Examination 2: Governmental Accounting, Financial Reporting and Budgeting ()

AGA GAFRB

Version Demo

Total Demo Questions: 12

Total Premium Questions: 126

Topic Break Down

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QUESTION NO: 1

The legal congressional permission for an executive branch department or agency to enter into an obligation that will result in an immediate or future outlay is referred to as

A. a commitment authority.

B. a budget authority.

C. a transfer authority.

D. an expenditure authority.

ANSWER: B

Explanation:

“a budget authority.” is correct because budget authority is the legal authority Congress provides to a federal agency to incur obligations that will result in immediate or future federal outlays. An obligation is a binding agreement or other action that creates a legal liability for the government, such as awarding a contract, hiring personnel, or making a grant commitment. The related cash payment may occur at once or later, but the agency needs budget authority before it can legally obligate funds.

This terminology is fundamental to the federal budget process. Budget authority may be provided through appropriations acts, borrowing authority, contract authority, or authority to spend offsetting collections. Its amount and availability establish the limits within which an agency may obligate resources. The Antideficiency Act reinforces this principle by generally prohibiting federal officers and employees from making or authorizing obligations exceeding an amount available in an appropriation or fund. Accordingly, the definition in the question directly matches the federal government’s established definition of budget authority.

See the Government Accountability Office’s Principles of Federal Appropriations Law and the Office of Management and Budget’s OMB Circular A-11, section 20.

QUESTION NO: 2

The Prompt Payment Act requires federal agencies to

A. pay invoices when received.

B. take discounts when economically justified.

C. pay invoices no later than sixty days from receiving the invoice.

D. pay invoices by the invoice due date.

ANSWER: B

Explanation:

take discounts when economically justified. The Prompt Payment Act framework is intended to ensure sound federal payment practices while protecting the government’s financial interests. A prompt-payment discount is economically justified when taking it produces a financial benefit for the government, considering the discount terms and the cost of funds. Agencies therefore should arrange processing and payment so that advantageous discounts are captured, rather than routinely paying on a later date and losing a beneficial reduction in the invoice amount.

This requirement is expressly reflected in the governmentwide prompt-payment regulations. Under 5 C.F.R. § 1315.7, agencies must take discounts only when they are economically justified, and they must pay by the discount date when a discount is taken. The regulation also provides the method for evaluating whether a discount produces a cost-effective return. This supports efficient stewardship of appropriated funds while operating within the Prompt Payment Act’s broader requirements for timely invoice payment and applicable interest penalties. The statutory prompt-payment provisions are codified in 31 U.S.C. chapter 39, and Treasury’s regulations implement those requirements across executive agencies.

See 5 C.F.R. § 1315.7, Discounts and 31 U.S.C. chapter 39.

QUESTION NO: 3

OMB Circular A-136 requires that all of the following be included in an AFR EXCEPT

A. a message from the head of the agency.

B. the MD & A.

C. the financial section.

D. the performance section.

ANSWER: D

Explanation:

The performance section is the exception because it is not one of the prescribed sections of an Agency Financial Report (AFR) under OMB Circular A-136. The AFR is the financial-reporting format agencies may use to satisfy their principal financial-reporting responsibilities. Its required core content comprises Management's Discussion and Analysis, a Financial Section containing the agency's financial statements and accompanying notes, and Other Information. These components provide the narrative context, audited financial reporting, and required supplementary reporting needed for federal financial accountability.

Performance reporting is addressed through the federal performance-management framework and may be issued in an Annual Performance Report or presented in connection with a Performance and Accountability Report. Although an agency can elect to provide performance-related material with other reports where appropriate, a distinct performance section is not a required AFR component. This distinction permits an AFR to focus on the agency's financial position, results of operations, budgetary resources, stewardship information, and related financial-management disclosures while performance reporting follows its applicable statutory and OMB reporting requirements. See OMB Circular A-136, Financial Reporting Requirements and Performance.gov.

QUESTION NO: 4

The roles of GASB and FASAB are to

A. establish auditing standards.

B. issue joint accounting standards.

C. promulgate accounting standards.

D. follow FASB accounting standards.

ANSWER: C

Explanation:

"Promulgate accounting standards" is correct because both boards exist to establish authoritative financial-accounting and reporting requirements for distinct parts of the U.S. governmental environment. GASB establishes accounting and financial-reporting standards for U.S. state and local governments, including standards that support consistent presentation of governmental financial statements and enable users to assess accountability. FASAB develops federal accounting standards and related reporting guidance for federal reporting entities. Its standards become authoritative through the established federal due-process and approval structure involving the FASAB sponsors: the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States. Thus, although their jurisdictions and governance structures differ, their shared central role is the issuance of governmental accounting standards. These standards provide the basis for comparable, decision-useful general-purpose financial reporting and help governments communicate stewardship over public resources. GASB describes its mission as establishing and improving state and local governmental accounting and financial-reporting standards, while FASAB identifies its mission as developing federal accounting standards after considering users' information needs. See the GASB mission and history and FASAB's overview of its role.

QUESTION NO: 5

State and local governments account for budgeted and actual expenditures to ensure that

A. cash is available to pay bills when they come due.

B. GASB standards are met when producing the basic financial statements.

C. actual expenditures are used to formulate next year's budget.

D. spending conforms to legal requirements.

ANSWER: D

Explanation:

“spending conforms to legal requirements.” is correct because a legally adopted budget is a central fiscal-control mechanism for state and local governments. Budgetary accounting records the approved spending authority and tracks actual expenditures against that authority during the fiscal period. This comparison enables officials, governing bodies, and the public to determine whether resources were used within the purposes, amounts, and restrictions authorized through the government’s budget process. In this setting, the budget is more than a planning estimate: it often carries legal force, and expenditures generally may not exceed appropriations without an authorized budget amendment or other lawful action.

Budget-to-actual reporting therefore serves public accountability by making compliance with spending authority transparent. GASB’s financial-reporting model requires budgetary comparison information for governments that adopt annual budgets, helping users evaluate whether the government adhered to its budgetary decisions. The Government Finance Officers Association likewise identifies budget monitoring as an essential practice for maintaining financial control and accountability throughout the year. See GASB’s standards and pronouncements and GFOA’s best-practice guidance.

QUESTION NO: 6

Which fund type is required to present a statement of cash flows as part of its fund financial statements?

A. A General Fund.

B. A special revenue fund.

C. An enterprise fund.

D. A custodial fund.

ANSWER: C

Explanation:

An enterprise fund. is correct because enterprise funds are proprietary funds. Proprietary fund financial statements use the economic resources measurement focus and accrual basis of accounting and include a statement of cash flows.

Governmental funds, including the General Fund and special revenue funds, use the current financial resources measurement focus and do not present a statement of cash flows. Fiduciary funds also have their own required statements, but they are not proprietary funds and do not use the proprietary-fund statement-of-cash-flows format.

QUESTION NO: 7

A municipality would establish an internal service fund to capture the activities of a data processing center, in order to account for

A. financial resources to be used for acquisition of facilities.

B. services rendered to the general public on a fee basis.

C. proceeds of revenue sources restricted to expenditure for specified purposes.

D. financing of services provided to other governmental units on a cost reimbursement basis.

ANSWER: D

Explanation:

“Financing of services provided to other governmental units on a cost reimbursement basis” is correct because a data processing center commonly operates as a centralized service activity that supplies information-technology services to departments, agencies, or other governmental units. An internal service fund is the proprietary-fund type used when a government provides goods or services internally and recovers the costs of those operations through charges to the users of the service. The charges may cover such items as personnel, software, hardware, maintenance, data storage, and allocated overhead.

For financial-reporting purposes, the defining feature is the cost-reimbursement relationship: the data processing center functions much like a service provider, while its governmental users are charged for the measurable services they consume. This structure allows management to identify the full cost of centralized technology services, establish equitable billing rates, and evaluate whether operations are recovering costs as intended. GASB’s financial-reporting model identifies internal service funds as proprietary activities used to report services provided predominantly to other funds or departments of the same government, while also recognizing that such services may be provided to other governments. See the GASB pronouncements and guidance page and the GFOA fund accounting resources for governmental fund-accounting guidance.

QUESTION NO: 8

An idle facility cost is an allowable expense to charge to federal grants when a

A. fluctuation in workload is reasonably expected.

B. facility will sit idle for over one year.

C. facility cannot be used while it is being repaired.

D. facility is not currently needed by the agency.

ANSWER: A

Explanation:

“fluctuation in workload is reasonably expected.” is correct because the Uniform Guidance recognizes that some organizations must maintain facilities or capacity through predictable, normal variations in their workload. In that circumstance, the related costs may be charged to a federal award, provided they are otherwise allocable to the award and treated consistently under the organization’s established cost practices. The key is that the idle condition is attributable to normal workload fluctuations that are reasonably anticipated for the type of operation, rather than an indefinite lack of need for space or capacity.

Under 2 CFR 200.446, costs of idle facilities and idle capacity are generally unallowable, but the regulation expressly permits costs attributable to normal fluctuations in workload. This exception reflects the practical need for recipients and subrecipients to retain a reasonable level of operational capacity to deliver services when demand returns. The cost still must satisfy the Uniform Guidance’s broader requirements for reasonableness, allocability, and consistent treatment. The controlling regulatory text is available at 2 CFR 200.446, Idle facilities and idle capacity. Additional context on the federal cost principles appears in 2 CFR Part 200, Subpart E—Cost Principles.

QUESTION NO: 9

GAAP requires that the ACFR be accompanied by separate financial statements documenting

A. statistical data on the population.

B. fiduciary and proprietary funds.

C. program goals and objectives.

D. annual appropriations.

ANSWER: B

Explanation:

fiduciary and proprietary funds. is correct because governmental financial reporting under GASB standards presents fund financial statements separately by fund category, including governmental funds, proprietary funds, and fiduciary funds. Proprietary funds—such as enterprise and internal service funds—are reported using the economic-resources measurement focus and accrual basis of accounting. Fiduciary funds are also presented in separate fiduciary fund financial statements because their resources are held for the benefit of parties outside the government and generally are not available to support the government's own programs. This separate presentation provides users with clear information about the financial position, operating results, and cash flows or changes in fiduciary net position associated with these distinct activities. The required fund statements are part of the basic financial statements within an Annual Comprehensive Financial Report, together with government-wide statements, notes, and required supplementary information. GASB Statement No. 34 established the governmental financial-reporting model that includes these separate fund statements. The Governmental Accounting Standards Board's authoritative standards and guidance are available through its Standards and Guidance page, and its overview of the financial-reporting model is provided in the GASB pronouncements resources.

QUESTION NO: 10

The objectives of federal financial reporting include all of the following EXCEPT

A. systems and control.

B. budgetary integrity.

C. mission readiness.

D. stewardship.

ANSWER: C

Explanation:

The correct answer is **mission readiness.** The Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Concepts No. 1 identifies four objectives of federal financial reporting: budgetary integrity, operating performance, stewardship, and systems and control. These objectives establish the information that federal financial reports should provide to help users assess whether budgetary resources were obtained and used in accordance with law; evaluate the costs and results of federal programs; assess the federal government's stewardship over assets and liabilities; and determine whether financial-management systems and internal controls support reliable reporting and accountability.

Mission readiness may be an important operational goal for particular federal entities, especially organizations with defense, emergency-management, or public-safety responsibilities. However, it is not one of the government-wide financial-reporting objectives defined by FASAB. The question asks for the item that is excluded from the formal objectives, making mission readiness the appropriate selection. FASAB's original concepts statement is available at SFFAC No. 1: Objectives of Federal Financial Reporting; FASAB also provides its authoritative literature through the FASAB Handbook.

QUESTION NO: 11

Purchase orders are issued in the amount of $427,000. The general ledger entry to record the encumbrance should be

A. Debit Fund Balance $427,000 Credit Encumbrances $427,000

B. Debit Appropriations $427,000 Credit Encumbrances $427,000

C. Debit Encumbrances $427,000 Credit Expenditures $427,000

D. Debit Encumbrances $427,000 Credit Budgetary Fund Balance $427,000

ANSWER: D

Explanation:

"Debit Encumbrances $427,000 Credit Budgetary Fund Balance $427,000" is the appropriate budgetary entry when purchase orders are issued. An encumbrance is a commitment of governmental fund resources through a purchase order or similar contract; it is recorded before goods or services are received to support budgetary control and to show that part of available spending authority has been committed. Accordingly, the Encumbrances account is debited for the amount committed, and Budgetary Fund Balance is credited to identify the portion of fund balance associated with outstanding commitments. The entry does not recognize an expenditure because the government has not yet received the goods or services or incurred the related liability. When the order is filled, the encumbrance is reversed and the transaction is recorded as an expenditure and payable, as applicable. In current external financial reporting terminology, governments may disclose or classify fund balance related to outstanding encumbrances in accordance with their authorization and spending constraints; however, the stated debit-to-Encumbrances and credit-to-Budgetary-Fund-Balance format is the conventional budgetary-accounting answer. See GASB's Statement No. 54 summary and AGA's CGFM study-guide resources.

QUESTION NO: 12

The PAR includes all of the following elements EXCEPT the

A. agency-head message.

B. financial section.

C. performance section.

D. demographic section.

ANSWER: D

Explanation:

The correct answer is **demographic section.** The federal Performance and Accountability Report framework prescribed by OMB Circular No. A-136 does not establish a demographic section as a required, separately identified component of the report. A PAR is intended to present an agency's financial condition, accountability information, and performance results in a standardized reporting structure. The required content is organized around management's discussion and analysis, financial reporting, performance information, and other accompanying information required by law or OMB guidance. Although an agency may present demographic facts when they are relevant to explaining a program, workforce, service population, or performance result, those facts do not constitute a mandatory PAR section.

This distinction is important because federal financial reporting requirements focus on information that enables users to assess stewardship of public resources, financial position, internal controls, compliance, and progress toward performance goals. Demographic information can be useful contextual disclosure, but it is not one of the prescribed report elements. OMB's reporting guidance is available in OMB Circular No. A-136, Financial Reporting Requirements. The statutory performance-reporting context is also provided by the GPRA Modernization Act of 2010.