**ACC-405**

**Module Six Practice Problems and Solutions**

**Problem 1. The following events take place:**

1. Hector Madras died and left 100 acres of undeveloped land to the city for a future park. He acquired the land at $100 an acre, but at the date of his death, the land was appraised at $8,000 an acre.
2. The city authorized the transfer of $100,000 of general revenues and the issuance of $1,000,000 in general obligation bonds to construct improvements on the donated land. The bonds were sold at par.
3. The improvements were completed at a cost of $1,100,000, and the operation of the park was turned over to the City Parks Department.

**Required:**

Prepare entries in general journal form to record these transactions in the proper fund(s). Designate the fund in which each transaction is recorded. If the transaction did not result in a journal entry to a government fund, record the journal entry needed to reflect the information in the government‐wide Statement of Net Position.

**Answer**

|  |  |  |  |
| --- | --- | --- | --- |
| 1. | Government-Wide Statement of Net Position  Land ($8,000 x 100)  Revenue from Donations | 800,000 | 800,000 |
| 2. | General Fund  Transfer to Capital Projects Fund  Cash  Capital Projects Fund  Cash  Bond Issue Proceeds  Cash  Transfer From General Fund  Government-Wide Statement of Net Position  Cash  Bonds Payable | 100,000  1,000,000  100,000  1,000,000 | 100,000  1,000,000  100,000  1,000,000 |
| 3. | Capital Projects Fund  Expenditures  Cash  Bond Issue Proceeds  Transfers From General Fund  Expenditures  Government-Wide Statement of Net Position  Cash  Bond payable | 1,100,000  1,000,000  100,000  1,000,000 | 1,100,000  1,100,000  1,000,000 |
|  |  |  |  |

**Problem 2**. On January 1, 2020, Allentown issued $800,000 of 9% serial bonds at par. Semiannual interest is payable on January 1 and July 1 and principal of $80,000 matures each January 1 starting in 2021. The debt will be serviced through a special tax levy designed especially for this purpose. Therefore, transfers will be provided as needed from the Special Revenue Fund.

The following transactions occurred relating to the Debt Service Fund.

**2020**

**June 29** A transfer of $36,000 was received from the Special Revenue Fund.

**July 1** The semiannual interest payment was made.

**Dec. 18** A Special Revenue Fund transfer of $20,000 was received.

**2021**

**Jan. 1** A payment on bond principal and semiannual interest was made.

**2031**

**Jan. 2** Accumulations in the Debt Service Fund amounted to $55,000 in investments and $40,000 in cash. The investments were liquidated at face value and the final interest and principal payment was made.

**Jan. 4** Having served its purpose, the Debt Service Fund's remaining assets were transferred to the Special Revenue Fund.

**Required:**

Prepare the journal entries necessary to record the foregoing transactions**.**

**Answer**

**2020**

|  |  |  |  |
| --- | --- | --- | --- |
| June 29 | Cash  Transfer from Special Revenue Fund  To record transfer received | 36,000 | 36,000 |
| July 1 | Expenditures  Cash  To record interest payment (1/2 × 9% × $800,000) | 36,000 | 36,000 |
| Dec. 18 | Cash  Transfer from Special Revenue Fund  To record transfer received | 20,000 | 20,000 |

**2021**

|  |  |  |  |
| --- | --- | --- | --- |
| Jan. 1 | Expenditures  Cash  To record interest and principal payment  ($80,000 + (1/2 × 9% × $800,000)) | 116,000 | 116,000 |

**2031**

|  |  |  |  |
| --- | --- | --- | --- |
| Jan. 2 | Cash  Investments  To liquidate investments | 55,000 | 55,000 |
| Jan. 2 | Expenditures  Cash | 83,600 | 83,600 |
|  | To make last bond principal and interest payment  ($80,000 + (1/2 × 9% × $80,000)) | | |

|  |  |  |  |
| --- | --- | --- | --- |
| Jan. 4 | Fund Balance- Unassigned  Expenditures  To close expenditures | 83,600 | 83,600 |
| Jan. 4 | Transfer to Special Revenue Fund  Cash ($40,000 + $55,000 - $83,600)  To transfer remaining assets | 11,400 | 11,400 |
| Jan. 4 | Fund Balance- Unassigned  Transfer to Special Revenue Fund  To close remaining accounts | 11,400 | 11,400 |

**Problem 3. No Sample**

**Problem 4.**

**The City of Minden entered into the following transactions during the year 2021.**

A bond issue was authorized by vote to provide funds for the construction of a new municipal building, which it was estimated would cost $1,000,000. The bonds are to be paid in 10 equal installments from a Debt Service Fund, and payments are due March 1 of each year. Any premium on the bond issue, as well as any balance of the Capital Projects Fund, is to be transferred directly to the Debt Service Fund.

An advance of $80,000 was received from the General Fund to underwrite a deposit on the land contract of $120,000. The deposit was made.

Bonds of $900,000 were sold for cash at 102. It was decided not to sell all the bonds because the cost of the land was less than expected.

Contracts amounting to $780,000 were let to Standstone and Company, the low bidder, for construction of the municipal building.

The temporary advance from the General Fund was repaid and the balance on the land contract was paid.

On the basis of the architect's certificate, contract billings were approved for $640,000 for the work completed to date.

Contract billings paid in cash by the treasurer amounted to $620,000.

Because of changes in the plans, the contract with Sandstone and Company was revised to $880,000; the remainder of the bonds were sold at 101.

Before the end of the year, the building had been completed, and additional contract billings amounting to $230,000 approved. All contract billings were paid by the treasurer to the contractor in final payment for the work.

Required:

Prepare entries to record the foregoing transactions (excluding the entries necessary to close out the fund) of the Capital Projects Fund.

Prepare a preclosing trial balance for the Capital Projects Fund.

Prepare entries necessary to close out the Capital Projects Fund on the completion of construction.

Prepare a statement of revenues, expenditures, and changes in fund balance for the Capital Projects Fund.

Prepare preclosing trial balances at December 31, 2021, for the Debt Service Fund, considering only the proceeds, expenditures, and transfers resulting from transactions of the Capital Projects Fund.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Part A** Journal Entries | | | | |
|  | 1. | No entry |  |  |
|  | 2. | Cash  Due to the General Fund  Deposit on Land Contract  Cash | 80,000  80,000 | 80,000  80,000 |
|  | 3. | Cash  Bond Issue Proceeds ($900,000)(1.02)  Transfer to Debt Service Fund  Cash | 918,000  18,000 | 918,000  18,000 |
|  | 4. | Encumbrances  Fund Balance- Assigned(encumbrances) | 780,000 | 780,000 |
|  | 5. | Due to General Fund  Cash  Expenditures  Deposit on Land Contract  Cash | 80,000  120,000 | 80,000  80,000  40,000 |
|  | 6. | Expenditures  Vouchers Payable  Fund Balance- Assigned(encumbrances)  Encumbrances | 640,000  640,000 | 640,000  640,000 |
|  | 7. | Vouchers Payable  Cash | 620,000 | 620,000 |
|  | 8. | Encumbrances ($880,000 - $780,000)  Fund Balance- Assigned(encumbrances)  Cash  Bond Issue Proceeds  Transfer to Debt Service Fund  Cash | 100,000  101,000  1,000 | 100,000  101,000  1,000 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 9. | Expenditures  Vouchers Payable  Fund Balance- Assigned(encumbrances) ($780,000 + $100,000 - $640,000)  Encumbrances  Vouchers Payable ($640,000 - $620,000 + $230,000)  Cash | 230,000  240,000  250,000 | 230,000  240,000  250,000 |

**CITY OF MINDEN**

**Capital Projects Fund**

**Pre-Closing Trial Balance**

**December 31, 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **Part B** |  | Debit | Credit |
|  | Cash  Expenditures  Transfer to Debt Service Fund  Bond Issue Proceeds  Total | $ 10,000  990,000  19,000  \_\_\_\_\_\_\_\_  $1,019,000 | $1,019,000  $1,019,000 |
| **Part C** | Closing Entries  Bond Issue Proceeds  Transfer to Debt Service Fund  Expenditures  Fund Balance- Unassigned  Transfer to Debt Service Fund  Cash  Fund Balance- Unassigned  Transfer to Debt Service Fund | 1,019,000  10,000  10,000 | 19,000  990,000  10,000  10,000  10,000 |

|  |  |  |
| --- | --- | --- |
| **Part D** | **CITY OF MINDEN**  **Capital Projects Fund**  **Statement of Revenues, Expenditures and Changes in Fund Balance**  **For the Year Ended December 31, 2021** |  |
|  | Revenue  Bond Issue Proceeds  Total  Expenditures  Transfer to Debt Service Fund  Total  Excess to Fund Balance  Balance – January 1  Less Residual Equity Transfer to Debt Service Fund  Balance – December 31 | $ 0  1,019,000  1,019,000  990,000  19,000  1,009,000  10,000  0  (10,000)  $0 |

Pre – Closing Trial Balances of Related Funds

|  |  |  |
| --- | --- | --- |
|  | Debit | Credit |
| Debt Service Fund  Cash  Transfer from Capital Projects Fund (operating)  ($18,000 + $1,000)  Transfer from Capital Projects Fund (residual equity)  Total | $ 29,000  \_\_\_\_\_\_\_  $ 29,000 | $ 19,000  10,000  $ 29,000 |

**Problem 5.** The following schedule of capital assets was prepared for Capital City.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Governmental Activities | Beginning Balance | Additions | Retirements | Ending Balance |
| Total Capital Assets (gross) | $500,000 | 100,000 | (75,000) | $525,000 |
| Less: Accumulated Depreciation | (200,000) | (30,000) | 25,000 | (205,000) |
| Net Capital Assets | $300,000 | 70,000 | (50,000) | $320,000 |

All capital acquisitions were made in a capital projects fund (and paid for with cash). An asset was sold by the general fund for $65,000 cash.

**Required:**

Determine how the above information will be reflected on each of the following statements for the year 2020.

1. The governmental funds' statement of revenue, expenditures, and changes in fund balances. List the governmental fund and then list the dollar amount within the appropriate heading on the statement (such as Revenues, Expenditures, or Other Financing Sources (Uses)).
2. The government‐wide statement of net position.
3. The government‐wide statement of activities.

**Answer**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  |  |  |  |  |  |  |
|  | 1. |  |  |  |  |  |  |  |
|  | **Governmental Funds** | | | | | | | |
|  | **Statement of Revenues, Expenditures, and Changes in Fund Balance** | | | | | | | |
|  | **For the year ended December 31, 2020** | | | | | | | |
|  |  |  |  | Capital |  | Debt |  | Total |
|  |  | General |  | Projects |  | Service |  | Governmental |
|  |  | Fund |  | Fund |  | Fund |  | Funds |
|  | **Revenues** |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  | **Expenditures** |  |  |  |  |  |  |  |
|  | Expenditure |  |  | (100,000) |  |  |  | (100,000) |
|  |  |  |  |  |  |  |  |  |
|  | **Other Financing Sources (Uses)** | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  | **Special Items** |  |  |  |  |  |  |  |
|  | Revenue from Asset Sale | 65,000 |  |  |  |  |  | 65,000 |
|  |  |  |  |  |  |  |  |  |
|  | 2. |  |  |  |  |  |  |  |
|  | **Government-wide** | | | | |  |  |  |
|  | **Statement of Net Position**  **December 31, 2020** | | | | |  |  |  |
|  | Capital Assets |  |  | $ 525,000 |  |  |  |  |
|  | Accumulated Depreciation |  |  | (205,000) |  |  |  |  |
|  | Net Capital Position |  |  | $ 320,000 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  | 3. |  |  |  |  |  |  |  |
|  | **Government-wide** | | | | |  |  |  |
|  | **Statement of Activities**  **For the Year Ended December 31, 2020** | | | | |  |  |  |
|  | Depreciation Expense |  |  | $ (30,000) |  |  |  |  |
|  | Gain on Sale ($65,000 – ($75,000 - $25,000)) |  |  | 15,000 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

**Problem 6** The following events were recorded on the books of Mercy Hospital for the year ended December 31, 2020.

1. Revenue from patient services totaled $16,000,000. The allowance for uncollectibles was established at $3,400,000. Of the $16,000,000 revenue, $6,000,000 was recognized under cost reimbursement agreements. This revenue is subject to audit and retroactive adjustment by third‐party payers (estimated adjustments are included in the allowance account).
2. Patient service revenue is accounted for at established rates on the accrual basis.
3. Other operating revenue totaled $346,000, of which $160,000 was from specific purpose funds.
4. Mercy received $410,000 in unrestricted gifts and bequests. They are recorded at fair market value when received.
5. Endowment funds earned $160,000 in unrestricted income.
6. Board designated funds earned $82,000 in income.
7. Mercy's operating expenses for the year amounted to $13,370,000. This included $500,000 in straight‐line depreciation.

**Required:**

Prepare a statement of activities for Mercy Hospital for the year ended December 31, 2020.

**Answer**

|  |  |  |
| --- | --- | --- |
| **Statement of Activities** | | |
| Patient Service Revenue  Allowances and Uncollectible Accounts  Net Patient Service Revenue | | $16,000,000  (3,400,000)  12,600,000 |
| Other Operating Revenue (includes $160,000 from specific purpose funds)  Total Operating Revenue | | 346,000  12,946,000 |
| Operating Expenses (includes depreciation of $500,000)  Loss from Operations | | 13,370,000  (424,000) |
| Nonoperating Revenue:  Unrestricted Gifts and Requests  Unrestricted Income from Endowment Funds  Income from Board-Designated Funds  Total Nonoperating Revenue  Excess of Revenue over Expenses | 410,000  160,000  82,000 | 652,000  $228,000 |

**Problem 7.** On January 1, 2020, a new Board of Directors was elected for Bradley Hospital. The new board switched to a different accountant. After reviewing the hospital's books, the accountant decided that the accounts should be adjusted. Effective January 1, 2020, the board decided that

1. Separate funds should be established for the General Fund, the Bradley Endowment Fund, and the Plant Replacement and Expansion Fund (the old balances will be reversed to eliminate them).
2. The accounts should be maintained in accordance with fund accounting principles. The balances in the general ledger at January 1, 2020, are presented here:

|  |  |  |
| --- | --- | --- |
| Cash | $50,000 |  |
| Investment in US treasury bills | 105,000 |  |
| Investment in common stock | 417,000 |  |
| Interest receivable | 4,000 |  |
| Accounts receivable | 40,000 |  |
| Inventory | 25,000 |  |
| Land | 407,000 |  |
| Building | 245,000 |  |
| Equipment | 283,000 |  |
| Allowance for depreciation |  | $376,000 |
| Accounts payable |  | 70,000 |
| Bank loan |  | 150,000 |
| Endowment fund balance |  | 119,500 |
| Other fund balances |  | 860,500 |
| Total | $1,576,000 | $1,576,000 |

The following additional information is available:

1. Under the terms of the will of J. Ethington, founder of the hospital, “The principal of the bequest is to be fully invested in trust forevermore in mortgages secured by productive real estate in Central City and/or in U.S. Government securities … and the income therefrom is to be used to defray current expenses.”
2. The Endowment Fund consists of the following:

|  |  |
| --- | --- |
| Cash received in 1898 by bequest from Ethington | $ 81,500 |
| Net gains realized from 1956 through 1989 from the sale of real estate acquired in mortgage foreclosures | 23,500 |
| Income received from 1990 through 2019 from 90‐day U.S. treasury bill investments | 14,500 |
| Balance per general ledger on January 1, 2020 | $119,500 |

1. The land account balance is composed of

|  |  |
| --- | --- |
| 1900 appraisal of land at $10,000 and building at $5,000, received by donation at that time. The building was demolished in 1934. | $15,000 |
| Appraisal increase based on insured value in land title policies issued in 1954. | 380,000 |
| Landscaping costs for trees planted. | 12,000 |
| Balance per general ledger on January 1, 2020 | $407,000 |

1. The building balance is composed of

|  |  |
| --- | --- |
| Cost of present hospital building completed in January 1974, when the hospital commenced operations. | $ 300,000 |
| Adjustment to record appraised value of building in 1984. | (100,000) |
| Cost of elevator installed in hospital building in January 2000. | 45,000 |
| Balance per general ledger on January 1, 2020. | $ 245,000 |

The estimated useful lives of the hospital building and the elevator when new were 50 years and 20 years, respectively.

1. The hospital's equipment was inventoried on January 1, 2020. The costs shown in the inventory agreed with the equipment account balance in the general ledger. The allowance for depreciation account at January 1, 2020, included $158,250 applicable to equipment, and that amount was determined to be accurate. All depreciation is computed on a straight‐line basis.
2. A bank loan was obtained to finance the cost of new operating room equipment purchased in 2011. Interest was paid to December 31, 2019.
3. Common stock with a market value of $417,000 was donated to Bradley Hospital with the stipulation that the proceeds from the sale of the stock must be used for facilities expansion. The hospital plans to undertake expansion of its facilities next year and to sell these securities at that time.

**Required**

Prepare the entries necessary to establish the correct balances as of January 1, 2020

**Answer**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Trial Balance | | Adjustments | | General Fund | | | Endowment Fund | | | | Plant Replacement Fund | |
| Account Description | Debit | Credit | Debit | Credit | | Debit | Credit | Debit | | Credit | | Debit | Credit |
| Cash | $50,000 |  |  |  | | $50,000 |  |  | | | |  |  |
| Investment in U.S. Treasury Bills | 105,000 |  |  |  | |  |  | $105,000 |  | | |  |  |
| Investment in Common Stock | 417,000 |  |  |  | |  |  |  | | | | $ 417,000 |  |
| Interest Receivable | 4,000 |  |  |  | | 4,000 |  |  | | | |  |  |
| Accounts Receivable | 40,000 |  |  |  | | 40,000 |  |  | | | |  |  |
| Inventory | 25,000 |  |  |  | | 25,000 |  |  | | | |  |  |
| Land | 407,000 |  |  | (2)$385,000 | | 22,000 |  |  | | | |  |  |
| Building | 245,000 |  | (3)$100,000 |  | | 345,000 |  |  | | | |  |  |
| Equipment | 283,000 |  |  |  | | 283,000 |  |  | | | |  |  |
| Allowance for Depreciation |  | 376,000 |  | (4) $62,000 | |  | $438,000 |  | | | |  |  |
| Accounts Payable |  | 70,000 |  |  | |  | 70,000 |  | | | |  |  |
| Bank Loan |  | 150,000 |  |  | |  | 150,000 |  | | | |  |  |
| Endowment Fund Balance |  | 119,500 | (1) 14,500 |  | |  |  |  | | $105,000 | |  |  |
| Other Fund Balances |  | 860,500 | (2) 385,000 | (1) 14,500 | |  |  |  | | | |  |  |
|  |  |  | (4) 62,000 | (3) 100,000 | |  |  |  | | | |  |  |
|  |  |  | (5) 528,000 |  | |  |  |  | | | |  |  |
| Plant Replacement Fund Balance |  |  |  | (5) 417,000 | |  |  |  | | | |  | $417,000 |
| General Fund Balance |  |  |  | (5) 111,000 | |  | 111,000 |  | | | |  |  |
| Totals | $1,576,000 | $1,576,000 | $1,089,500 | $1,089,500 | | $769,000 | $769,000 | $105,000 | | | $105,000 | $417,000 | $417,000 |

Adjusting Entries (not required)

|  |  |  |  |
| --- | --- | --- | --- |
| (1) | Endowment Fund Balance  Other Fund Balances  To eliminate from the Endowment Fund Balance the investment income earned on U.S. Treasury Bills | 14,500 | 14,500 |
| (2) | Other Fund Balance  Land  To eliminate from the land account the $380,000 appraisal increase and the $5,000 cost of the old building which was demolished. | 385,000 | 385,000 |
| (3) | Building  Other Fund Balance  To eliminate the appraisal decrease and restate the hospital building at its actual cost. | 100,000 | 100,000 |
| (4) | Other Fund Balances  Allowance for Depreciation  To correct the allowance for depreciation through December 31, 2020 in accordance with the following computation:  Building - $300,000 at 2% times 41 years  Elevator - $45,000 at 5% times 15 years  Equipment – ascertained to be accurate  Total accumulated depreciation, as computed  Less accumulated depreciation per books  Understatement of accumulated depreciation | 62,000  $246,000  33,750  158,250  438,000  376,000  $62,000 | 62,000 |
| (5) | Other Fund Balances  Plant Replacement Fund  General Fund  To close out Other Fund Balances and to allocate its balance to the General Fund and the Plant Replacement Fund. | 528,000 | 417,000  111,000 |

**Problem 8**. The following transactions of Beltville College transpired during 2020. The funds necessary are the Endowment Fund, the Annuity Fund, the Plant Fund—Unexpended, the Plant Fund—Investment in Plant, the Loan Fund, the Unrestricted Current Fund, and the Restricted Current Fund.

January 1

1. A gift of $10,000 was received from Carl Brown. The principal was to be held intact and the income to be used for any purpose designated by the governing board.
2. David Gross donated $20,000. The principal was to be held intact and the income to be used for scholarships for worthy students.
3. Roxanne Norton donated $30,000, of which the principal was to remain intact while the interest was to be used for student loans. All income is to be relent; all losses from loans are to be charged against income.
4. A gift of $205,000 was received from Brian Carr. Semiannual payments of $10,000 are to be made to the donor during his lifetime. On his death the fund is to be used to purchase or construct a students' residence. Mr. Carr has a life expectancy of five years and investments are expected to earn 8% annually.
5. Kathy Jackson donated 1,000 shares of BIM stock, which had a market value of $150 per share on that date. All income received from the shares is to be held intact and the shares cannot be held for more than five years. Once the board sells the shares, all the proceeds are to be used to build a student hospital.
6. The assets of the Brown and Gross funds were consolidated into a pooled investment account by the governing board (in proportion to the principal accounts). Electric Power Bonds worth $30,000 were purchased. The 12% interest was payable on January 1 and July 1.
7. The Norton Fund cash is used to purchase Cravit Company 10% bonds at par for $30,000. January 1 and July 1 are the interest dates.
8. With the cash from the Carr Fund, $200,000 of 8% U.S. Treasury notes was purchased at par. The interest dates are January 1 and July 1.

July 1

1. The interest was received on all bonds and notes and was transferred to the proper funds. Dividends of $4,000 were received from BIM stock.
2. The stipulated payment is made to Mr. Carr from the Endowment Fund.
3. Electric Power Company bonds bought at par value for $20,000 are sold at 102. The gain is added to the principal.
4. A $300 student loan was made from the Norton Fund.

October 1

1. A notice of Brian Carr's death is received. There is no liability to his estate.
2. The Gross Scholarship Fund awards a $200 scholarship.
3. $200,000 par of U.S. Treasury notes are sold for $206,000.

December 31

1. Interest on bonds is received.
2. $100 of principal and $5 of interest were repaid on the student loan.
3. A building was purchased for $250,000 using the funds available from the Carr gift. The residence hall will have a 20‐year mortgage payable to account for the balance.

**Required:**

Record the journal entries necessary for each event.

**Answers**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Event | Fund | Journal Entry |  |  |
| 1 | Endowment Fund – Brown | Cash  Revenue | 10,000 | 10,000 |
| 2 | Endowment Fund – Gross | Cash  Revenue | 20,000 | 20,000 |
| 3 | Endowment Fund – Norton | Cash  Revenue | 30,000 | 30,000 |
| 4 | Annuity Fund | Cash  Revenue-contribution  Annuity Payable  ($10,000 × 8.1109) | 205,000 | 123,891  81,109 |
| 5 | Endowment Fund – Jackson | Investments (1,000)($150)  Revenue | 150,000 | 150,000 |
| 6A | Endowment Fund – Brown | Investments (1/3)($30,000)  Cash | 10,000 | 10,000 |
| 6B | Endowment Fund – Gross | Investments (2/3)($30,000)  Cash | 20,000 | 20,000 |
| 7 | Endowment Fund – Norton | Investments  Cash | 30,000 | 30,000 |
| 8 | Annuity Fund | Investments  Cash | 200,000 | 200,000 |

Interest computations ($30,000)(.12) = $3,600, 1/3 of $3,600, or $1,200 to Brown, 2/3 of $3,600, or $2,400 to Gross

($30,000)(.10)=$3,000 to Norton

**(continued)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Event | Fund | | Journal Entry | |  | | |  | | |
| 9A1 | Endowment Fund – Brown | | Cash  Due to Unrestricted Current Fund | | 600 | | | 600 | | |
| 9A2 | Unrestricted Current Fund | | Due from Endowment Fund – Brown  Investment Income | | 600 | | | 600 | | |
| 9B1 | Endowment Fund – Gross | | Cash  Due to Restricted Current Fund | | 1,200 | | | 1,200 | | |
| 9B2 | Restricted Current Fund | | Due from Endowment Fund - Gross  Investment Income | | 1,200 | | | 1,200 | | |
| 9C1 | Endowment Fund - Norton | | Cash  Due to Loan Fund | | 1,500 | | | 1,500 | | |
| 9C2 | Loan Fund | | Due From Endowment Fund - Norton  Investment Income | | 1,500 | | | 1,500 | | |
| 9D | Annuity Fund | | Cash (8%)($200,000)/2  Annuity payable | | 8,000 | | | 8,000 | | |
| 9E | Endowment Fund - Jackson | | Cash  Investment Income (BIM dividend) | | 4,000 | | | 4,000 | | |
| 9F1 | Endowment Fund - Brown | | Due to Unrestricted Current Fund  Cash | | 600 | | | 600 | | |
| 9F2 | Unrestricted Current Fund | | Cash  Due from Endowment Fund - Brown | | 600 | | | 600 | | |
| 9G1 | Endowment Fund - Gross | | Due to Restricted Current Fund  Cash | | 1,200 | | | 1,200 | | |
| 9G2 | Restricted Current Fund | | Cash  Due from Endowment Fund - Gross | | 1,200 | | | 1,200 | | |
|  | | | | | | | | | | | |
|  |  | |  | | |  | | |  | | |
| 9H1 | Endowment Fund - Norton | | Due to Loan Fund  Cash | | | 1,500 | | | 1,500 | | |
| 9H2 | Loan Fund | | Cash  Due from Endowment Fund – Norton | | | 1,500 | | | 1,500 | | |
| 10 | Annuity Fund | | Annuity Payable  Cash | | | 10,000 | | | 10,000 | | |
|  |  | |  | | |  | | |  | | |
| 11 | Endowment Fund - Brown | | Cash  Investments  Fund Balance | | | 6,800 | | | 6,667  133 | | |
|  | Endowment Fund - Gross | | Cash  Investments  Fund Balance | | | 13,600 | | | 13,333  267 | | |
| 12 | Loan Fund | | Loan Receivable  Cash | | | 300 | | | 300 | | |
| 13 | Annuity Fund  Unexpended Plant Fund | | Annuity Payable  Revenue  Due to Unexpended Plant Fund  Due from Annuity Fund  Fund Balance – Restricted | | | 79,109  123,891  203,000 | | | 203,000  203,000 | | |
| 14 | Restricted Current Fund | | (1) Expenses – Scholarship  Cash | | | 200 | | | 200 | | |
| 15 | Annuity Fund | Cash  Investment income  Investments | | 206,000 | | | 6,000  200,000 | | |
|  | Annuity Fund | Investment income)  Due to unexpended plant fund | | 6,000 | | | 6,000 | | |
|  | Unexpended Plant Fund | Due from annuity fund  Fund balance restricted | | 6,000 | | | 6,000 | | |
| 16 | Endowment Fund – Norton | (1A) Cash  Due to Loan Fund  (1B) Due to Loan Fund  Cash | | 1,500  1,500 | | | 1,500  1,500 | | |
|  | Loan Fund | (2A) Due from Endowment Fund - Norton  Investment income  (2B) Cash  Due from Endowment Fund – Norton | | 1,500  1,500 | | | 1,500  1,500 | | |
|  | Endowment Fund-Brown | Cash  Due to unrestricted current fund | | 200 | | | 200 | | |
|  | Unrestricted current fund | Due from endowment fund - Brown  Endowment income | | 200 | | | 200 | | |
|  | Endowment Fund-Gross | Cash  Due to restricted current fund | | 400 | | | 400 | | |
|  | Restricted Current Fund - Gross | Due from Endowment Fund - Gross  Investment Income | | 400 | | | 400 | | |
|  | \*\* Note: These entries assume the cash due on January 1 was received on December 31. | | |  | | |  | | |
| 17 | Loan Fund | Cash  Loan Receivable  Interest income | | 105 | | | 100  5 | | |
| 18 | Annuity Fund | (1) Due to Unexpended Plant Fund  Cash | | 209,000 | | | 209,000 | | |
|  |  |  | |  | | |  | | |

|  |  |  |  |
| --- | --- | --- | --- |
| Unexpended Plant Fund  Investment in Plant | (2) Cash  Due from Annuity Fund  Mortgage Payable  (3) Building  Cash  (4) Fund Balance – Restricted  Mortgage Payable  Building  (5) Building  Mortgage Payable  Net Investment in Plant | 250,000  250,000  209,000  41,000  250,000 | 209,000  41,000  250,000  250,000  41,000  209,000 |

**Problem 9**. Preston Library, a nonprofit organization, presented the following statement of financial position and statement of activities for its fiscal year ended February 28, 2019.

|  |  |  |
| --- | --- | --- |
| **Preston Library** | | |
| **Statement of Financial Position** | | |
| **February 28, 2019** | | |
|  |  |  |
| **Assets** | **Unrestricted** | **Temporarily Restricted** |
| Current Assets |  |  |
| Cash | $285,000 | $80,000 |
| Grants Receivable | 80,000 |  |
| Prepaid Expense | 65,000 |  |
| Total | 430,000 |  |
| Investments (at market) | 1,020,000 |  |
| Land, Building, and Equipment (less Acc Dep of $50,000) | 530,000 |  |
| Total Assets | $1,980,000 | 80,000 |
| **Liabilities and Fund Balances** |  |  |
| Current Liabilities |  |  |
| Accounts Payable and Accrued Expenses | $150,000 |  |
| Total | 150,000 |  |
| Long-Term Debt | 200,000 |  |
| Fund Balances | 1,630,000 | 80,000 |
| Total Liabilities and Fund Balances | $1,980,000 | $80,000 |

|  |  |  |
| --- | --- | --- |
| **Preston Library** | | |
| **Statement of Activities** | | |
| **for Year Ended February 28, 2019** | | |
| **Support and Revenue** | **Unrestricted** | **Temporarily Restricted** |
| Support and Revenue |  |  |
| Grants | $ 70,000 | $ - |
| Gifts | 300,000 | 80,000 |
| Total | 370,000 | 80,000 |
| Revenue |  |  |
| Service Fees | 22,000 |  |
| Book Rentals and Fines | 107,000 |  |
| Investment Income | 71,000 | - |
| Total | 200,000 |  |
| Total Support and Revenue | $ 570,000 | $ 80,000 |
| **Expenses** |  |  |
| Program Services |  |  |
| Circulating Library | $ 212,000 |  |
| Research Library | 86,000 |  |
| Exhibits | 20,000 |  |
| Community Services | 10,000 |  |
| Total | 328,000 | 0 |
| Supporting Services |  |  |
| General and Administrative | 175,000 |  |
| Fund Raising | 111,000 |  |
| Total | 286,000 | 0 |
| Total Expenses | 614,000 | 0 |
| Increase (decrease) in Net Assets | (44,000) | 80,000 |
| Fund Balances - Beginning of Year | 1,674,000 | - |
| Fund Balances - End of Year | $ 1,630,000 | $ 80,000 |
|  |  |  |

The following transactions occurred during the fiscal year ended February 28, 2020.

1. Fees were billed as follows:

Service fees $30,000

Book rentals  43,000

Book fines  78,000

1. $40,000 of the Grant Receivable was received. Another grant in the amount of $20,000 was promised.
2. Contributions in the amounts summarized below were received:

Unrestricted $215,000

Restricted  108,000

1. Investment income totaled $75,000 for the year.
2. Vouchers for the year were approved as follows:

Circulating library $189,000

Research library   74,000

Exhibits   15,000

Community services  12,000

General and administrative 166,000

Fund raising   103,000

Total $559,000

1. During the year, $500,000 worth of vouchers were paid.

Adjustment Data

1. Accounts Payable and Accrued Expenses at February 28, 2020, should be $217,000. The difference should be allocated to the following expenses:

Research library $5,000

General and administrative  3,000

1. Additions to the research library in the amount of $68,000 that were approved in (5) above were made in accordance with the terms of a contribution that had been received earlier and that was restricted for that purpose.
2. The current market value of the investments is $1,035,000 (no investment transactions occurred).
3. Depreciation amounted to $9,000 for the year. It should be allocated as follows:

Circulating library $3,500

Research library   2,900

General and administrative  2,600

1. Prepaid Expenses should be $60,000. The difference should be allocated to:

Exhibits $3,700

General and administrative  1,300

**Required:**

1. Prepare journal entries to record the transactions
2. Prepare the statement of financial position and the statement of activities for the year ended February 28, 2020.

**Answer**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Part A** | | 1. | | Cash  Revenue - Service Fees  Revenue - Book Rentals & Fines | | 151,000 | | 30,000  121,000 | |
|  | | 2. | | Cash  Grant Receivable  Grant Receivable  Support – Grants | | 40,000  20,000 | | 40,000  20,000 | |
|  | | 3. | | Cash (Unrestricted)  Cash – Temporarily Restricted  Contributions – Gifts  Contributions – Restricted Support | | 215,000  108,000 | | 215,000  108,000 | |
|  | | 4. | | Cash  Investment Income | | 75,000 | | 75,000 | |
|  | | 5. | | Expenses - Circulating Library  Expenses - Research Library  Expenses - Exhibits  Expenses - Community Services  Expenses - General & Administrative  Expenses - Fund Raising  Accounts Payable | | 189,000  74,000  15,000  12,000  166,000  103,000 | | 559,000 | |
|  | | 6. | | Accounts Payable  Cash | | 500,000 | | 500,000 | |
|  | | 7. | | Expenses - Research Library  Expenses - General & Administrative  Accrued Expenses | | 5,000  3,000 | | 8,000 | |
|  | | 8. | | Net Assets Released from Restrictions  Cash – Temporarily Restricted  Cash – Unrestricted  Net Assets Released from Restrictions | | 68,000  68,000 | | 68,000  68,000 | |
|  | | 9. | | Investments  Investment Income | | 15,000 | | 15,000 | |
|  | | 10. | | Expenses - Circulating Library  Expenses - Research Library  Expenses - General & Administrative  Accumulated Depreciation | | 3,500  2,900  2,600 | | 9,000 | |
|  | | 11. | | Expenses - Exhibits  Expenses - General & Administrative  Prepaid Expenses | | 3,700  1,300 | | 5,000 | |

**Part B**

**PRESTON LIBRARY**

**Statement of Financial Position, February 28, 2020**

|  |  |  |
| --- | --- | --- |
| Assets  Current Assets  Cash  Grants Receivable  Prepaid Expenses  Total  Investments (at market)  Land, Buildings, and Equipment  Less accumulated depreciation of $59,000  Total Assets  Liabilities and Fund Balances  Current Liabilities  Accounts Payable & Accrued Expenses  Total  Long-term Debt  Fund Balances  Total Liabilities and Fund Balances | Unrestricted  $334,000  60,000  60,000  454,000  1,035,000  521,000  $2,010,000  $ 217,000 217,000  200,000  1,593,000  $2,010,000 | Temporarily Restricted  $120,000      \_\_\_\_\_\_\_\_ $120,000       120,000 $ 120,000 |

**Problem 10.** Hastings College pooled the individual investments of three of its funds on December 31, 2019. The recorded value and the fair market value of the investments on December 31, 2019, are presented here:

**Recorded Value Fair Value**

Loan fund $121,000 $105,000

Quasi‐endowment fund 128,000 147,000

Life income fund 151,000 168,000

 Total $400,000 $420,000

During 2020, the investment pool earned dividends of $12,000 and interest of $18,000 and distributed cash in these amounts to the respective funds. Realized gains on transactions of the investment pool amounted to $20,000 and were reinvested in securities held in the pool.

**Required:**

Prepare the journal entries that are necessary in the records of each of the funds to account for the earnings of the investment pool during 2020.

**Answer**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Exercise 19–5** | Proportional Interest | | Interest and  Dividends | | | Realized  Gains | | |
| Restricted Fund (105/420)  Quasi-Endowment (147/420)  Life Income (168/420)  Total  Loan Fund | 25%  35%  40%  100% | $ 7,500  10,500  12,000  $ 30,000 | | | $ 5,000  7,000  8,000  $ 20,000 | | |
| Cash  Investments  Investment Income  Quasi-Endowment Fund |  | | | 7,500  5,000 | | | 12,500 | | |
| Cash  Investments  Investment Income  Life Income Fund |  | | | 10,500  7,000 | | | 17,500 | | |
| Cash  Investments  Investment Income |  | | | 12,000  8,000 | | | 20,000 | | |