to record depreciation
expense in the governmental activities accounts.

6. If all financial resource inflows have been collected, and all debt interest and principal legally due has been paid, a regular serial bond debt service fund may have no assets, no liabilities, and no fund balance at year-end.

**TRUE**
Regular serial bond debt service funds commonly raise only the amount of revenue that will have to be expended each year. If collections equal disbursements there is nothing to report in a balance sheet.

7. Which of the following are properly accounted for in the governmental activities accounts?

a. Tax-supported general obligation bonds.
b. Obligations under capital leases used to finance general capital assets.
c. The long-term portion of judgments and claims.
**D. All of the above.**

8. Which of the following budgetary accounts is typically used by a debt service fund?

a. Encumbrances.
**B. Appropriations.**
c. Both A and B.
d. None of above.

9. On the due date for bond interest, the debt service fund journal entry (or entries) will include a debit to

**A. Expenditures—bond interest.**
b. Transfers in.
c. Appropriations.
d. Interest expense.

10. If a government issues debt to finance capital acquisition by another government and the proceeds of the debt are delivered directly to the intended beneficiaries, how should the related long-term debt be reflected in a governmental fund?

**A. Other financing source and other financing use.**
b. Other financing source and expenditure.
c. Revenue and expenditure.
d. Not displayed on the face of the financial statements because there are no actual flows of financial resources; however, disclosed in the notes to the financial statements.

11. Internal service funds of one government may *not* provide goods or services, on a cost-reimbursement basis, to other governments.

**FALSE**
The definition of internal service funds quoted in the text is to provide for service to other governments as
well as to other departments or agencies of the unit operating the internal service fund. While internal service funds exist primarily to provide goods and services to other departments and agencies of the same government, there is no probation from providing the goods or services to other governments as well.

12. Internal service funds should not account for depreciation of capital assets used in their operations, since this would, in effect, charge the government twice for the same assets.

**FALSE**
As for a business enterprise, including a depreciation charge is necessary to determine the full cost of services.

Cash: 350,000  
Inventory of Supplies: 38,700  
Interfund Loan from Electric Utility Fund: 320,000  
Interfund Transfer In from General Fund: 89,200

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13. In the entry above the account "Interfund Loan from Electric Utility Fund" is credited for $320,000 because this amount was loaned by the electric utility fund to the supplies fund and will have to be repaid by the supplies fund.

**TRUE**
Loan is the term described in GASBS 34 that replaces "advances" (a term meaning a long-term receivable or payable) and "Due to..." (a current liability). Interfund loans should be properly classified as current or noncurrent receivables or payables.

_Content: Journal Entry  
Level: Medium  
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14. Proprietary funds are accounted for in a manner similar to investor-owned businesses: among other features, the full accrual basis is used and all of the capital assets used in fund operations are accounted for by the using fund.

**TRUE**
The features described are characteristic of GAAP applicable to proprietary funds.

15. Which of the following is a difference between enterprise funds and internal service funds?

a. The use of cost accounting by enterprise funds but not internal service funds.  
b. The identity of those who benefit from the fund’s service.  
c. The number of basic financial statements required.  
d. The measurement focus on economic resources for enterprise funds and current financial resources for internal service funds.