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Question: 1057

A government's fiduciary funds include a custodial fund holding resources for another government. Which financial statements are required for fiduciary funds?

- A. Balance sheet and statement of revenues, expenditures, and changes in fund balance
- B. Statement of fiduciary net position and statement of changes in fiduciary net position
- C. Statement of net position and statement of activities
- D. Statement of cash flows and statement of changes in net position

Answer: B

Explanation: Fiduciary funds require a statement of fiduciary net position and a statement of changes in fiduciary net position. Governmental fund statements like balance sheet and statement of revenues and expenditures are not used for fiduciary funds.

Question: 1058

During a performance audit, you use a regression analysis to determine factors affecting program outcomes. Which of the following best describes the purpose of this analysis?

- A. To confirm compliance with program regulations
- B. To identify relationships between variables influencing effectiveness
- C. To verify the accuracy of financial transactions
- D. To assess the adequacy of internal controls

Answer: B

Explanation: Regression analysis is a statistical technique used to identify and quantify relationships between independent variables and outcomes, helping auditors understand factors affecting program effectiveness.

Question: 1059

A government entity issues bonds at a premium of \$100,000. The bonds have a face value of \$1,000,000, coupon rate 5%, market rate 4%, payable annually for 5 years. What is the journal entry to record the first interest payment using effective interest method?

- A. Debit Interest Expense \$40,000; Credit Cash \$50,000; Credit Premium on Bonds Payable \$10,000
- B. Debit Interest Expense \$44,000; Credit Cash \$50,000; Credit Premium on Bonds Payable \$6,000
- C. Debit Interest Expense \$40,000; Credit Cash \$50,000; Debit Premium on Bonds Payable \$10,000

D. Debit Interest Expense \$44,000; Credit Cash \$50,000; Debit Premium on Bonds Payable \$6,000

Answer: D

Explanation: Carrying amount = $\$1,000,000 + \$100,000 = \$1,100,000$

Interest expense = $\$1,100,000 \times 4\% = \$44,000$

Coupon payment = $\$1,000,000 \times 5\% = \$50,000$

Amortization of premium = Coupon payment - Interest expense = $\$50,000 - \$44,000 = \$6,000$

Journal entry: Debit Interest Expense \$44,000; Credit Cash \$50,000; Credit Premium on Bonds Payable \$6,000.

Question: 1060

A governmental fund reports the following: Revenues \$120 million, expenditures \$100 million, other financing sources \$15 million, and other financing uses \$5 million. The beginning fund balance was \$30 million. What is the ending fund balance?

- A. \$60 million
- B. \$45 million
- C. \$50 million
- D. \$40 million

Answer: A

Explanation: Ending fund balance = Beginning fund balance + Revenues - Expenditures + Other financing sources - Other financing uses

= $\$30M + \$120M - \$100M + \$15M - \$5M = \$60M$. But since the options do not include \$60M, rechecking: $\$30M + (\$120M - \$100M) + (\$15M - \$5M) = \$30M + \$20M + \$10M = \$60M$.

Question: 1061

The County of Maplewood is preparing its government-wide financial statements under GASB 34. During 2026, the county incurred \$500,000 in interest expense on general obligation bonds used to finance a new courthouse. The courthouse construction is 60% complete, and \$300,000 of the interest qualifies for capitalization. How should the interest expense be reported in the Statement of Activities?

- A. \$500,000 as a note disclosure only
- B. \$500,000 as a program expense under general government
- C. \$300,000 as a program expense and \$200,000 as a capital asset
- D. \$200,000 as a program expense and \$300,000 as a capital asset

Answer: D

Explanation: Under GASB 34, interest expense on debt used to finance capital assets under construction may be capitalized if it meets specific criteria. The \$300,000 qualifying interest is capitalized as part of the courthouse's cost in the government-wide Statement of Net Position, while the remaining \$200,000 is

reported as a program expense in the Statement of Activities under general government functions, as it is not directly tied to a specific program.

Question: 1062

A government entity performs a cost-benefit analysis for a park renovation costing \$3,000,000, with annual benefits of \$600,000 and maintenance costs of \$100,000 for 12 years. The discount rate is 6%. What is the NPV?

- A. \$1,200,345
- B. \$1,191,900
- C. \$1,600,345
- D. \$1,400,345

Answer: B

Explanation: Net annual benefit = \$600,000 - \$100,000 = \$500,000. PV of benefits = $\$500,000 \times [(1 - (1.06)^{-12}) / 0.06]$ = $\$500,000 \times 8.3838$ = \$4,191,900. NPV = \$4,191,900 - \$3,000,000 = \$1,191,900.

Question: 1063

A government's OPEB expense includes amortization of deferred inflows of \$300,000 and deferred outflows of \$150,000. What is the net effect on OPEB expense?

- A. \$450,000 increase
- B. \$150,000 decrease
- C. \$150,000 increase
- D. No effect

Answer: B

Explanation: Amortization of deferred inflows decreases expense, while amortization of deferred outflows increases expense. Net effect = \$150,000 (increase) - \$300,000 (decrease) = \$150,000 decrease.

Question: 1064

A state agency is implementing COSO's information and communication component. During an audit, it's found that financial reports are not shared with the board in a timely manner, delaying decision-making. Which COSO principle is violated, and what should be done?

- A. Conduct ongoing monitoring; perform quarterly audits
- B. Communicate relevant information; establish a reporting schedule
- C. Develop control activities; automate report generation
- D. Establish a control environment; train staff on reporting

Answer: B

Explanation: COSO's Principle 14 requires effective communication of relevant information to internal and external parties. Delayed financial reports to the board indicate a failure in timely communication, violating this principle. Establishing a formal reporting schedule ensures timely sharing of financial information. Monitoring, control activities, and the control environment are important but do not directly address the communication issue.

Question: 1065

During a performance audit of a city's waste management program, the auditor aims to evaluate the program's effectiveness in reducing landfill waste. The audit objective is to assess whether the recycling initiative has achieved a 20% reduction in landfill waste over two years. Data shows a 15% reduction, with a statistical significance of $p = 0.04$. Which methodology should the auditor adopt to strengthen the audit's findings?

- A. Conduct a survey of resident satisfaction with the recycling program.
- B. Perform a trend analysis of landfill waste volumes over five years.
- C. Verify the accuracy of waste volume data through third-party records.
- D. Use a control group comparison with a neighboring city without a recycling program.

Answer: D

Explanation: To strengthen the findings on the program's effectiveness, a control group comparison with a neighboring city without a recycling program would help isolate the impact of the recycling initiative on the 15% reduction. This methodology controls for external factors (e.g., population changes) that might affect landfill waste, providing a clearer causal link. A survey of resident satisfaction measures perception, not effectiveness, while trend analysis or data verification does not directly address causality.

Question: 1066

A county's combining statement for nonmajor governmental funds shows a fund balance of \$5 million for the debt service fund. During the year, the county issued \$10 million in bonds and paid \$2 million in principal. How should the bond issuance be reflected in the combining statement?

- A. As an increase in fund balance of \$10 million
- B. As a revenue item of \$10 million
- C. As an other financing source of \$10 million
- D. As a liability increase of \$10 million

Answer: C

Explanation: In governmental fund financial statements, bond issuances are not recorded as revenues but as other financing sources under GASB standards. The \$10 million bond issuance would be reported as

an other financing source in the combining statement for nonmajor governmental funds, increasing the fund balance indirectly through the statement of revenues, expenditures, and changes in fund balance. The principal payment of \$2 million would be recorded as an expenditure.

Question: 1067

A government entity purchases equipment for \$600,000. It trades in old equipment with a book value of \$100,000 and receives \$150,000 trade-in allowance. What is the journal entry?

- A. Debit Equipment \$600,000; Credit Equipment \$100,000; Debit Cash \$50,000
- B. Debit Equipment \$600,000; Credit Equipment \$150,000; Credit Cash \$450,000
- C. Debit Equipment \$600,000; Credit Equipment \$100,000; Credit Cash \$350,000; Credit Gain \$50,000
- D. Debit Equipment \$600,000; Credit Equipment \$100,000; Credit Cash \$450,000; Credit Gain \$50,000

Answer: D

Explanation: New equipment cost \$600,000

Old equipment removed at book value \$100,000

Trade-in allowance \$150,000, so cash paid = $\$600,000 - \$150,000 = \$450,000$

Gain on trade-in = $\$150,000 - \$100,000 = \$50,000$

Question: 1068

A county's debt service fund has a beginning fund balance of \$300,000, receives \$1,200,000 in taxes, and pays \$1,100,000 in bond principal and \$100,000 in interest. Using the modified accrual basis, what is the ending fund balance?

- A. \$200,000
- B. \$300,000
- C. \$400,000
- D. \$500,000

Answer: B

Explanation: The debt service fund uses the modified accrual basis. Ending fund balance is: Beginning fund balance (\$300,000) + Revenues (\$1,200,000) - Expenditures (\$1,100,000 principal + \$100,000 interest) = $\$300,000 + \$1,200,000 - \$1,200,000 = \$300,000$.

Question: 1069

An auditor identifies a material weakness in a county's internal controls over financial reporting, leading to a \$1 million misstatement in debt reporting. The misstatement is corrected before the audit report is issued. What type of opinion should the auditor issue?

- A. Adverse opinion

- B. Unmodified opinion
- C. Qualified opinion
- D. Disclaimer of opinion

Answer: B

Explanation: If a material misstatement is corrected before the audit report is issued, the financial statements are fairly presented, warranting an unmodified opinion under PCAOB AS 3101. The material weakness must still be reported in the audit report.

Question: 1070

In a Single Audit, which of the following reports is required to be issued by the auditor?

- A. Report on the financial statements only
- B. Report on compliance for each major program and internal control over compliance
- C. Report on internal control over financial reporting only
- D. Report on the entity's performance measures

Answer: B

Explanation: The Single Audit requires the auditor to issue reports on compliance for each major federal program and on internal control over compliance, in addition to the financial statements audit report.

Question: 1071

A government uses a cost driver of machine hours to allocate \$600,000 of overhead. Program X uses 1,200 machine hours, Program Y uses 800 machine hours. What is the overhead allocated to Program X?

- A. \$360,000
- B. \$400,000
- C. \$480,000
- D. \$300,000

Answer: A

Explanation: Total machine hours = $1,200 + 800 = 2,000$
Program X allocation = $(1,200 / 2,000) \times \$600,000 = \$360,000$

Question: 1072

During audit planning for a city's utility fund, the auditor identifies a significant risk of fraud in revenue recognition due to manual billing adjustments. Which audit procedure best addresses this risk?

- A. Perform a walkthrough of the billing adjustment process.

- B. Test a sample of adjustments for authorization and accuracy.
- C. Review the utility's revenue trend analysis.
- D. Verify the segregation of duties in billing.

Answer: B

Explanation: Testing a sample of billing adjustments for authorization and accuracy directly addresses the fraud risk by examining whether adjustments are legitimate and properly documented. A walkthrough or segregation review provides context but is less specific, and trend analysis is too broad to target fraud.

Question: 1073

A county's finance team fails to submit its ACFR to EMMA by the CDA deadline of 180 days after fiscal year-end. The county's fiscal year ends September 30, 2026. What is the consequence under SEC Rule 15c2-12?

- A. Automatic default on outstanding bonds
- B. Disclosure of noncompliance in future official statements
- C. Immediate SEC audit
- D. Suspension of bond trading on EMMA

Answer: B

Explanation: SEC Rule 15c2-12 requires issuers to disclose material noncompliance with continuing disclosure agreements in their official statements for new bond issues within the past five years. Failure to submit the ACFR by the deadline (March 29, 2026, for a September 30, 2026, fiscal year-end) constitutes noncompliance, which must be disclosed in future official statements.

Question: 1074

A government auditor is evaluating materiality for a financial statement audit of a municipality with total assets of \$500 million and total revenues of \$200 million. Which of the following quantitative benchmarks is most appropriate for determining materiality?

- A. 0.5% of total assets
- B. 1% of total revenues
- C. 5% of total assets
- D. 2% of total revenues

Answer: A

Explanation: Materiality in government audits is often set at a conservative level, commonly between 0.5% and 1% of a relevant base such as total assets or revenues. For a municipality, 0.5% of total assets (\$2.5 million) is a typical benchmark to ensure material misstatements are identified. Higher percentages like 5% are too high and would risk overlooking material errors.

Question: 1075

A government entity has a prepaid insurance balance of \$15,000 at the beginning of the year. During the year, \$18,000 insurance is purchased. Insurance expense for the year is \$20,000. What is the prepaid insurance balance at year-end?

- A. \$13,000
- B. \$15,000
- C. \$18,000
- D. \$23,000

Answer: A

Explanation: Ending prepaid insurance = Beginning prepaid + Purchases - Expense = $\$15,000 + \$18,000 - \$20,000 = \$13,000$

Question: 1076

A municipal government issues two special revenue funds: Fund A and Fund B. The government wants to present combining statements for these funds in the RSI section. Which of the following best describes the purpose of combining fund statements?

- A. To consolidate all funds into a single statement
- B. To report only the total fund balances without detail
- C. To present individual fund financial statements separately and then combined
- D. To eliminate interfund transactions

Answer: C

Explanation: Combining fund statements present the financial information of individual funds separately and then combined to provide detailed transparency and allow users to see each fund's financial position and results of operations, which is required supplementary information for funds with similar purposes.

Question: 1077

A city's Single Audit reveals that internal controls over a major federal program are ineffective, resulting in material noncompliance. The auditor calculates the questioned costs as 10% of the \$5 million program budget. What is the amount of questioned costs, and how should it be reported?

- A. \$500,000, reported in the Schedule of Findings and Questioned Costs
- B. \$50,000, reported in the management letter
- C. \$500,000, reported only if it leads to an adverse opinion
- D. \$5,000, reported in the opinion paragraph

Answer: A

Explanation: Questioned costs are calculated as 10% of \$5,000,000 = \$500,000. Under Uniform Guidance, material noncompliance and associated questioned costs must be reported in the Schedule of Findings and Questioned Costs, regardless of the opinion type, to inform federal agencies.



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