Fiscal year may not coincides (agrees) with the calendar year (1\1-31\12)

For example:

A city with a fiscal year begins 1\10\2019 - ending 30\9\2020

A city with a fiscal year begins 1\3\2019 - ending 28\2\2020

A city with a fiscal year begins 1\8\2019 - ending 31\7\2020

So you can determine available period

EX. 4-1

Select the best answer.

1. Under the modified accrual basis of accounting, revenues cannot be recognized

a. Until cash has been collected

b. Unless they will be collected within 60 days of year-end

c. Until they are subject to accrual

d. Until they are measurable and available

2. “Available” (as in “measurable and available”) means

a. Available to finance expenditures of the current period

b. Subject to accrual

c. Collectible

d. Available for appropriation

3. Property taxes are an example of

a. An imposed exchange transaction

b. An imposed nonexchange transaction

c. A derived transaction

d. A government-mandated nonexchange transaction

4. To be considered “available,” property taxes must have been collected either during the government’s fiscal year or within

a. The time it takes for the government to liquidate its obligations from the prior year

b. Thirty days of year-end

c. Sixty days of year-end

d. The following fiscal year

5. For its fiscal year ending September 30, 2017, Twin City levied $500 million in property taxes. It collected taxes applicable to fiscal 2017 as follows (in millions)(fiscal year 1\10\2016-30\9\2017):

June 1, 2016, through September 30, 2016 $ 20 in advance

October 1, 2016, through September 30, 2017 $440

October 1, 2017, through November 30, 2017 $ 15 (available period)

December 2017 $ 4 REMAINING AFTER Dec

The city estimates that $10 million of the outstanding balance will be uncollectible. For the fiscal year ending September 30, 2017, how much should Twin City recognize in property tax revenue (in millions) in its general fund?

a. $440

b. $460

c. $475

d. $490

uncollectible 10

tax levy:500

collected 460

measurable 490

will be collected available15

next year 30 after 15

7. Assume the same facts as in the previous example. How much should Twin City recognize in property tax revenue (in millions) in its government-wide statement of activities?

a. $440

b. $460

c. $475

d. $490

8. A school district received property taxes in advance of the year in which they were due and for which they were budgeted. Such taxes should be recognized as

a. Revenue

b. A liability

c. Deferred revenue

d. A deferred inflow of resources

best answer C also b correct

9. Central City was awarded two state grants during its fiscal year ending September 30, 2017: a $2 million block grant that can be used to cover any operating expenses incurred during fiscal 2018, and a $1 million grant that can be used any time to acquire equipment for its police department. For the year ending September 30, 2017, Central City should recognize in grant revenue in its fund financial statements (in millions):

a. $0

b. $1

c. $2

d. $3

2 million with a time limitation

10. Assume the same facts as in the previous example. How much should the city recognize in grant revenue in its government-wide statements?

a. $0

b. $1

c. $2

d. $3

11. Assuming that a government will collect its sales taxes in sufficient time to satisfy the “available” criterion, it would ordinarily recognize revenue from sales taxes in its governmental fund statements

a. When the underlying sales transaction takes place

b. On the date the merchant must remit the taxes to the government

c. On the date the merchant must file a tax return

d. When the taxes are received by the government

12. Assuming that a government will collect its sales taxes in sufficient time to satisfy the “available” criterion, it would ordinarily recognize revenue from sales taxes in its government-wide statements

a. When the underlying sales transaction takes place

b. On the date the merchant must remit the taxes to the government

c. On the date the merchant must file a tax return

d. When the taxes are received by the government

EX. 4-2

The following information relates to Hudson City for its fiscal year ended December 31, 2017.

• During the year, retailers in the city collected $1,700,000 in sales taxes owed to the city. As of December 31, retailers have remitted $1,100,000. $200,000 is expected in January 2018, and the remaining $400,000 is expected in April 2018.

ANSWER:

Revenue under MAB FOR 2017 :1300000

Revenue under FAB FOR 2017 :1700000

• On December 31, 2016, the Foundation for the Arts pledged to donate $1, up to a maximum of$1 million, for each $3 that the museum is able to collect from other private contributors. The funds are to finance construction of the city-owned art museum. During 2017, the city collected $600,000 and received the matching money from the Foundation. In January and February 2018 it collected an additional $2,400,000 and also received the matching money.

ANSWER:

No j.e is made in 2016

Revenue under MAB and FAB FOR 2017 from Foundation :600000\*1\3 =200000

Revenue under MAB and FAB FOR 2018 from Foundation :2400000\*1\3 =800000

• The city sold a fire truck for $40,000 that it had acquired five years earlier for $250,000. At the time of sale the city had charged $225,000 in depreciation.

Revenue under MAB:40000

Revenue under FAB :-15000 loss

• The city received a grant of $2 million to partially reimburse costs of training police officers. During the year the city incurred $1,500,000 of allowable costs and received $1,200,000. It expects to incur an additional $500,000 in allowable costs in January 2018 and to be reimbursed for all allowable costs by the end of February 2018.

Revenue under MAB FOR 2017 :1500000

Revenue under FAB FOR 2017 :1500000

EX. 4-3 solved before

Property taxes are not necessarily recognized as revenue in the year collected.

The fiscal year of Duchess County ends on December 31..

1. Prepare journal entries (excluding budgetary and closing entries) to record the following property tax- related transactions in which the county engaged in 2017 and 2018.

a. On January 15, 2017, the county council levied property taxes of $170 million for the year ending December 31, 2017. Officials estimated that 1 percent would be uncollectible.

b. During 2017 it collected $120 million.

c. In January and February 2018, prior to preparing its 2017 financial statements, it collected an additional $45 million in 2017 taxes. It reclassified as delinquent the $5 million of 2017 taxes not yet collected.

d. In January 2018, the county levied property taxes of $190 million, of which officials estimated

1.1 percent would be uncollectible.

e. During the remainder of 2018 the county collected $2.5 million more in taxes relating to 2017,

$160 million relating to 2018, and $1.9 million (in advance) applicable to 2019.

f. In December 2018 it wrote off $1 million of 2017 taxes that it determined would be uncollectible.

2. Suppose the county were to prepare government-wide statements and account for property taxes on a full accrual basis of accounting rather than the modified accrual basis. How would your entries differ? Explain.

EX. 4-4

Prepare journal entries to record the events in a governmental fund.

Grants are not necessarily recognized as revenue when they are awarded.

Columbus City was awarded a state reimbursement grant of $150,000 to assist its adult literacy program. The following were significant events relating to the grant:

• The city, which is on a calendar year, was notified of the award in November 2017.

No j.e

• During 2018 it expended $30,000 on the literacy program and was reimbursed for $20,000. It expected to receive the balance in January 2019.

Expenditures 30000

Cash 30000

Cash 20000

Receivables(AR)10000

REVENUE 30000

Under both MAB and FAB

• In 2019 it expended the remaining $120,000 and was reimbursed by the state for the $10,000 owing from 2018 and the amount spent in 2019.

EX 120000

CASH 120000

Cash 130000

Receivables(AR)10000

REVENUE 30000

2. Suppose instead that the city received the entire $150,000 in cash at the time the award was announced in 2017. How much revenue should the city recognize in its governmental fund statements in each of the three years? Explain.

2017 :

CASH 150000

DEFERRED REV 150000 (MAB +FAB) ELEGIBILITY REQUIREMENTS HAVE NOT BEEN MET

لا يمكن الاعتراف بالايراد الا بعد تحقيق الشروط التاهيليه

2018:

Expenditures 30000

Cash 30000

DEFERRED REV 30000

REVENUE 30000

2019

EX 120000

CASH 120000

DEFERRED REV 120000

REVENUE 120000

3. Suppose alternatively that the state awarded the city an unrestricted grant of $150,000, which the city elected to use to support the adult literacy program. The city received the entire $150,000 in cash at the time the award was announced in 2017. How much revenue should the city recognize in its govern- mental fund statements in each of the three years? Explain.

2017:

CASH 150000

REV 150000 (MAB +FAB) NO ELEGIBILITY REQUIREMENTS .

PURPOSE restrictions are not required to recognize revenues

2018:

Expenditures 30000

Cash 30000

2019:

EX 120000

CASH 120000

EX. 4-5 \ as we explained in ch 2

YOU CAN PREPARE FINANCIA STATEMENTS(STATEMENT OF REVENUES AND EXPENDITURES FOR GOVERNMENTAL FUNDS AND ST OF ACTIVITIES (GWS)

Transactions affect fund statements differently than they do government-wide statements.

Preston Village engaged in the following transactions:

1. It issued $20 million in bonds to purchase a new municipal office building. The proceeds were recorded in a capital projects fund.

2. It acquired the building for $20 million.

3. It recognized, as appropriate, $300,000 of depreciation on municipal vehicles .

4. It transferred $2,060,000 from the general fund to a debt service fund.

5. It paid $60,000 in interest on long-term debt and repaid $2 million of principal on the same long-term debt.

6. It sold for $5 million village land that had been acquired for $4 million. The proceeds were recorded in the general fund.

a. For each of the transactions, prepare journal entries to record them in appropriate governmental funds (which are accounted for on a modified accrual basis).

b. Prepare journal entries to reflect how the transactions would be reflected in government-wide state- ments (which are prepared on a full accrual basis).

c. How can governments justify preparing two sets of financial statements, each on a different basis?

SOLUTION

a. Modified accrual basis

(1)

Cash $20,000,000

Proceeds from borrowing $20,000,000

To record the issuance of bonds (capital projects fund)

(2)

Expenditure (Building) $20,000,000

Cash $20,000,000

To record the acquisition of a building (capital projects fund)

(3)

No entry required. Depreciation is not recognized in fund statements that are on a modified accrual basis.

(4)

Operating transfer-out to debt service fund $2,060,000

Cash $2,060,000

To record the transfer from the general fund to the debt service fund (journal entry made in the general fund)

Cash $2,060,000

Operating transfer-in from the general fund $2,060,000

To record the transfer from the general fund to the debt service fund (journal entry made in the debt service fund)

(5)

Expenditure — principal $2,000,000

Expenditure — interest 60,000

Cash $2,060,000

To record the payment of principal and interest (journal entry made in the debt service fund)

(6)

Cash $5,000,000

Proceeds from sale of land $5,000,000

To record the sale of land (journal entry made in the general fund)

b. Full accrual basis

(1)

Cash $20,000,000

Bonds payable $20,000,000

To record the issuance of bonds

(2)

Building $20,000,000

Cash $20,000,000

To record the acquisition of a building

(3)

Depreciation expense $300,000

Accumulated depreciation — vehicles $300,000

To record depreciation on vehicles

(4)

No entry is required to record a transfer from one fund to another in as much as government-wide statements are consolidated statements and hence the effect of interfund transactions is eliminated.

(5)

Bond Interest expense $ 60,000

Bond payable 2,000,000

Cash $2,060,000

To record the payment of bond interest and principal

(6)

Cash $5,000,000

Land $4,000,000

Gain on sale of land 1,000,000

To record the sale of land

c. The two types of statements have different objectives. The government-wide statements present a picture of the government as a whole; the fund statements show the government as a collection of separate funds. The government-wide statements, which are on a full accrual basis, better measure the extent to which the government achieved interperiod equity. The fund statements, by contrast (which may be on either a modified or full accrual basis, depending on whether they are of a governmental, proprietary or fiduciary type) are more closely tied to the objective of reporting on budgetary compliance.

EX. 4-7

Sales taxes should be recognized when the underlying event takes place.

A state requires “large” merchants (i.e., those with sales over a specified dollar amount) to report and remit their sales taxes within 15 days of the end of each month. It requires “small” merchants to report and remit their taxes within 15 days of the end of each quarter.

In January 2018, large merchants remitted sales taxes of $400 million owing to sales of December 2017. In February 2018, they remitted $280 million of sales taxes owing to sales of January 2018. In January small merchants remitted sales taxes of $150 million owing to sales of the fourth quarter of 2017.

1. Prepare an appropriate journal entry to indicate the impact of the transactions on the state’s fund financial statements for the year ending December 31, 2017.

|  |  |  |
| --- | --- | --- |
| Sale period | Sales tax | Remitting to state from sellers |
| Dec ,2017 | 400 | Jan ,2018 |
| Last quarter,2017 | 150 | Jan ,2018 |
| Jan ,2018 | 280 | Feb ,2018 |

Summarized journal entry in 2017: MAB +FAB

Receivables (sellers) 550

Revenues from S.T 550

2018 :

CASH 550

RECEIVABLES 550

Collection of sales taxes on sales of 2017

Jan ,2018 Receivables (sellers) 280

Revenues from S.T 280

Feb ,2018

CASH 280

RECEIVABLES 280

1. Suppose, instead, that 10 percent of the taxes received by the state were collected on behalf of a city within the state. It is the policy of the state to remit the taxes to the city 30 days after it receives them. Prepare an appropriate journal entry to indicate the impact of the transactions on the city’s fund financial statements for the year ending December 31, 2017.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sale period | Total S.T | S.T\to state90% | S.T to city10% | Remitting to state from sellers | Remitting to city from state |
| Dec ,2017 | 400 | 360 | 40 | Jan ,2018 | Feb ,2018 |
| Last quarter,2017 | 150 | 135 | 15 | Jan ,2018 | Feb 2018 |

Forget about sales taxes on sales of 2018

|  |  |  |
| --- | --- | --- |
| State \general fund | State \agency fund | City \general fund |
| 2017:  AR(sellers) 495  Revenue 495 | 2017:  AR(sellers) 55  AP(CITY) 55 | 2017:  AR(STATE) 55  Revenue 55 |
| 2018,Jan,  Cash 495  AR(sellers) 495 | 2018,Jan,  Cash 55  AR(sellers) 55 | No j.e |
|  | 2018 , Feb  AP(CITY) 55  Cash 55 | 2018 , Feb  Cash 55  AR(STATE) 55 |

3. Suppose instead that it was the policy of the state to remit the taxes to the city 90 days after it receives them. How would your response to Part (2) differ? Explain. Would your response be the same with respect to the city’s government-wide statements?

|  |  |  |
| --- | --- | --- |
| State \general fund | State \agency fund | City \general fund |
| 2017:  AR(sellers) 495  Revenue 495 | 2017:  AR(sellers) 55  AP(CITY) 55 | 2017:  AR(STATE) 55  Deferred Revenue 55 |
| 2018,Jan,  Cash 495  AR(sellers) 495 | 2018,Jan,  Cash 55  AR(sellers) 55 | No j.e |
|  | 2018 ,April  AP(CITY) 55  Cash 55 | 2018 , April  Cash 55  AR(STATE) 55  Deferred Revenue 15  revenue 15 |

حسب المطلوب الثالث مقارنه بالنسبه للبلديه في ظل كل من اساس الاستحقاق المعدل والشامل

|  |  |
| --- | --- |
| City \general fund | City \government wide statements |
| 2017:  AR(STATE) 55  Deferred Revenue 55 | 2017:  AR(STATE) 55  Revenue 55  REV IS NOT SUBJECTED TO AVAILABLE CRITERIA |
| 2018 , April  Cash 55  AR(STATE) 55  Deferred Revenue 15  revenue 15 | 2018 , April  Cash 55  AR(STATE) 55 |

EX. 4-9

The amount of revenue to be recognized from grants depends on the type of grant.

The following relate to three grants that the town of College Hills received from the state during its fiscal year ending December 31, 2018.

Prepare journal entries to record the three grants.

1. A cash grant of $200,000 that must be used to repair roads

2. $150,000 in cash of a total grant of $200,000 to reimburse the town for actual expenditures incurred in repairing roads; during the year the town incurred $150,000 in allowable repair costs

3. A cash entitlement grant of $200,000 that is intended to supplement the town’s 2019 budget and must be expended in that year

Road repair grant

Cash $200,000

Grant revenue $200,000

To record grant revenue. Even though the grant must be used for a special purpose (and hence should be recorded in a special revenue fund), the town can recognize revenue at the time the grant is awarded.

Reimbursement grant

Road repair expenditures $150,000

Cash $150,000

To record road repair expenditures

Cash $150,000

Grant revenue $150,000

To record grant revenue. The town can recognize revenue only for the amount it is eligible to receive — the amount of allowable expenditures.

Entitlement grant

Cash $200,000

Deferred revenue $200,000

To record grant revenue. The grant is subject to a time requirement and hence the town cannot recognize revenue until that requirement is satisfied — i.e., in 2019UNDER BOTH FAB and MAB.

P. 4-1

The general principles of revenue recognition are the same for both governmental and government-wide statements.

For each of the following situations, indicate the amount of revenue that the government should recognize in an appropriate governmental fund as well as in its government-wide statement of activities in its fiscal year ending December 31, 2018. Briefly justify your response, making certain that, as appropriate, you identify the key issue of concern.

1. In October 2017 a state received a federal grant of $300 million (in cash) to assist local law enforcement efforts. The federal government has established specific criteria governing how the funds should be distributed, and will monitor the funds to ensure that they are used in accordance with grant pro- visions. The grant is intended to cover any allowable expenditure incurred in the calendar years 2018 through 2019. In 2018 the state incurred $160 million of allowable expenditures.

2. In December 2017 a city levied property taxes of $500 million for the calendar year 2018. The city collects the taxes as follows:

December 2017 $ 30 million

January 1, 2018 to December 31, 2018 $440 million

January 1, 2019 through March 31, 2019 ($8 million per month) $ 24 million

Total $494 million

It estimates the balance will be uncollectible.

3. In January 2018 a city received a cash gift of $1 million to support its museum of city history. Per the wishes of the donor the funds are to be invested and only the income may be expended. In 2018, the endowment generated $50,000 in income, none of which was spent during the year.

**Solution P 4-1**

**REVENUES FOR 2018:**

1. Governmental fund: $300 million

Government-wide: $300 million

The grant is subject to a time restriction; the funds must be used in years 2018 through 2019. It is apparently not a reimbursement grant since the cash was received before any expenditures were incurred. Inasmuch as all eligibility requirements were apparently met by the time the grant was received and can be spent any time starting in 2018, the entire amount of revenue can be recognized in 2018.

1. Governmental fund: $486 million

Government-wide: $494 million

The general rule is that revenue should be recognized in the period to which it is applicable. However, in the funds statements, it must also be available, which for property taxes means collected within 60 days after year-end.

1. Governmental fund: $1,050,000

Government-wide: $1,050,000

The government could recognize as revenue the full amount of the gift, plus interest, even though the principal can never be spent. The gift would be reported in a permanent fund, which is a governmental fund.

P. 4-2

For each of the following indicate the amount of revenue that Beanville should recognize in its 2017 (1) government-wide statements and (2) governmental fund statements. Provide a brief justification or explanation for your responses.

2. In December 2016, the federal government awarded Beanville a reimbursement grant of $500,000 to train law-enforcement agents. The city had applied for the grant in January of that year. The city may incur allowable costs any time after receiving notification of the award. In 2017, the city incurred $400,000 in allowable costs and was reimbursed for $350,000. It was reimbursed for the $50,000 balance in February 2018. In January and February 2018, it incurred the remaining $100,000 in allow- able costs and was reimbursed for them in April 2018.

Answer : revenue for 2017 :400 under MAB and FAB

3. In December 2016 the city levied property taxes of $1 billion for the calendar year 2017. The taxes are due June 30, 2017. The city collected these taxes as follows:

December 2016 $ 56 million

January 1, 2016, to December 31, 2016 $ 858 million

January 1, 2017, through March 31, 2017 ($18 million per month) $ 54 million Total $ 968 million It estimates the balance of $32 million would be uncollectible. In addition, in the period from January 1 through February 28, 2017, the city collected $16 million in taxes that were delinquent as of December 31, 2016. In the period March 1 through June 30 2017, the city collected $8 million of taxes that were also delinquent as of December 31, 2016.

REVENUE FOR 2017 :

MAB 950

FAB 968

4. In December 2017 Beanville sold a city-owned warehouse to a private developer. Sales price was $4.2 million. The warehouse had cost $4 million when it was acquired 10 years earlier. It had an estimated useful life of 40 years (with no salvage value).

P. 4-5 ( FISCAL YEAR 1\7\2018 -30\6\2019

A change to the full accrual basis may have little impact upon reported revenues.

A city levies property taxes of $4 billion in June 2018 for its fiscal year beginning July 1, 2018. The taxes are due by January 31, 2019. The following (in millions) indicates actual and anticipated cash collections relating to the levy:

June 2018 $ 100

July 2018 through June 2019 $ 3,600

July 2019 through August 2019 $ 80

September 2019 through June 2020 $ 150

The city estimates that $30 million will eventually have to be refunded, owing to taxpayer appeals of the assessed valuation of their property, and that $70 million will be uncollectible.

1. Prepare a journal entry that summarizes the city’s property tax activity for the fiscal year ending June 30, 2019, based on:

a. The modified accrual basis (i.e., for fund statements)

b. The full accrual basis (i.e., for government-wide statements)

2. Indicate the differences in amounts that would be reported on both the statement of net position and the statement of activities on a full accrual basis.

3. Suppose that in the following year the tax levy and pattern of collections were identical to those of the previous year. What would now be the difference in amounts reported on the statement of net position and the statement of activities on a full accrual basis?

EXERCISE FOR REVIEW AND SELF-STUDY FISCAL YEAR 1\10\2017- 30\9\2018

The town of Malvern engages in the following transactions during its fiscal year ending September 30, 2018. All dollar amounts are in thousands. Prepare summary journal entries to reflect their impact on year-end fund financial statements prepared on a modified accrual basis. Base your entries on generally accepted

accounting principles now in effect. In addition, indicate how your entries would differ if the statements were government-wide and prepared on a full accrual basis.

1. During fiscal 2018 the town levied property taxes of $154,000, of which it collected $120,000 prior to September 30, 2018, and $5,000 over each of the next six months. It estimated that $4,000 will be uncollectible.

2. On November 20, 2018, it received $12,000 from the state for sales taxes collected on its behalf. The payment was for sales made in September that merchants were required to remit to the state by October 15.

3. In April the town was awarded a state training grant of $400 for the period June 1, 2018, through May 31, 2019. In fiscal 2018 the town received the entire $400 but spent only $320. Although the funds were received in advance, the city would have to return to the state any amounts that were not used to cover allowable training costs.

1. Modified accrual basis:

SUMMARIZED ENTRY FOR 2018

Cash 120000

taxes receivable 34,000

REVENUE 130000

DEFERRED RENENUE 20000

Allowance for uncollectibles 4,000

To record property tax revenue

Revenue would be recognized on actual collections plus those of the 60 days following the end of the period—hence, $120,000 plus $10,000. The $20,000 of taxes expected to be collected in the following four months would be reported as a deferred inflow.

Full accrual basis:

Cash 120000

taxes receivable 34,000

REVENUE 150000

Allowance for uncollectibles 4,000

To record property tax revenue

Revenue would be recognized on all actual and anticipated collections.

2. Modified accrual basis:

Sales taxes receivable $ 12,000

Sales tax revenue $ 12,000

To record sales taxes

Sales taxes are derived from sales transactions. The sales transactions took place in September. Therefore, as long as the city received the taxes in time for them to satisfy the “available” criterion it should recog-nize them as September revenues. It is assumed that when it received the cash in November (and thus first became aware of the amount of the revenue), it had not yet closed its books for the year ending September 30, 2018.

Full accrual basis

The taxes should be recognized in the period of sale irrespective of when they will be received by the city. In this case the entry would be the same.

3. Modified accrual basis and FAB

WHEN cash received in 2018 befor e eligibility requirements are met:

Cash 400

Deferred revenue 400

When allowable costs incurred :

Expenditures 320 under FAB be replaced with expense

Cash 320

It becomes eligible for 320:

Deferred rev 320

Revenue 320

The revenue from this reimbursement grant would be recognized as the related costs are incurred. Hence, only the funds that were expended can be recognized as revenue; the difference between the cash receipts ($400) and the expenditures ($320) must be reported as a deferred inflow of resources.

Full accrual basis

The government is eligible for the grant only as it makes the required expenditures. Therefore, under the modified accrual basis, it would only recognize revenue to the extent of the $320 actually expended.