**Test Bank**

**to Accompany**

***Essentials of Accounting for Governmental and Not-for-Profit Organizations:***

***Twelfth Edition***

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**True/False Questions**

1. The Governmental Accounting Standards Board sets financial reporting standards for all units of government: federal, state, and local.

Answer: False

1. Fund accounting exists primarily to provide assurance that resources are used according to legal or donor restrictions.

Answer: True

1. The Financial Accounting Standards Board sets financial reporting standards for profit-seeking businesses and nongovernmental, not-for-profit organizations.

Answer: True

1. FASAB, GASB and FASB standards are set forth primarily in documents called statements.

Answer: True

1. FASAB, GASB and FASB standards are set forth primarily in documents called concept statements.

Answer: False

1. The FASAB was established to recommend accounting and financial reporting standards for the federal government.

Answer: True

1. The GASB does not require supplementary information to be reported with its financial statements even if it is essential to establish appropriate context for the financial statements and notes.

Answer: False

1. The Financial Accounting Standards Board sets financial reporting standards for private not-for-profits and investor-owned businesses.

Answer: True

1. An organization is presumed to be governmental if it has the ability to issue directly debt that is exempt from federal taxes.

Answer: True

1. The Financial Accounting Standards Board and the Governmental Accounting Standards Board are parallel bodies under the oversight of the Financial Accounting Foundation.

Answer: True

1. The Federal Accounting Standards Advisory Board requires less extensive reports than does the FASB or GASB.

Answer: False

1. The FASAB requires more financial statements than are typically required of state and local governments.

Answer: True

1. The only objective of the Governmental Accounting Standards Board is to help users determine compliance with finance-related laws, rules, and regulations.

Answer: False

1. Governments must have as many funds as necessary to fulfill legal requirements and sound financial administration but must have at a minimum a General Fund.

Answer: True

1. A Management's Discussion and Analysis is required for state and local governmental units, and the federal government.

Answer: True

1. The GASB Concept Statement on Service Efforts and Accomplishments Reporting encourages state and local governments to include inputs of nonmonetary resources in their financial reporting.

Answer: True

1. Although certain supplementary information may notbe required, if presented, it must follow GASB guidance regarding its format and content.

Answer: True

1. The GASB Concept Statement on Service Efforts and Accomplishments Reporting requires state and local governments to include inputs of nonmonetary resources in their financial reporting.

Answer: False

1. The format and content of supplementary information which is **not** required by GASB is up to the discretion of the reporting entity

Answer: False

1. GASB and FASB Concept Statements establish accounting standards that must be complied with to receive an unqualified audit opinion.

Answer: False

1. FASAB, GASB and FASB standards are set forth primarily in documents called interpretations.

Answer: False

1. Fund-basis statements are presented for three categories of government activities: governmental, proprietary, and fiduciary.

Answer: True

1. State and local governments may use twelve different fund types.

Answer: False

1. The economic resource measurement focus and accrual basis of measurement is an important feature of government-wide financial statements.

Answer: True

1. Business activities fund statements must be changed to the accrual basis from the modified accrual basis when preparing government-wide financial statements.

Answer: False

1. Governmental-type activities fund statements must use accrual basis when preparing government-wide financial statements.

Answer: True

1. Fiduciary funds of a governmental unit use the current financial resources measurement focus and modified accrual basis of accounting

Answer: False

1. Under the accrual basis of accounting, revenues are recognized when measurable and available to finance expenditures of the current period.

Answer: False

1. The government-wide statements and the fund statements for proprietary funds and fiduciary funds use the economic resources measurement focus and the accrual basis of accounting.

Answer: True

1. General fixed assets of the government are reported both in the government-wide financial statements and the governmental fund financial statements.

Answer: False

1. Comparison of the legally approved budget with actual results of the General Fund is **not** part of required supplementary information in the CAFR.

Answer: False

1. Comparison of the legally approved budget with actual results of the General Fund is included as part of required supplementary information in the CAFR.

Answer: True

1. Long-term debt that is to be paid with tax revenues is not reported both in the government-wide statements and in the governmental fund statements

Answer: True

1. Measurement focus refers to those items, such as current and long-term assets, that are being reported on the financial statements.

Answer: True

1. Infrastructure is capitalized by state and local governmental units.

Answer: True

1. Fiduciary funds include agency, pension trust, investment trust, and permanent funds.

Answer: False

1. The Financial Accounting Standards Board has authority to establish accounting and financial reporting standards for both private and state universities.

Answer: False

1. FASB sets the reporting standards for private not-for-for profits.

Answer: True

1. Internal Service funds are treated as governmental activities in the government-wide statements if the principal customers are other departments within the General Fund.

Answer: True

1. Permanent funds can be either a governmental fund or a fiduciary fund where only income on donated assets may be spent.

Answer: False

1. Depreciation on capital assets is included as an expense in the Statement of Activities in the governmental fund statements.

Answer: False

1. Depreciation on capital assets is included as an expense in the Statement of Revenues, Expenses, and Changes in Fund Net Position in the proprietary fund financial statements

Answer: True

1. Depreciation on capital assets is **not** included as an expense in the Statement of Revenues, Expenses, and Changes in Fund Net Position in the proprietary fund financial statements

Answer: False

1. According to GASB standards relating to Budgetary Accounting, an annual budget should be adopted by every governmental unit.

Answer: True

1. According to GASB standards relating to Budgetary Accounting, budgetary comparisons should be included in the appropriate financial statements or schedules for governmental funds for which an annual budget has been adopted.

Answer: True

1. According to GASB standards relating to Budgetary Accounting, budgetary comparisons are required for all funds even those for which an annual budget has not been adopted.

Answer: False

1. According to FASB standards relating to Budgetary Accounting, the accounting system should provide the basis for appropriate budgetary control.

Answer: False

1. For most state and local governments, the budget, when adopted according to procedures specified by state laws, is not binding upon the administrators of a governmental unit.

Answer: False

1. A fund represents part of the activities of an organization which is separated from other activities in the accounting records to more easily demonstrate compliance with legal restrictions or limitations.

Answer: True

1. A government may have two or more General Funds.

Answer: False

1. The GASB recently published a white paper which identifies five environmental differences between governments and for-profit enterprises.

Answer: True

**Multiple Choice Questions**

1. Governmental funds include:

A) Special revenue funds

B) Internal service funds

C) Debt service funds

D) A and C

Answer: D

1. The “Hierarchy of GAAP” is established by the:
   1. Financial Accounting Standards Board.
   2. Federal Accounting Standards Advisory Board
   3. Governmental Accounting Standards Board
   4. All of the above have established a hierarchy

Answer: D

1. The term “proprietary funds” applies to:

A) all funds that use accrual accounting.

B) enterprise and internal service funds only.

C) enterprise, internal service, and private-purpose trust funds.

D) none of the above answers are correct.

Answer: B

1. The term “fiduciary funds” applies to:

A) enterprise and internal service funds.

B) pension, investment trust and enterprise funds

C) enterprise, internal service, and private-purpose trust funds.

D) none of the above answers are correct.

Answer: D

1. The GASB sets accounting standards for all of the following except:
2. State and local governments
3. Component units owned or controlled by governments
4. Governmentally related not-for-profit universities
5. Nongovernmental not-for-profit hospital

Answer: D

1. Which of the following fund types is present in every general-purpose government?

A) Permanent

B) Special revenue

C) General

D) Capital projects

Answer: C

1. Which of the following is a proprietary fund?

A) Investment trust

B) Permanent

C) Special revenue

D) Internal service

Answer: D

1. Which of the following is **not** a fiduciary fund?

A) Agency

B) Permanent

C) Pension trust

D) Private-purpose trust

Answer: B

1. Which of the following is a governmental fund?
2. Agency
3. Enterprise
4. Special revenue
5. Internal service

Answer: C

1. Which of the following is **not** one of the objectives of Federal Financial Reporting, as outlined in SFFAC 1, which was issued by the FASAB?
2. Financial reporting should enable evaluation of the success rate of programs.
3. Financial reporting should enable evaluation of the service efforts, costs and accomplishments of the reporting entity.
4. Financial reporting should reveal whether financial systems and controls are adequate.
5. Financial reporting should demonstrate accountability with regard to raising and expending money.

Answer: A

1. The FASAB has the authority to establish accounting and financial reporting standards for:
2. State and local governments
3. Investor owned business
4. Federal government
5. Public not-for-profits

Answer: C

1. The FASB has the authority to establish accounting and financial reporting standards for:
2. Federal government
3. Private not-for-profits
4. Public not-for-profits
5. State and local governments

Answer: B

1. The GASB has the authority to establish accounting and financial reporting standards for:
2. State governments
3. Private not-for-profits
4. Federal government
5. None of the above

Answer: A

1. In order for a fund to exist, there must be:
2. A fiscal entity; assets set aside for a specific purpose
3. A double-entry accounting entity
4. A & B are optional and not required
5. Both A & B are required

Answer: D

1. Which fund category must change from modified accrual to accrual basis when preparing government-wide financial statements?
2. Governmental
3. Proprietary
4. Fiduciary
5. A & B only

Answer: A

1. Which of the following use current financial resources measurement focus?
2. Fiduciary fund statements
3. Governmental fund statements
4. Proprietary fund statements
5. Internal Service fund statements

Answer: B

1. Which of the following best describes how many funds a government should use?
2. One for each revenue source
3. Two at a minimum; the General Fund and one enterprise fund
4. As many as necessary to fulfill legal requirements and sound financial administration
5. None of the above

Answer: C

1. Which of the following would **not** be included in FASB Statement of Financial Accounting Concepts #4, which identifies the information needs of the users of non-business financial statements?
2. Assessing services provided by a non-business organization and its ability to continue to provide those services
3. Format and content of financial statements
4. Assessing managements’ stewardship and performance
5. Evaluation of an organization’s resources, obligations and effects of changes in net resources

Answer: B

1. The Governmental Accounting Standards Board has been given authority to establish accounting and financial reporting standards for:

A) all governmental units and agencies.

B) federal, state, and local governments and governmentally related utilities, authorities, hospitals, and colleges and universities..

C) state and local governmental entities, and governmentally related utilities, authorities, hospitals, and colleges and universities.

D) all governmental units and all not-for-profit organizations.

Answer: C

1. Which of the following characteristics would **not** define an organization as governmental?

A) The power to enact and enforce a tax levy.

B) The potential for unilateral dissolution by a government with the net resources reverting to a government.

C) The receipt of grant money from a state or local government for the purpose of providing services to the public.

D) All of the above.

Answer: C

1. Level “A” GAAP for The University of Virginia, a public institution, would be established by the:

A) Financial Accounting Standards Board.

B) Governmental Accounting Standards Board.

C) American Institute of Certified Public Accountants.

D) National Association of College and University Business Officers.

Answer: B

1. Under the modified accrual basis of accounting, expenditures should be recognized when:

A) they are authorized by the budget ordinance.

B) they are paid.

C) they are measurable and can be financed by the revenues of the current period.

D) the fund liability is incurred.

Answer: D

1. Fiduciary funds are to use the:

A) economic resources measurement focus and modified accrual basis of accounting.

B) current financial resources measurement focus and accrual basis of accounting.

C) economic resources measurement focus and accrual basis of accounting.

D) none of the above, the fiduciary funds have no revenues.

Answer C

1. Proprietary funds use the:
2. current financial resources measurement focus and modified accrual basis of accounting
3. economic resources measurement focus and accrual basis of accounting.
4. economic resources measurement focus and modified accrual basis of accounting.
5. current financial resources measurement focus and accrual basis of accounting.

Answer: B

1. Governmental funds use the:

A) economic resources measurement focus and accrual basis of accounting.

B) current financial resources measurement focus and accrual basis of accounting.

C) economic resources measurement focus and modified accrual basis of accounting.

D) current financial resources measurement focus and modified accrual basis of accounting

Answer: D

1. Government-wide statements use the:

A) current financial resources measurement focus and accrual basis of accounting.

B) economic resources measurement focus and modified accrual basis of accounting.

C) economic resources measurement focus and accrual basis of accounting.

D) none of the above.

Answer: C

1. Governmental funds do **not** include:

A) Special revenue funds

B) Agency funds

C) Debt service funds

D) The General fund

Answer: B

1. Which of the following organizations has authority to establish accounting and financial reporting standards for the federal government?

A) Federal Accounting Standards Advisory Board.

B) Office of Management and Budget.

C) Governmental Accounting Standards Board.

D) None of the above; no one has been granted authority to set standards for the federal government

Answer: A

1. Which of the following is most correct with regard to Management's Discussion and Analysis (MD&A)?

A) State and local governments are required to provide an MD&A.

B) Federal agency financial reports are required to provide an MD&A.

C) Both state and local governments and federal agencies are encouraged, but not required to provide an MD&A.

D) Both state and local governments and federal agencies are required to provide an MD&A.

Answer: D

1. GASB Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports that Contain Basic Financial Statements*, states that

A) notes to the financial statements may not include management’s objective explanations.

B) required supplementary information should be objective but may also include predictions or subjective assessments if management deems it necessary for understanding of the financial statements.

C) disclosure in the notes is not an adequate substitute for recognition in the financial statements.

D) All of the above are correct.

Answer: C

1. Under GASB Statement 34, capital assets:

A) must be reported in government-wide statements but are not reported in any of the fund financial statements.

B) must be reported in government-wide statements and in proprietary fund financial statements.

C) are **not** to be reported in either government-wide or fund financial statements.

D) are to be reported but **not** depreciated in government-wide and fund financial statements.

Answer: B

1. Long-term debt of a governmental unit would be reported in the:

A) government-wide financial statements and proprietary fund financial statements.

B) government-wide financial statements only.

C) debt service funds of governmental fund financial statements and government-wide financial statements.

D) notes to the financial statements only.

Answer: A

1. A city government collects local option sales taxes legally restricted to pay for the construction of a new courthouse. Which fund should account for the receipt of the sales taxes?

A) Special revenue fund

B) Capital projects fund

C) Private-purpose trust fund

D) General fund

Answer: B

1. A city government collects local option sales taxes legally restricted to pay for the hiring of teachers for hearing impaired school children. Which fund should account for the receipt of the sales taxes?

A) Special revenue fund

B) Capital projects fund

C) Private-purpose trust fund

D) General fund

Answer: A

1. A city government makes its semiannual payment of interest on revenue bonds issued to pay for the construction of additional public transit stations. Which fund would account for the payment?

A) Debt service fund

B) Capital projects fund

C) Enterprise fund

D) Internal service fund

Answer: C

1. A city government sells police cars no longer in use. No restrictions have been placed on the proceeds. Which fund should account for the receipt?

A) General fund

B) Capital projects fund

C) Enterprise fund

D) Debt service fund

Answer: A

1. Under GASB Statement 34, accrual accounting is used for:

A) government-wide financial statements only.

B) government-wide financial statements and proprietary fund financial statements only.

C) government-wide, proprietary fund, and fiduciary fund financial statements only.

D) government-wide and all fund financial statements

Answer: C

1. Under GASB Statement 34, modified accrual accounting would be found in the:

A) government-wide financial statements only.

B) governmental fund financial statements only.

C) governmental and fiduciary fund financial statements only.

D) governmental, proprietary, and fiduciary fund financial statements but **not** in the government-wide financial statements

Answer: B

1. Which of the following is **not** a fiduciary fund type?

A) Agency.

B) Expendable trust.

C) Private-purpose trust.

D) Investment trust.

Answer: B

1. Level "A" GAAP for Cook County Hospital, a public hospital, would be established by the:

A) Governmental Accounting Standards Board.

B) Financial Accounting Standards Board.

C) Hospital Financial Management Association.

D) American Institute of Certified Public Accountants.

Answer: A

1. Which of the following is true regarding fund classifications?

A) Governmental funds include the General, special revenue, debt service, capital projects, and permanent.

B) Proprietary funds include enterprise, internal service, and private-purpose.

C) Both of the above.

D) None of the above.

Answer: A

1. Notre Dame University, a private institution, has level “A” GAAP established by the:

A) American Institute of Certified Public Accountants.

B) Governmental Accounting Standards Board.

C) National Association of College and University Business Officers.

D) Financial Accounting Standards Board.

Answer: D

1. Long-term debt to be paid from proprietary funds is reported as a liability in

A) the proprietary fund Statement of Net assets (or Net Position).

B) the government-wide Statement of Net assets (or Net Position).

C) both A and B.

D) neither A nor B.

Answer: C

1. Which of the following are the governmental funds?

A) General, special revenue, debt service, capital projects, private purpose.

B) General, special revenue, debt service, capital projects, permanent.

C) General, special revenue, debt service, capital projects, internal service.

D) None of the above.

Answer: B

1. Which of the following is not an objective of federal financial reporting?

A) Budgetary Integrity

B) Increase Taxpayer Awareness

C) Stewardship

D) Operating Performance

Answer: B

1. Which of the following funds is considered a Fiduciary Fund?

A) Debt Service Fund

B) Enterprise Fund

C) Internal Service Fund

D) Pension Trust Fund

Answer: D

1. Which of the following statement(s) are **not** included in the proprietary funds for a government entity:

A) Statement of Revenues, Expenditures, and Changes in Fund Balances

B) Statement of Cash Flows

C) Statement of Net Position

D) All of the above are included

Answer: A

1. Capitalized fixed assets are reported in which of the following fund-basis statements?

A) Agency fund

B) Proprietary fund

C) Governmental fund

D) All of the above

Answer: B

1. Which of the following fund types uses modified accrual accounting?

A) Enterprise

B) Internal Service

C) Investment Trust

D) Special Revenue

Answer: D

1. Which of the following fund types does **not** use modified accrual accounting?

A) Debt Service

B) Special Revenue

C) Investment Trust

D) Permanent

Answer: C

1. A permanent fund classified under governmental funds…

A) Accounts for most of the basic services provided by the governmental unit.

B) Accounts for financial resources intended for major capital projects

C) Accounts for services provided by one department of a government to another

D) Accounts for resources that are legally restricted so only earnings, not principal, may be expended, and for purposes to benefit the government and its citizenry.

Answer: D

1. Which of the following funds is **not** a Fiduciary Fund?

A) Investment Trust Fund

B) Private Purpose Trust Fund

C) Permanent Fund

D) Pension Fund

Answer: C

1. The \_\_\_\_\_\_\_ sets the accounting and financial reporting standards for both state and local governments and public not-for-profits.

A) FASAB

B) FASB

C) GASB

D) AICPA

Answer: C

1. The \_\_\_\_\_\_\_\_\_\_\_ is the government’s official annual report prepared and published as a matter of public record.

A) comprehensive annual financial report

B) governmental annual financial report

C) independent auditor’s report

D) complete audited financial report

Answer: A

1. State and local governmental funds are organized into three categories including:

A) governmental, proprietary, and restricted

B) proprietary, fiduciary, and restricted

C) governmental, fiduciary, and restricted

D) governmental, proprietary, and fiduciary

Answer: D

1. The \_\_\_\_\_\_ Fund accounts for all resources other than those required to be accounted for in other funds.

A) Agency

B) Enterprise

C) General

D) Special revenue

Answer: C

1. The \_\_\_\_\_\_ Fund accounts for and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purpose other than debt service or capital projects.

A) Agency

B) Enterprise

C) General

D) Special revenue

Answer: D

1. The \_\_\_\_\_\_ Funds are used when resources are provided primarily through the use of sales and service charges to parties external to the government and it is the intent of the government to measure revenues, expenses and changes in net position.

A) Agency

B) Enterprise

C) General

D) Special revenue

Answer: B

1. The \_\_\_\_\_\_ Funds are used to account for situations in which the government is acting as a collecting/disbursing agent.

A) Agency

B) Enterprise

C) General

D) Special revenue

Answer: A

1. What basis of accounting would the Enterprise Fund use?

A) Accrual

B) Modified Accrual

C) Cash

D) Expended Accrual

Answer: A

1. What are Enterprise funds used for?

A) To account for pension and employee benefit funds for which the governmental unit is the trustee.

B) To account for most of the basic services provided by the governmental units.

C) To account for resources provided primarily through the use of sales and service charges to parties external to the government.

D) To report resources that are legally restricted so only earnings, not principal, may be expended, and for purposes to benefit the government and its citizenry

Answer: C

1. Which of the following is an environmental difference between governments and for-profit business enterprises?

A) Relationship with stakeholders

B) Donor restricted assets

C) Fiduciary responsibilities

D) Both B and C

Answer: A

1. A government may have \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ General Fund(s).

A) Only one.

B) As many as needed to fulfill legal obligations.

C) A varying number, depending on the annual needs of the government.

D) None of the above.

Answer: A

1. The Financial Accounting Standards Board (FASB) is the standard setting organization for which of the following reporting organizations?

A) Private not-for-profits

B) Public not-for-profits

C) Investor owned businesses

D) A and C are both correct.

Answer: D

1. The fund basis statements for governmental funds are presented using the

A) Economic Resources Measurement focus and the Accrual Basis of Accounting.

B) Current Financial Resources Measurement focus and the Modified Accrual Basis of Accounting.

C) Current Financial Resources Measurement focus and the Accrual Basis of Accounting.

D) Economic Resources Measurement focus and the Modified Accrual Basis of Accounting.

Answer: B

1. What type of fund is used when resources are provided mainly through business-like transactions to parties external to the government?

A) Internal Service Funds

B) Capital Projects Funds

C) Agency Funds

D) Enterprise Funds

Answer: D

1. Financial reports for state and local governments are well suited for all the following EXCEPT?

A) Assessing financial condition and results of operations.

B) Comparing actual results with the legally adopted budget.

C) Measuring the effectiveness of government services such as police and fire protection.

D) Assisting in determining compliance with finance-related laws and regulations.

Answer: C

1. Which of the following funds is used to account for the payment of principal and interest of general long term debt of a government?

A) Capital Projects Fund

B) Internal Service Fund

C) Agency Fund

D) None of the above

Answer: D

1. The GASB is under the oversight of:

A) GAO.

B) FASAB.

C) FAF.

D) FASB.

Answer: C

**Short Answer Questions**

1. Contrast revenue recognition under the accrual and modified accrual bases of accounting.

**Answer:** Under modified accrual accounting, revenues should be recognized when measurable and available to finance expenditures of the current period. Under accrual accounting, revenues are recognized when earned and realizable.

1. Identify the accounting standard setting bodies for U.S. commercial, private not-for-profits, public not-for-profits, state and local governments, and the federal government.

**Answer:**

Commercial enterprises: The Financial Accounting Standards Board establishes accounting principles for all commercial enterprises in the U.S.

Private Not-for-profits: The Financial Accounting Standards Board establishes accounting principles for all Private Not-for-Profits in the U.S.

Public Not-for-profits: The Governmental Accounting Standards Board establishes accounting principles for all governmentally related not-for-profit organizations in the U.S.

State and Local Governments: The Governmental Accounting Standards Board establishes accounting principles for all U.S. state and local governments.

Federal government: The Federal Accounting Standards Advisory Board establishes accounting principles for the federal government and its agencies.

1. Contrast the economic resources measurement focus and the current financial resources measurement focus with regard to the accounting treatment of capital assets.

**Answer:** Under the economic resources measurement focus, capital assets are capitalized and depreciated. Under the current financial resources measurement focus, capital assets are not capitalized or depreciated, but are charged to expenditures when received.

1. What are the five environmental factors relating to how governments are different from commercial businesses as described by GASB in a white paper entitled: *Why Governmental Accounting and Financial Reporting Is – and Should Be – Different:*

Answer: The five environmental differences are:

**Organizational Purpose**

Governments exist for the well-being of citizens by providing public services. Unlike businesses, profit is not an objective so a measure other than net income is needed. In addition, the stakeholders and the information they require are very different. Governments report information that is far more disaggregated than a commercial enterprise.

**Sources of Revenue**

Governments derive many of their resources from taxes. Individuals and businesses pay taxes because they are legally bound. Since there is no “product or service” being conveyed at the time of payment, it is difficult determine when to recognize revenue.

**Potential for Longevity**

Governments rarely go out of business, so they have an accounting focus with a long term view of operations and the sustainability of services and the ability of meet future demand.

**Relationship with Stakeholders**

Governments have an obligation to demonstrate accountability for public funds. Fund accounting is used by governments to provide assurance that resources are used according to legal or donor restrictions.

**Role of the Budget**

Budgets are expressions of public policy and often carry the authority of law. Public officials must stay within their budgets. Required budget vs. actual comparisons indicate the degree of compliance in this area.

1. Identify the three basic fund categories, the funds that make up each of them, and the category’s basis of accounting.

**Answer:**

1. Governmental – Funds include permanent, debt service, capital project, special revenue, and general. The basis of accounting is modified accrual.

2. Proprietary – Funds include internal service and enterprise. The basis of accounting is accrual.

3. Fiduciary – Funds include private purpose trust, investment trust, pension trust, and agency. The basis of accounting is accrual.

1. Contrast the economic resources measurement focus and the current financial resources measurement focus with regard to the accounting treatment of long-term debt.

**Answer:** Under the economic resources measurement focus, long-term debt is recorded as a liability and payments for principal are treated as a reduction in the liability. Since long-term liabilities do not require current financial resources to settle, they are not recorded under the current financial resources measurement focus. Payments of principal are charged to expenditures.

1. The FASB, GASB, and FASAB have each established a hierarchy of GAAP for financial statements preparers? List one category A and one category B item for each organization.

Answer:

FASAB Statement 162, GASB Statement 55, FASAB (exposure draft)

Category A

FASB: FASB Statements & Interpretations

FASB Staff Positions

AICPA Accounting Research Bulletins and Accounting Principles Board Opinions not superseded by the FASB

GASB: GASB Statements and interpretations

FASAB: FASAB Statements and interpretations

AIACPA and FASB pronouncements specifically made applicable to federal governmental entities by FASAB statements and interpretations

Category B

FASB: FASB Technical Bulletins

AICPA Industry Audit and Accounting Guides and Statements Position if cleared by the FASB

GASB: GASB Technical Bulleting

AICPA Industry Audit and Accounting Guides and Statements Position if cleared by the GASB

FASAB: FASAB Technical Bulletins

AICPA Industry Audit and Accounting Guides and Statements Position if specifically made applicable to federal governmental entities by the AICPA and cleared by the FASAB

1. What are the four objectives that should be followed with respect to federal financial reporting according to SFFAC #1 as issued by the FASAB?

Answer:

**Budgetary integrity**

Financial reporting should demonstrate accountability with regard to raising and expending money in accord with the budgetary process, laws and regulations.

**Operating performance**

Financial reporting should enable evaluation of service efforts, costs and accomplishments.

**Stewardship**

Financial reporting should enable assessment of the impact on the nation of government operations and investments

**Systems and controls**

Financial reporting should reveal whether financial systems and controls are adequate

1. In its Statement of Financial Accounting Concepts #4, the FASB identifies the information needs of the users of non-business financial statements. These include providing information that is useful to present and potential resource providers in which four evaluation areas?

Answer:

* 1. Making decisions about the allocation of resources
  2. Assessing services provided by a non-business organization and its ability to continue to provide those services
  3. Assessing managements’ stewardship and performance
  4. Evaluation of an organization’s resources, obligations and effects of changes in net resources

1. Provide the definition of the following terms as outlined by GASB Concepts Statement No. 4, Elements of Financial Statements:

Assets

Liabilities

Net position

Inflows of resources

Outflows of resources

Answer:

**Assets:**

Resources with present service capacity that the government presently controls.

**Liabilities:**

Present obligations to sacrifice resources that the government has little or no discretion to avoid

**Net position:**

The residual of all other elements presented in a statement of financial position

**Inflows of resources:**

Acquisitions of net assets by the government that are applicable to the reporting period

**Outflows of resources:**

Consumption of net assets by the government that are applicable to the reporting period

1. What are the fund-basis financial statements for each of the following fund categories?

Fiduciary

Proprietary

Governmental

Answer:

**Fiduciary:**

Statement of Fiduciary Net assets (or Net Position)

Statement of Changes in Fiduciary Net assets (or Net Position)

**Proprietary:**

Statement of Net assets (or Net Position)

Statement of Revenues, Expenses, and Changes in Net assets (or Net Position)

Statement of Cash flows

**Governmental:**

Balance sheet

Statement of Revenues, Expenditures and Changes in Fund Balance

1. List and define the five classifications of governmental funds.

Answer:

1. General Fund

This fund accounts for most of the basic services provided by the government. It accounts for and reports all financial resources not accounted for and reported in another fund.

1. Capital Projects Fund

This fund accounts for and reports financial resources that are committed or assigned to expenditure for capital outlays. It accounts for the purchase or construction of major capital improvements except those purchased or constructed by a proprietary or fiduciary fund

1. Debt Service Fund

This fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for specified purposes other than debt service or capital projects. Included in this category are activities funded by federal or state grants or by taxes specifically restricted to certain activities.

1. Permanent Fund

This fund accounts for and reports resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting of government programs.

1. Special Revenue Fund

This fund accounts for and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for a specified purpose other than debt service or capital projects.