A. Contrast Revenue Recognition under the Accrual and Modified Accrual Bases of Accounting Accrual Basis of Accounting: Under the accrual basis, revenue is recognized when it is earned, regardless of when the cash is received. This means that if a service is provided or a product is delivered, the revenue is recorded in the financial statements at that time, even if payment is expected at a later date. This approach aligns with the matching principle, which aims to match revenues with the expenses incurred to generate them, providing a more accurate picture of financial performance over a period. Modified Accrual Basis of Accounting: The modified accrual basis, often used by governmental entities, is a hybrid between the accrual and cash bases. Revenue is recognized when it becomes both measurable and available. "Measurable" means the amount can be reasonably estimated, and "available" means the revenue is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. This means that while some revenues (like property taxes) may be recognized when earned, others (like grants) may only be recognized when the cash is received or is expected to be received soon. Key Difference: The primary difference lies in the timing of revenue recognition. The accrual basis recognizes revenue when earned, while the modified accrual basis recognizes revenue when it is both measurable and available. This makes the modified accrual basis more conservative and focused on short-term liquidity. B. Contrast the Economic Resources Measurement Focus and the Current Financial Resources Measurement Focus with Regard to the Accounting Treatment of Capital Assets Economic Resources Measurement Focus: Under the economic resources measurement focus, the financial statements report on all economic resources, including capital assets (e.g., buildings, equipment, infrastructure). Capital assets are recorded on the balance sheet and depreciated over their useful lives. This approach provides a comprehensive view of an entity's financial position, including long-term assets and obligations. Current Financial Resources Measurement Focus: The current financial resources measurement focus, on the other hand, is concerned only with current assets and liabilities—those that are expected to be converted into cash or settled within a short period (typically one year). Capital assets are not recorded on the balance sheet under this focus. Instead, expenditures for capital assets are treated as expenses in the period they are incurred. This approach is more focused on short-term liquidity and the availability of resources to meet current obligations. Key Difference: The economic resources measurement focus includes capital assets and long-term obligations, providing a full picture of an entity's financial health. In contrast, the current financial resources measurement focus excludes capital assets and focuses only on short-term financial resources, emphasizing liquidity over long-term financial position. C. Identify the Three Basic Fund Categories, the Funds That Make Up Each of Them, and the Category's Basis of Accounting Governmental Funds: Funds Included: General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds. Basis of Accounting: Modified Accrual Basis. Purpose: These funds are used to account for most of the day-to-day operations of government entities, focusing on current financial resources and short-term obligations. Proprietary Funds: Funds Included: Enterprise Funds and Internal Service Funds. Basis of Accounting: Accrual Basis. Purpose: These funds are used for business-like activities where the government charges fees for services (e.g., utilities, public transportation). The accrual basis is used to match revenues with expenses, similar to private sector accounting. Fiduciary Funds: Funds Included: Pension Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds, and Agency Funds. Basis of Accounting: Accrual Basis. Purpose: These funds account for resources held by the government in a trustee or agency capacity for others (e.g., employee pension plans, private grants). The accrual basis ensures that all resources and obligations are accurately reported. D. Contrast the Economic Resources Measurement Focus and the Current Financial Resources Measurement Focus with Regard to the Accounting Treatment of Long-Term Debt Economic Resources Measurement Focus: Under this focus, long-term debt is recorded as a liability on the balance sheet. The entity recognizes the full amount of the debt when it is incurred, and the debt is reported along with other long-term obligations. This provides a complete picture of the entity's financial position, including its long-term commitments. Current Financial Resources Measurement Focus: Under this focus, only the portion of long-term debt that is due within the current period (or soon enough to require the use of current financial resources) is recorded as a liability. The remainder of the long-term debt is not reported on the balance sheet. This approach focuses on the entity's ability to meet its short-term obligations rather than its overall financial position. Key Difference: The economic resources measurement focus includes all long-term debt, providing a comprehensive view of the entity's financial obligations. The current financial resources measurement focus, however, only includes the portion of long-term debt that is due in the near term, emphasizing short-term liquidity. E. Under the Accrual Basis of Accounting, Expenses Are Recorded When They Are Incurred, While Under the Modified Accrual Basis, Expenditures Are Recognized Generally When Incurred. Explain Why the Author Used the Word "Generally." The word "generally" is used because the modified accrual basis of accounting has some exceptions to the rule that expenditures are recognized when incurred. Specifically, under the modified accrual basis, expenditures are recognized when they are both measurable and available. However, there are certain cases where expenditures may not be recognized immediately, even if they have been incurred. For example: Encumbrances: In governmental accounting, encumbrances (commitments related to purchase orders or contracts) are recorded to reserve funds for future expenditures, but they are not recognized as expenditures until the goods or services are actually received. Timing of Availability: Some expenditures may be incurred but not recognized until the related liability is due and payable, especially if the payment is not expected to be made within the current fiscal period. Thus, the use of "generally" acknowledges that while most expenditures are recognized when incurred, there are specific circumstances under the modified accrual basis where recognition may be delayed. This reflects the focus on short-term financial resources and liquidity in governmental accounting. This explanation covers the key points in detail, providing a clear understanding of the differences between the accrual and modified accrual bases, the measurement focuses, fund categories, and the nuances in recognizing expenditures.