**Continuous Problem – City of Monroe**

**to Accompany**

***Essentials of Accounting for Governmental***

***and Not-for-Profit Organizations:***

***Fourteenth Edition***

Chapters 2 through 8 describe accounting and financial reporting by state and local governments. A continuous problem is presented to provide an overview of the reporting process, including preparation of fund basis and government-wide statements. The problem assumes the government is using fund accounting for its internal record-keeping and then at year-end makes necessary adjustments to prepare the government-wide statements. The problem that follows is presented in the same order as the textbook (beginning with Chapters 3, and 4).

Each chapter requires the preparation of journal entries to record the events and transactions of governmental, proprietary, or fiduciary funds. For the General Fund, use control accounts for the budgetary accounts, revenues, expenditures and encumbrances. For all other funds, use separate accounts for each type of revenue and expenditure/expense. At appropriate stages, preparation of the fund and government-wide statements are required. The following funds are included in this series of problems:

Governmental Funds

* General
* Special revenue—Street and Highway Fund
* Capital projects—City Hall Annex Construction Fund
* Debt service—City Jail Annex Debt Service Fund
* Debt service—City Hall Debt Service Fund

Proprietary Funds

* Internal service—Stores and Services Fund
* Enterprise—Water and Sewer Fund

Fiduciary Funds

* Private-purpose—Student Scholarship Fund
* Pension trust—Fire and Police Retirement Fund

***Chapters 3 & 4***

The Balance Sheets of the General Fund and the Street and Highway Fund of the City of Monroe as of December 31, 2019, follow. These (beginning) balances have been entered in the proper general ledger accounts, as of 1/1/2020.

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| --- | --- | --- |
| **CITY OF MONROE** | | |
| **General Fund Balance Sheet** | | |
| **As of December 31, 2019** | | |
| *Assets* | | |
| Cash |  | $503,000 |
| Taxes receivable | $210,000 |  |
| Less: Estimated uncollectible taxes | (37,000) |  |
| net |  | 173,000 |
| Interest and penalties receivable on taxes | 5,200 |  |
| Less: Estimated uncollectible interest and penalties | (950) |  |
| net |  | 4,250 |
| Due from state government |  | 204,000 |
| Total assets |  | $884,250 |
| *Liabilities, Deferred Inflows, and Fund Equity* | | |
| Liabilities: |  |  |
| Accounts payable |  | $ 99,000 |
| Due to other funds |  | 27,000 |
| Total liabilities |  | 126,000 |
| Deferred inflows – Property taxes |  | 21,000 |
| Fund equity: |  |  |
| Fund balance—assigned  (for outstanding encumbrances) | $19,000 |  |
| Fund balance—unassigned | 718,250 |  |
| Total fund balance |  | 737,250 |
| Total liabilities, deferred inflows and fund equity |  | $884,250 |
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| **CITY OF MONROE** | | |
| **Street and Highway Fund Balance Sheet** | | |
| **As of December 31, 2019** | | |
| **Assets** | | |
| Cash |  | $19,000 |
| Investments |  | 63,000 |
| Due from state government |  | 107,000 |
| Total assets |  | $189,000 |
| **Liabilities and Fund Equity** | | |
| Liabilities: |  |  |
| Accounts payable |  | $10,000 |
| Fund equity: |  |  |
| Fund balance—assigned for streets and  highways |  | 179,000 |
| Total liabilities and fund equity |  | $189,000 |

**3–C**. This portion of the continuous problem continues the General Fund and special revenue fund examples by requiring the recording and posting of the budgetary entries. To reduce clerical effort required for the solution use control accounts for the budgetary accounts, revenues, expenditures and encumbrances. Subsidiary accounts are not required. Budget information for the City includes:

1. As of January 1, 2020, the City Council approved and the mayor signed a budget calling for $11,150,000 in property tax and other revenue, $9,380,000 in appropriations for expenditures, and $1,700,000 to be transferred to two debt service funds for the payment of principal and interest. Record the budget for the General Fund and post to the ledger.
2. Also as of January 1, 2020, the City Council approved and the mayor signed a budget for the Street and Highway Fund that provided for estimated revenues from the state government in the amount of $1,068,000 and appropriations of $1,057,000. Record the budget and post to the ledger.

***4–C. Part 1. General Fund Transactions***

*Required:*

*a.* Record journal entries for the following transactions for FY 2020. Make any computations to the nearest dollar. Journal entry explanations are not required. Use control accounts for revenues, expenditures and budgetary accounts. It is not necessary to reflect subsidiary ledger entries.

(1) Encumbrances of $ 19,000 for purchase orders outstanding at the end of 2019 were re-established.

(2) The January 1, 2020, balance in Deferred Inflows – Property Taxes relates to the amount of the 2019 levy that was expected to be collected more than 60 days after December 31. This amount should be recognized as 2020 revenues.

(3) A general tax levy in the amount of $7,000,000 was made. It is estimated that 2¼ percent (.0225) of the tax will be uncollectible.

(4) Tax anticipation notes in the amount of $500,000 were issued.

(5) Goods and supplies related to all encumbrances outstanding as of December 31, 2019 were received, along with invoices amounting to $18,700. The invoices were approved for payment. The City maintains immaterial amounts in supply inventories and it is the practice of the City to charge supplies to expenditure when received.

(6) All accounts payable and the amount due other funds were paid.

(7) The General Fund collected the following in cash:

* prior year taxes, $158,000;
* interest and penalties receivable on prior year taxes, $3,500;
* current taxes, $6,400,000;
* $224,000 previously recorded as due from the state government;
* licenses and permits, $800,000;
* sales taxes, $2,890,000; and
* miscellaneous revenues, $350,000.

(8) Purchase orders and contracts were issued in the amount of $3,465,000.

(9) Payrolls for the General Fund totaled $5,110,000. Of that amount, $464,085 were withheld for employees’ federal income taxes and $390,915 were withheld for employees’ FICA and Medicare tax liability; the balance was paid in cash. The encumbrance system is not used for payrolls.

(10) The liability for the city’s share of FICA and Medicare taxes, $390,915, was recorded as was the liability for state unemployment taxes in the amount of $28,000.

(11) Invoices for most of the supplies and services ordered in transaction 8 were received in the amount of $3,375,300 and approved for payment. The related encumbrance amounted to $3,407,000.

(12) Tax anticipation notes were paid at maturity, along with interest in the amount of $18,000.

(13) Notification was received that an unrestricted state grant in the amount of $332,000 would be received during the first month of the next year.

(14) The General Fund recorded a liability to the Water and Sewer Fund for services in the amount of $37,000 and to the Stores and Services Fund for supplies in the amount of $313,200; $310,000 of the amount due the Stores and Services Fund was paid.

(15) The General Fund recorded an amount due of $48,000 from the state government, representing sales taxes to be collected from retail sales taking place during the last week of the year.

(16) The General Fund paid accounts payable in the amount of $3,175,000 and paid the amounts due the federal and state governments. The General Fund also transferred to the debt service funds cash in the amount of $1,662,000 for the recurring payment of principal and interest.

(17) All required legal steps were accomplished to increase appropriations by the net amount of $109,000. Estimated revenues were increased by $73,000.

(18) The City Council authorized a write-off of $51,000 in delinquent property taxes and corresponding interest and penalties amounting to $1,600.

(19) Interest and penalties receivable on taxes were accrued in the amount of $17,200; $1,100 of this amount is expected to be uncollectible.

(20) It is estimated that $17,500 of the outstanding taxes receivable will be collected more than 60 days beyond the fiscal year-end.

*b.* Post the entries to the general ledger.

*c.* Prepare and post the closing entries for the General Fund. Outstanding encumbrances at year end are classified as Assigned Fund Balance and all remaining net resources are classified as Unassigned Fund Balance.

*d.* Prepare a Statement of Revenues, Expenditures, and Changes in Fund Balance for the year ended December 31, 2020. Confirm that the revenue and expenditure control accounts agree with the following detail (amounts are assumed) and use this information in the Statement:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenues** | |  | **Expenditures** | |
| Property Taxes . . . . . . . . . . . | $6,846,000 |  | General Government . . . | $1,682,915 |
| Sales Taxes . . . . . . . . . . . . . . | 2,938,000 |  | Public Safety . . . . . . . . . | 3,066,900 |
| Interest & Penalties on Taxes | 16,100 |  | Highways and Streets . . | 1,441,400 |
| Licenses and Permits . . . . . . | 800,000 |  | Sanitation . . . . . . . . . . . . | 591,400 |
| Intergovernmental Revenue. | 332,000 |  | Health . . . . . . . . . . . . . . | 724,100 |
| Miscellaneous Revenue . . . . | 350,000 |  | Welfare . . . . . . . . . . . . . | 374,300 |
| Total . . . . . . . . . . . . | $11,282,100 |  | Culture and Recreation . | 917,300 |
|  |  |  | Capital Outlay . . . . . . . . | 492,800 |
|  |  |  | Total . . . . . . . . . . . . . | $9,291,115 |

*e.* Prepare in good form a Balance Sheet for the General Fund as of the end of fiscal year, December 31, 2020.

***4–C. Part 2. Special Revenue Fund Transactions***

*Required:*

*a.* Record journal entries for the following transactions for FY 2020 and post to the general ledger. As there are relatively few revenues and expenditures, the use of control accounts is not necessary. (Make entries directly to individual revenue and expenditure accounts).

(1) The state government notified the City that $1,067,500 will be available for street and highway maintenance during 2020 (i.e. the City has met eligibility requirements). The funds are **not** considered reimbursement-type as defined by GASB standards.

(2) Cash in the total amount of $997,000 was received from the state government.

(3) Contracts, all eligible for payment from the Street and Highway Fund, were signed in the amount of $1,062,000.

(4) Contractual services (see transaction 3) were received; the related contracts amounted to $1,042,000. Invoices amounting to $1,040,500 for these items were approved for payment. The goods and services all were for street and highway maintenance.

(5) Investment revenue of $1,900 was earned and received.

(6) Accounts payable were paid in the amount of $987,000.

(7) All required legal steps were accomplished to increase appropriations in the amount of $4,500.

*b.* Prepare and post the necessary closing entries for the Street and Highway Fund.

*c.* Prepare a Statement of Revenues, Expenditures, and Changes in Fund Balances for the Street and Highway Fund for the fiscal year ended December 31, 2020.

*d.* Prepare a Balance Sheet for the Street and Highway Fund as of December 31, 2020. Assume any unexpended net resources are classified as Restricted Fund Balance.