Chapter 01

Introduction to Accounting and Financial Reporting for Governmental and Not-for-Profit Entities

**True / False Questions**

|  |  |
| --- | --- |
| 1. | General purpose governments generally provide a wider range of services to their residents than do special purpose governments.   True    False |

|  |  |
| --- | --- |
| 2. | Examples of special purpose governments include cities, towns, and public schools that receive tax revenue to finance the services they provide.   True    False |

|  |  |
| --- | --- |
| 3. | The Governmental Accounting Standards Board (GASB) is the body authorized to establish accounting principles for all state and local governments, both general purpose and special purpose.   True    False |

|  |  |
| --- | --- |
| 4. | A characteristic common to governmental and not-for-profit organizations is operating purposes that are other than to provide goods or services at a profit or profit equivalent.   True    False |

|  |  |
| --- | --- |
| 5. | The needs of users of governmental financial reports are the same as those of users of business financial reports.   True    False |

|  |  |
| --- | --- |
| 6. | The Federal Accounting Standards Advisory Board (FASAB) recommends accounting principles and standards for the federal government and its agencies and departments.   True    False |

|  |  |
| --- | --- |
| 7. | The FASB, GASB, and FASAB all focus their standards on both internal and external financial reporting.   True    False |

|  |  |
| --- | --- |
| 8. | Interperiod equity refers to the concept that current-year revenues are sufficient to pay for services provided that year, so that future taxpayers will *not* be required to assume the burden for services previously provided.   True    False |

|  |  |
| --- | --- |
| 9. | The minimum requirements for general purpose external financial reporting are (1) management's discussion and analysis (MD&A), (2) the basic financial statements, including the notes to the financial statements, and (3) combining and individual fund financial statements.   True    False |

|  |  |
| --- | --- |
| 10. | The Financial Accounting Foundation has oversight over both FASB and GASB.   True    False |

|  |  |
| --- | --- |
| 11. | The basis of accounting under which revenues are recognized when measurable and available for spending and expenses when resources are consumed is the *modified accrual* basis of accounting.   True    False |

|  |  |
| --- | --- |
| 12. | In addition to financial statements and notes, GASB requires governments to provide information on service efforts and accomplishments (SEA) in their reports to the public.   True    False |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. | The Governmental Accounting Standards Board is assigned responsibility for setting accounting and financial reporting standards for

|  |  |
| --- | --- |
| A.  | Governments; such as federal agencies, states, cities, counties, villages, and townships.  |

|  |  |
| --- | --- |
| B.  | State and local government entities and governmentally-related units and agencies, such as utilities, authorities, hospitals, and colleges and universities.  |

|  |  |
| --- | --- |
| C.  | Not-for-profit organizations.  |

|  |  |
| --- | --- |
| D.  | State and local government and all not-for-profit organizations.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. | The body that has been established to recommend accounting and financial reporting standards for the federal government is the

|  |  |
| --- | --- |
| A.  | Financial Accounting Standards Board (FASB).  |

|  |  |
| --- | --- |
| B.  | Governmental Accounting Standards Board (GASB).  |

|  |  |
| --- | --- |
| C.  | Government Accountability Office (GAO).  |

|  |  |
| --- | --- |
| D.  | Federal Accounting Standards Advisory Board (FASAB).  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. | The Financial Accounting Standards Board has the responsibility for setting accounting and financial reporting standards for

|  |  |
| --- | --- |
| A.  | All not-for-profit organizations that are nongovernmental and business entities.  |

|  |  |
| --- | --- |
| B.  | All special purpose governments.  |

|  |  |
| --- | --- |
| C.  | All not-for-profit organizations.  |

|  |  |
| --- | --- |
| D.  | All federal government agencies.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. | Which of the following distinguishes governments from nongovernmental not-for-profit organizations?

|  |  |
| --- | --- |
| A.  | Absence of profit motive.  |

|  |  |
| --- | --- |
| B.  | The power to enact and enforce a tax levy.  |

|  |  |
| --- | --- |
| C.  | Resource providers do not expect benefits proportional to the resources provided.  |

|  |  |
| --- | --- |
| D.  | Absence of a defined ownership interest that can be sold, transferred, or redeemed.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 17. | Which of the following is identified by the GASB as the "cornerstone" of all financial reporting in government?

|  |  |
| --- | --- |
| A.  | Understandability.  |

|  |  |
| --- | --- |
| B.  | Representational faithfulness.  |

|  |  |
| --- | --- |
| C.  | Accountability.  |

|  |  |
| --- | --- |
| D.  | Interperiod equity.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. | Which of the following organizations issue standards that are intended for both internal and external users of financial information?

|  |  |
| --- | --- |
| A.  | Federal Accounting Standards Advisory Board.  |

|  |  |
| --- | --- |
| B.  | Governmental Accounting Standards Board.  |

|  |  |
| --- | --- |
| C.  | Financial Accounting Standards Board.  |

|  |  |
| --- | --- |
| D.  | American Institute of CPAs.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. | Which of the following is identified by the FASAB as the foundation for federal financial reporting?

|  |  |
| --- | --- |
| A.  | Decision usefulness.  |

|  |  |
| --- | --- |
| B.  | Accountability.  |

|  |  |
| --- | --- |
| C.  | Understandability.  |

|  |  |
| --- | --- |
| D.  | Budget integrity.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20. | Which of the following is *not* an objective of financial reporting by state and local governments?

|  |  |
| --- | --- |
| A.  | To assist users in assessing the adequacy of systems and controls.  |

|  |  |
| --- | --- |
| B.  | To assist users in assessing financial condition and results of operations.  |

|  |  |
| --- | --- |
| C.  | To assist financial report users in comparing actual financial results with the legally adopted budget.  |

|  |  |
| --- | --- |
| D.  | To assist in determining compliance with finance-related laws, rules, and regulations.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. | Which of the following groups is considered a primary user of a state or local government's general-purpose external financial statements?

|  |  |
| --- | --- |
| A.  | Citizens.  |

|  |  |
| --- | --- |
| B.  | Managers and administrators.  |

|  |  |
| --- | --- |
| C.  | Employees.  |

|  |  |
| --- | --- |
| D.  | Special interest groups.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. | One of the minimum requirements for general purpose external financial reporting is:

|  |  |
| --- | --- |
| A.  | Management's discussion and analysis (MD&A).  |

|  |  |
| --- | --- |
| B.  | Consolidated financial statements.  |

|  |  |
| --- | --- |
| C.  | Other supplementary information, such as combining and individual fund statements.  |

|  |  |
| --- | --- |
| D.  | Statistical information.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. | A comprehensive annual financial report (CAFR) prepared in conformity with GASB recommendations should include which of the following sections?

|  |  |
| --- | --- |
| A.  | Letter of transmittal, management's discussion and analysis (MD&A), and financial.  |

|  |  |
| --- | --- |
| B.  | Introductory, financial, and statistical.  |

|  |  |
| --- | --- |
| C.  | Introductory, MD&A, and financial.  |

|  |  |
| --- | --- |
| D.  | Letter of transmittal, financial, and supplementary.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. | Which of the following would be included in a properly prepared comprehensive annual financial report (CAFR), but *not* in the minimum requirements for general purpose financial reporting specified by GASB standards?

|  |  |
| --- | --- |
| A.  | Management's discussion and analysis (MD&A).  |

|  |  |
| --- | --- |
| B.  | Government-wide financial statements.  |

|  |  |
| --- | --- |
| C.  | Notes to the financial statements.  |

|  |  |
| --- | --- |
| D.  | Combining and individual fund financial statements.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. | A statistical section should be included in

|  |  |
| --- | --- |
| A.  | A comprehensive annual financial report (CAFR).  |

|  |  |
| --- | --- |
| B.  | The basic financial statements.  |

|  |  |
| --- | --- |
| C.  | The notes to the financial statements.  |

|  |  |
| --- | --- |
| D.  | Required supplementary information, other than MD&A.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. | Which of the following would typically *not* be included in the introductory section of a comprehensive annual financial report?

|  |  |
| --- | --- |
| A.  | Title and contents page.  |

|  |  |
| --- | --- |
| B.  | Letter of transmittal.  |

|  |  |
| --- | --- |
| C.  | A description of the government.  |

|  |  |
| --- | --- |
| D.  | Summary of the government's current financial position and results of financial activities.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | The section of the comprehensive annual financial report that presents tables and charts showing social and economic data in addition to financial trends, fiscal capacity, and operating information of the government is the:

|  |  |
| --- | --- |
| A.  | Introductory section.  |

|  |  |
| --- | --- |
| B.  | Management's discussion and analysis section.  |

|  |  |
| --- | --- |
| C.  | Statistical section.  |

|  |  |
| --- | --- |
| D.  | Financial section.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. | Which of the following should be included in the financial section of a comprehensive annual financial report?

|  |  |
| --- | --- |
| A.  | Transmittal letter.  |

|  |  |
| --- | --- |
| B.  | The basic financial statements, including notes thereto.  |

|  |  |
| --- | --- |
| C.  | Tables and charts showing demographic and economic data.  |

|  |  |
| --- | --- |
| D.  | A description of the government.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. | On what should the government-wide financial statements report?

|  |  |
| --- | --- |
| A.  | Net position and results of financial operations of the government as a whole.  |

|  |  |
| --- | --- |
| B.  | Fiscal accountability.  |

|  |  |
| --- | --- |
| C.  | The cost of government services.  |

|  |  |
| --- | --- |
| D.  | Budgetary compliance.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. | Which of the following standard-setting bodies requires a management’s discussion and analysis as a part of the financial report?

|  |  |
| --- | --- |
| A.  | GASB.  |

|  |  |
| --- | --- |
| B.  | FASB.  |

|  |  |
| --- | --- |
| C.  | FASAB.  |

|  |  |
| --- | --- |
| D.  | Both A and C.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. | On what should the governmental fund financial statements report?

|  |  |
| --- | --- |
| A.  | Net position and results of financial operations of the government as a whole.  |

|  |  |
| --- | --- |
| B.  | Fiscal accountability.  |

|  |  |
| --- | --- |
| C.  | Operational accountability.  |

|  |  |
| --- | --- |
| D.  | Cost of government services.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 32. | Which of the following sections is *not* considered a part of a federal agency’s performance and accountability report?

|  |  |
| --- | --- |
| A.  | Basic financial statements.  |

|  |  |
| --- | --- |
| B.  | Annual performance report.  |

|  |  |
| --- | --- |
| C.  | Statistical section.  |

|  |  |
| --- | --- |
| D.  | Management's discussion and analysis.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. | Which of the following types of organizations *may* be subject to FASB jurisdiction?

|  |  |
| --- | --- |
| A.  | A state hospital.  |

|  |  |
| --- | --- |
| B.  | A college or university.  |

|  |  |
| --- | --- |
| C.  | A public school district.  |

|  |  |
| --- | --- |
| D.  | A public sanitation district.  |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. | Which of the following statements is prepared by all not-for-profit organizations?

|  |  |
| --- | --- |
| A.  | Statement of financial position. |

|  |  |
| --- | --- |
| B.  | Statement of functional expenses. |

|  |  |
| --- | --- |
| C.  | Statement of revenues, expenses, and changes in net position. |

|  |  |
| --- | --- |
| D.  | Both A and B. |

 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. | Recognizing revenues when measurable and available for paying current obligations and expenditures when incurred describes which basis of accounting?

|  |  |
| --- | --- |
| A.  | Accrual.  |

|  |  |
| --- | --- |
| B.  | Modified accrual.  |

|  |  |
| --- | --- |
| C.  | Modified cash.  |

|  |  |
| --- | --- |
| D.  | Budgetary.  |

 |

**Essay Questions**

|  |  |
| --- | --- |
| 36. | Explain the essential differences between general purpose and special purpose governments and give several examples of each.      |

|  |  |
| --- | --- |
| 37. | Identify and explain the characteristics that distinguish governmental and not-for-profit entities from business entities.      |

|  |  |
| --- | --- |
| 38. | GASB and FASB standards are concerned only with external financial reporting; whereas, FASAB standards are concerned with both internal and external financial reporting. Do you agree with this statement? Why or why not?      |

|  |  |
| --- | --- |
| 39. | Why should persons interested in reading financial reports of governmental and not-for-profit entities be familiar with standards set by the GASB and FASB?      |

|  |  |
| --- | --- |
| 40. | Explain in your own words why accountability is the cornerstone of all financial reporting in government.      |

|  |  |
| --- | --- |
| 41. | In your own words state the primary uses the GASB believes external users have for financial reports of state and local governments. For contrast, state the uses the FASB believes external users have for the financial reports of not-for-profit organizations.      |

|  |  |
| --- | --- |
| 42. | Describe the difference between a comprehensive annual financial report (CAFR) and the GASB financial reporting model for state and local governments.      |

|  |  |
| --- | --- |
| 43. | Why is it necessary to reconcile total fund balances reported on the balance sheet—governmental funds to total net position reported for governmental activities on the government-wide statement of net position, and net changes in fund balances—total governmental funds to the change in net position reported for governmental activities on the government-wide statement of activities?      |

|  |  |
| --- | --- |
| 44. | Identify and briefly explain the four sections of the performance and accountability report (PAR) that the Office of Management and Budget requires major federal departments and agencies to prepare.       |

|  |  |
| --- | --- |
| 45. | Explain the concepts fiscal and operational accountability and the basis of accounting used to capture each concept.       |

**True / False Questions**

|  |  |
| --- | --- |
| 46. | The governmental fund financial statements are intended to report on *fiscal accountability.*   True    False |

Chapter 01 Introduction to Accounting and Financial Reporting for Governmental and Not-for-Profit Entities Answer Key

**True / False Questions**

|  |  |
| --- | --- |
| 1. | General purpose governments generally provide a wider range of services to their residents than do special purpose governments.   **TRUE**Special purpose governments generally provide either a single service or a limited number of services; whereas, general purpose governments provide a broad range of services.  |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |
| --- | --- |
| 2. | Examples of special purpose governments include cities, towns, and public schools that receive tax revenue to finance the services they provide.   **FALSE**Although many public school systems are special purpose governments, cities and towns are general purpose governments.  |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |
| --- | --- |
| 3. | The Governmental Accounting Standards Board (GASB) is the body authorized to establish accounting principles for all state and local governments, both general purpose and special purpose.   **TRUE** |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |
| --- | --- |
| 4. | A characteristic common to governmental and not-for-profit organizations is operating purposes that are other than to provide goods or services at a profit or profit equivalent.   **TRUE**This is one of the characteristics; others include receipt of significant amounts of resources from resource providers who do not expect to receive either repayment or economic benefits proportionate to the resources provided and absence of defined ownership interests that can be sold, transferred, or redeemed, or that convey entitlement to a share of a residual distribution of resources in the event of liquidation of the organization.  |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |
| --- | --- |
| 5. | The needs of users of governmental financial reports are the same as those of users of business financial reports.   **FALSE**As discussed in Chapter 1, the GASB issued a white paper that articulates a number of reasons why the needs of users of governmental financial reports are unique and different from those of business report users.  |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |
| --- | --- |
| 6. | The Federal Accounting Standards Advisory Board (FASAB) recommends accounting principles and standards for the federal government and its agencies and departments.   **TRUE**The FASAB is the standard setting body assigned responsibility for recommending accounting and reporting standards for the federal government and its agencies and departments. Its recommendations become standards upon approval by the three officials empowered by federal law to set standards—the Comptroller General, the Secretary of the Treasury, and the Director of the Office of Management and Budget.  |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |
| --- | --- |
| 7. | The FASB, GASB, and FASAB all focus their standards on both internal and external financial reporting.   **FALSE**While it is true that the FASAB sets standards for both internal and external users of financial information, the FASB and GASB focus their standards only on external financial reporting.  |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |
| --- | --- |
| 8. | Interperiod equity refers to the concept that current-year revenues are sufficient to pay for services provided that year, so that future taxpayers will *not* be required to assume the burden for services previously provided.   **TRUE**Interperiod equity is a significant part of accountability of the government to its taxpayers, both current and future.  |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |
| --- | --- |
| 9. | The minimum requirements for general purpose external financial reporting are (1) management's discussion and analysis (MD&A), (2) the basic financial statements, including the notes to the financial statements, and (3) combining and individual fund financial statements.   **FALSE**Although the first two items listed are part of the minimum requirements, combining and individual fund statements are included in the typical comprehensive annual financial report (CAFR), but are not part of the minimum GAAP requirements for governmental financial reporting.  |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |
| --- | --- |
| 10. | The Financial Accounting Foundation has oversight over both FASB and GASB.   **TRUE**As shown in Illustration 1-1, the Financial Accounting Foundation is over both the FASB and the GASB. It appoints members to serve on both boards and supports the boards’ operations.  |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |
| --- | --- |
| 11. | The basis of accounting under which revenues are recognized when measurable and available for spending and expenses when resources are consumed is the *modified accrual* basis of accounting.   **FALSE**The statement is true regarding revenue recognition. However, under modified accrual, *expenditures* not expenses are recognized when incurred. Accrual accounting is the basis under which expenses are recognized as resources are consumed.  |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |
| --- | --- |
| 12. | In addition to financial statements and notes, GASB requires governments to provide information on service efforts and accomplishments (SEA) in their reports to the public.   **FALSE**GASB encourages but does not require the reporting of SEA information.  |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. | The Governmental Accounting Standards Board is assigned responsibility for setting accounting and financial reporting standards for

|  |  |
| --- | --- |
| A.  | Governments; such as federal agencies, states, cities, counties, villages, and townships.  |

|  |  |
| --- | --- |
| **B.**  | State and local government entities and governmentally-related units and agencies, such as utilities, authorities, hospitals, and colleges and universities.  |

|  |  |
| --- | --- |
| C.  | Not-for-profit organizations.  |

|  |  |
| --- | --- |
| D.  | State and local government and all not-for-profit organizations.  |

 |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. | The body that has been established to recommend accounting and financial reporting standards for the federal government is the

|  |  |
| --- | --- |
| A.  | Financial Accounting Standards Board (FASB).  |

|  |  |
| --- | --- |
| B.  | Governmental Accounting Standards Board (GASB).  |

|  |  |
| --- | --- |
| C.  | Government Accountability Office (GAO).  |

|  |  |
| --- | --- |
| **D.**  | Federal Accounting Standards Advisory Board (FASAB).  |

 |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. | The Financial Accounting Standards Board has the responsibility for setting accounting and financial reporting standards for

|  |  |
| --- | --- |
| **A.**  | All not-for-profit organizations that are nongovernmental and business entities.  |

|  |  |
| --- | --- |
| B.  | All special purpose governments.  |

|  |  |
| --- | --- |
| C.  | All not-for-profit organizations.  |

|  |  |
| --- | --- |
| D.  | All federal government agencies.  |

 |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. | Which of the following distinguishes governments from nongovernmental not-for-profit organizations?

|  |  |
| --- | --- |
| A.  | Absence of profit motive.  |

|  |  |
| --- | --- |
| **B.**  | The power to enact and enforce a tax levy.  |

|  |  |
| --- | --- |
| C.  | Resource providers do not expect benefits proportional to the resources provided.  |

|  |  |
| --- | --- |
| D.  | Absence of a defined ownership interest that can be sold, transferred, or redeemed.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 17. | Which of the following is identified by the GASB as the "cornerstone" of all financial reporting in government?

|  |  |
| --- | --- |
| A.  | Understandability.  |

|  |  |
| --- | --- |
| B.  | Representational faithfulness.  |

|  |  |
| --- | --- |
| **C.**  | Accountability.  |

|  |  |
| --- | --- |
| D.  | Interperiod equity.  |

 |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 18. | Which of the following organizations issue standards that are intended for both internal and external users of financial information?

|  |  |
| --- | --- |
| **A.**  | Federal Accounting Standards Advisory Board.  |

|  |  |
| --- | --- |
| B.  | Governmental Accounting Standards Board.  |

|  |  |
| --- | --- |
| C.  | Financial Accounting Standards Board.  |

|  |  |
| --- | --- |
| D.  | American Institute of CPAs.  |

 |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 19. | Which of the following is identified by the FASAB as the foundation for federal financial reporting?

|  |  |
| --- | --- |
| A.  | Decision usefulness.  |

|  |  |
| --- | --- |
| **B.**  | Accountability.  |

|  |  |
| --- | --- |
| C.  | Understandability.  |

|  |  |
| --- | --- |
| D.  | Budget integrity.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 20. | Which of the following is *not* an objective of financial reporting by state and local governments?

|  |  |
| --- | --- |
| **A.**  | To assist users in assessing the adequacy of systems and controls.  |

|  |  |
| --- | --- |
| B.  | To assist users in assessing financial condition and results of operations.  |

|  |  |
| --- | --- |
| C.  | To assist financial report users in comparing actual financial results with the legally adopted budget.  |

|  |  |
| --- | --- |
| D.  | To assist in determining compliance with finance-related laws, rules, and regulations.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. | Which of the following groups is considered a primary user of a state or local government's general-purpose external financial statements?

|  |  |
| --- | --- |
| **A.**  | Citizens.  |

|  |  |
| --- | --- |
| B.  | Managers and administrators.  |

|  |  |
| --- | --- |
| C.  | Employees.  |

|  |  |
| --- | --- |
| D.  | Special interest groups.  |

 |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. | One of the minimum requirements for general purpose external financial reporting is:

|  |  |
| --- | --- |
| **A.**  | Management's discussion and analysis (MD&A).  |

|  |  |
| --- | --- |
| B.  | Consolidated financial statements.  |

|  |  |
| --- | --- |
| C.  | Other supplementary information, such as combining and individual fund statements.  |

|  |  |
| --- | --- |
| D.  | Statistical information.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. | A comprehensive annual financial report (CAFR) prepared in conformity with GASB recommendations should include which of the following sections?

|  |  |
| --- | --- |
| A.  | Letter of transmittal, management's discussion and analysis (MD&A), and financial.  |

|  |  |
| --- | --- |
| **B.**  | Introductory, financial, and statistical.  |

|  |  |
| --- | --- |
| C.  | Introductory, MD&A, and financial.  |

|  |  |
| --- | --- |
| D.  | Letter of transmittal, financial, and supplementary.  |

 |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. | Which of the following would be included in a properly prepared comprehensive annual financial report (CAFR), but *not* in the minimum requirements for general purpose financial reporting specified by GASB standards?

|  |  |
| --- | --- |
| A.  | Management's discussion and analysis (MD&A).  |

|  |  |
| --- | --- |
| B.  | Government-wide financial statements.  |

|  |  |
| --- | --- |
| C.  | Notes to the financial statements.  |

|  |  |
| --- | --- |
| **D.**  | Combining and individual fund financial statements.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. | A statistical section should be included in

|  |  |
| --- | --- |
| **A.**  | A comprehensive annual financial report (CAFR).  |

|  |  |
| --- | --- |
| B.  | The basic financial statements.  |

|  |  |
| --- | --- |
| C.  | The notes to the financial statements.  |

|  |  |
| --- | --- |
| D.  | Required supplementary information, other than MD&A.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. | Which of the following would typically *not* be included in the introductory section of a comprehensive annual financial report?

|  |  |
| --- | --- |
| A.  | Title and contents page.  |

|  |  |
| --- | --- |
| B.  | Letter of transmittal.  |

|  |  |
| --- | --- |
| C.  | A description of the government.  |

|  |  |
| --- | --- |
| **D.**  | Summary of the government's current financial position and results of financial activities.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | The section of the comprehensive annual financial report that presents tables and charts showing social and economic data in addition to financial trends, fiscal capacity, and operating information of the government is the:

|  |  |
| --- | --- |
| A.  | Introductory section.  |

|  |  |
| --- | --- |
| B.  | Management's discussion and analysis section.  |

|  |  |
| --- | --- |
| **C.**  | Statistical section.  |

|  |  |
| --- | --- |
| D.  | Financial section.  |

 |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 28. | Which of the following should be included in the financial section of a comprehensive annual financial report?

|  |  |
| --- | --- |
| A.  | Transmittal letter.  |

|  |  |
| --- | --- |
| **B.**  | The basic financial statements, including notes thereto.  |

|  |  |
| --- | --- |
| C.  | Tables and charts showing demographic and economic data.  |

|  |  |
| --- | --- |
| D.  | A description of the government.  |

 |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 29. | On what should the government-wide financial statements report?

|  |  |
| --- | --- |
| **A.**  | Net position and results of financial operations of the government as a whole.  |

|  |  |
| --- | --- |
| B.  | Fiscal accountability.  |

|  |  |
| --- | --- |
| C.  | The cost of government services.  |

|  |  |
| --- | --- |
| D.  | Budgetary compliance.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 30. | Which of the following standard-setting bodies requires a management’s discussion and analysis as a part of the financial report?

|  |  |
| --- | --- |
| A.  | GASB.  |

|  |  |
| --- | --- |
| B.  | FASB.  |

|  |  |
| --- | --- |
| C.  | FASAB.  |

|  |  |
| --- | --- |
| **D.**  | Both A and C.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31. | On what should the governmental fund financial statements report?

|  |  |
| --- | --- |
| A.  | Net position and results of financial operations of the government as a whole.  |

|  |  |
| --- | --- |
| **B.**  | Fiscal accountability.  |

|  |  |
| --- | --- |
| C.  | Operational accountability.  |

|  |  |
| --- | --- |
| D.  | Cost of government services.  |

 |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 32. | Which of the following sections is *not* considered a part of a federal agency’s performance and accountability report?

|  |  |
| --- | --- |
| A.  | Basic financial statements.  |

|  |  |
| --- | --- |
| B.  | Annual performance report.  |

|  |  |
| --- | --- |
| **C.**  | Statistical section.  |

|  |  |
| --- | --- |
| D.  | Management's discussion and analysis.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 33. | Which of the following types of organizations *may* be subject to FASB jurisdiction?

|  |  |
| --- | --- |
| A.  | A state hospital.  |

|  |  |
| --- | --- |
| **B.**  | A college or university.  |

|  |  |
| --- | --- |
| C.  | A public school district.  |

|  |  |
| --- | --- |
| D.  | A public sanitation district.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 34. | Which of the following statements is prepared by all not-for-profit organizations?

|  |  |
| --- | --- |
| **A.**  | Statement of financial position. |

|  |  |
| --- | --- |
| B.  | Statement of functional expenses. |

|  |  |
| --- | --- |
| C.  | Statement of revenues, expenses, and changes in net position. |

|  |  |
| --- | --- |
| D.  | Both A and B. |

 |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Concept* |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. | Recognizing revenues when measurable and available for paying current obligations and expenditures when incurred describes which basis of accounting?

|  |  |
| --- | --- |
| A.  | Accrual.  |

|  |  |
| --- | --- |
| **B.**  | Modified accrual.  |

|  |  |
| --- | --- |
| C.  | Modified cash.  |

|  |  |
| --- | --- |
| D.  | Budgetary.  |

 |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Concept* |

**Essay Questions**

|  |  |
| --- | --- |
| 36. | Explain the essential differences between general purpose and special purpose governments and give several examples of each.  *General purpose governments* are those that provide many categories of services to residents. These include states, counties, municipalities, and townships. *Special purpose governments* provide only a single or, at most, a few functions. Examples of special purpose governments are special political subdivisions or districts that provide education, drainage and flood control, irrigation, soil and water conservation, fire protection, and water supply. Public colleges and universities are another example. |

|  |
| --- |
| *Difficulty: EasyQuestion Type: Analysis* |

|  |  |
| --- | --- |
| 37. | Identify and explain the characteristics that distinguish governmental and not-for-profit entities from business entities.  Governmental and not-for-profit entities (nonbusiness entities) do not have owners who expect a return on their investment. Resource providers to these entities do not expect to be repaid or to receive economic benefits in proportion to the resources provided. Governmental and not-for-profit entities do not operate to make a profit on goods or services provided. On the other hand, business entities do have owners whose interests can be transferred to others and who expect a share of the profits from operating the business and a residual distribution of the net assets in the case of liquidation of the organization (see FASB *Concepts Statement No. 4*). |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Analysis* |

|  |  |
| --- | --- |
| 38. | GASB and FASB standards are concerned only with external financial reporting; whereas, FASAB standards are concerned with both internal and external financial reporting. Do you agree with this statement? Why or why not?  Agree. Both the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) issue standards for external users of financial information—those who lack the authority to prescribe information they want and who must rely on the information management communicates to them. By contrast, the Federal Accounting Standards Advisory Board (FASAB) has identified users who are both internal and external to the government: citizens, the Congress, executives, and program managers. Not surprisingly, then, its standards address both internal and external financial information needs. |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Analysis* |

|  |  |
| --- | --- |
| 39. | Why should persons interested in reading financial reports of governmental and not-for-profit entities be familiar with standards set by the GASB and FASB?  Financial reports can be read intelligently only by persons who understand the real meaning of the terms used in the reports, and who understand the standards that guide the presentation of financial information. |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Analysis* |

|  |  |
| --- | --- |
| 40. | Explain in your own words why accountability is the cornerstone of all financial reporting in government.  Accountability is based on the belief that the citizenry has a "right to know" about public resources raised during a fiscal period and the purposes for which the resources were used. In a democratic society, public officials have an obligation to be accountable to the public. |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Analysis* |

|  |  |
| --- | --- |
| 41. | In your own words state the primary uses the GASB believes external users have for financial reports of state and local governments. For contrast, state the uses the FASB believes external users have for the financial reports of not-for-profit organizations.  External users of governmental financial reports, GASB believes, need to (1) compare actual financial results with the legally adopted budget; (2) assess financial condition and results of financial operations; (3) assist in determining compliance with finance-related laws, rules, and regulations; and (4) assist in evaluating efficiency and effectiveness. FASB believes that financial reports of not-for-profit organizations should provide information (1) useful in making resource allocation decisions, (2) useful in assessing services and ability to provide services, (3) useful in assessing management stewardship and performance, and (4) about economic resources, obligations, net resources, and changes in them. |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Analysis* |

|  |  |
| --- | --- |
| 42. | Describe the difference between a comprehensive annual financial report (CAFR) and the GASB financial reporting model for state and local governments.  By definition, the comprehensive annual financial report (CAFR) is more inclusive than the general purpose external financial information described in GASB standards. The CAFR presents three types of information: 1) introductory material from the entity's management, such as transmittal letters, organizational charts, and awards; 2) financial statements (including the financial information required by GASB); and 3) statistical information, such as demographic information about the entity and summaries of tax rates and property assessed values over time. By contrast, GASB standards require 1) management discussion & analysis (MD&A), 2) government-wide financial statements, 3) fund financial statements, 4) notes to those statements, and 5) other required supplementary information (RSI) |

|  |
| --- |
| *Difficulty: MediumQuestion Type: Analysis* |

|  |  |
| --- | --- |
| 43. | Why is it necessary to reconcile total fund balances reported on the balance sheet—governmental funds to total net position reported for governmental activities on the government-wide statement of net position, and net changes in fund balances—total governmental funds to the change in net position reported for governmental activities on the government-wide statement of activities?  GASB requires that the effects of the same underlying financial transactions for governmental activities be reported in two different ways on the fund and government-wide financial statements. The fund financial statements report on fiscal accountability by focusing on the flow of current financial resources recognized on the modified accrual basis of accounting. The government-wide financial statements report on operational accountability by focusing on the flow of economic resources recognized on the accrual basis of accounting. As a result, the same underlying transactions result in very different information being reported on the two sets of financial statements, thus creating a need for reconciliations to help users understand how and why the reported amounts differ. |

|  |
| --- |
| *Difficulty: HardQuestion Type: Analysis* |

|  |  |
| --- | --- |
| 44. | Identify and briefly explain the four sections of the performance and accountability report (PAR) that the Office of Management and Budget requires major federal departments and agencies to prepare.  The four parts and an explanation of their content are:1. The management’s discussion and analysis – it serves as a brief overview of the entire PAR and clearly describes the department or agency’s mission and organizational structure; its performance goals, objectives, and results; analysis of its financial statements; and analysis of information about internal controls and legal compliance.2. The annual performance report (APR) (or performance section) – it provides information about the agency’s performance and progress in achieving its performance goals.3. Basic financial statements – These include a balance sheet, statement of net cost (essentially an operating statement format that places expenses over revenues—program costs minus earned revenues = net cost), statement of changes in net position (similar to changes in owners’ equity in business accounting), statement of budgetary resources, statement of custodial activity, and statement of social insurance.4. Other accompanying information – this includes information such as perspectives on the tax burden, size of the tax gap, challenges facing management, and revenue forgone. |

|  |  |
| --- | --- |
| 45. | Explain the concepts fiscal and operational accountability and the basis of accounting used to capture each concept.  Fiscal accountability focuses on the short-term flow of resources, or how government has used its resources in the short-term; whereas, operational accountability focuses on the efficient and effective use of resources by the government. To help capture these different types of accountability different bases of accounting are used. Fiscal accountability is captured using the modified accrual basis of accounting where revenues are recognized in the period they are measurable and available for spending and expenditures (not expenses) are recognized when they create an obligation to be paid from current financial resources. Operational accountability is captured using accrual accounting. Under accrual accounting the focus is on the flow of economic resources allowing revenues and expense to be recognized when an exchange of economic resources occurs. |

**True / False Questions**

|  |  |
| --- | --- |
| 46. | The governmental fund financial statements are intended to report on *fiscal accountability.*   **TRUE**The fund financial statements for governmental funds are focused on fiscal accountability, the remaining fund financial statements and the government-wide financial statements are intended to help users assess *operational accountability*.  |