**Chapter 01**

**Introduction to Accounting and Financial Reporting for**

**Governmental and Not-for-Profit Entities**

**True / False Questions**

1. Special purpose governments generally provide a wider range of services to their residents than do general purpose governments.

True False

2. Examples of general 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. The Governmental Accounting Standards Board (GASB) is the body authorized to establish accounting principles for all government entities.

True False

5. The Financial Accounting Standards Board (FASB) is the body authorized to establish accounting principles for all colleges and universities and health care entities.

True False

6. Neither governmental nor not-for-profit entities have residual equity that can be distributed to owners.

True False

7. A characteristic common to governmental and not-for-profit organizations is that they do *not* exist to provide goods or services at a profit or profit equivalent.

True False

8. The needs of users of government financial reports are the same as those of users of business entity financial reports.

True False

9. The Federal Accounting Standards Advisory Board (FASAB) recommends accounting principles and standards for the federal government and its agencies and departments.

True False

10. The FASB, GASB, and FASAB identify primarily external users as the focus of their financial reports.

True False

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

True False

12. 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

13. The Financial Accounting Foundation has oversight over both FASB and GASB.

True False

14. 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

15. Providing information on accountability is the primary financial reporting objective for both governmental and not-for-profit entities.

True False

16. A difference in the financial reporting objectives for governmental entities and not-for-profit entities is that governmental entities report on compliance with laws, regulations, and rules that impact financial reports.

True False

17. Since neither governmental nor not-for-profit entities have investors, the financial reporting objectives are the same for both types of entities.

True False

18. The GASB provides optional guidance for those entities providing service efforts and accomplishments (SEA) reports to the public.

True False

19. The Office of Management and Budget (OMB) requires major federal departments and agencies to prepare an annual performance report.

True False

20. The FASB standards require not-for-profit entities to report net assets in three categories: unrestricted, restricted, and net investment in capital assets.

True False

21. The FASB standards require not-for-profit entities to separately report program expenses and support expenses.

True False

22. The governmental fund financial statements are intended to report on fiscal accountability.

True False

23. The governmental fund financial statements are useful in assessing operational accountability.

True False

24. Government-wide financial statements are prepared using the accrual basis of accounting.

True False

25. Both the GASB and the FASB require entities to include a management discussion and analysis in the financial reports.

True False

**Multiple Choice Questions**

26. 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 governments and all not-for-profit organizations.

27. 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. Federal Accounting Foundation (FAF).

D. Federal Accounting Standards Advisory Board (FASAB).

28. 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 not-for-profit organizations and business entities.

C. All not-for-profit organizations.

D. Special purpose governments with a business purpose.

29. You are trying to decide if an entity you are reviewing is a government or a not-for-profit. Which of the following would indicate it is a government rather than a not-for-profit entity?

A. Absence of profit motive.

B. A primary source of revenues is taxes.

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.

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

A. Decision usefulness.

B. Stewardship.

C. Accountability.

D. Interperiod equity.

31. Which of the following organizations issue standards that focus on both internal and external financial reporting?

A. Federal Accounting Standards Advisory Board.

B. Governmental Accounting Standards Board.

C. Financial Accounting Standards Board.

D. American Institute of CPAs.

32. 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.

33. 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.

34. 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.

35. One of the minimum requirements for general purpose external financial reporting by governments is:

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

B. Transmittal letter.

C. Combining and individual fund statements.

D. Statistical information.

36. 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.

37. 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.

38. 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.

39. 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.

40. 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.

41. 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.

42. On what do the government-wide financial statements report?

A. Operational accountability.

B. Fiscal accountability.

C. The cost of government services.

D. Budgetary compliance.

43. 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.

44. 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.

45. 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.

46. 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.

47. 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.

48. The FASB requires that a statement of functional expenses be prepared by which of the following entities?

A. Colleges and universities.

B. Health care entities.

C. Voluntary health and welfare entities.

D. Religious entities.

49. Which of the following is *not* a net asset category reported by not-for-profit entities?

A. Unrestricted net assets.

B. Temporarily restricted net assets.

C. Restricted net assets.

D. Permanently restricted net assets.

50. Which of the following is *not* an example of a support expense reported by not-for-profit entities?

A. Fund-raising expenses.

B. Program expenses.

C. Management expenses.

D. General expenses of operating the not-for-profit entity.

**Essay Questions**

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

52. Identify and explain the characteristics that distinguish government and not-for-profit entities from business entities.

53. 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?

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

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

56. 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.

57. Describe the difference between a comprehensive annual financial report (CAFR) and GASB general purpose external financial reporting for state and local governments.

58. 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.

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

60. Describe the comprehensive annual financial report (CAFR). What are the sections of the report and which components of the organization should it include? Is a CAFR required?

**Chapter 01**

**Introduction to Accounting and Financial Reporting for**

**Governmental and Not-for-Profit Entities**

**Answer Key**

**True / False Questions**

1. Special purpose governments generally provide a wider range of services to their residents than do general purpose governments.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1Easy  
Learning Objective: 1-1   
Topic: Special purpose government*

2. Examples of general purpose governments include cities, towns, and public schools that receive tax revenue to finance the services they provide.

**TRUE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1Easy  
Learning Objective: 1-1   
Topic: General purpose government*

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**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

4. The Governmental Accounting Standards Board (GASB) is the body authorized to establish accounting principles for all government entities.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

5. The Financial Accounting Standards Board (FASB) is the body authorized to establish accounting principles for all colleges and universities and health care entities.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

6. Neither governmental nor not-for-profit entities have residual equity that can be distributed to owners.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

7. A characteristic common to governmental and not-for-profit organizations is that they do *not* exist to provide goods or services at a profit or profit equivalent.

**TRUE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-1   
Topic: Differences between governmental and not-for-profit organization*

8. The needs of users of government financial reports are the same as those of users of business entity financial reports.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-1   
Topic: Differences between governmental and for-profit organization*

9. The Federal Accounting Standards Advisory Board (FASAB) recommends accounting principles and standards for the federal government and its agencies and departments.

**TRUE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

10. The FASB, GASB, and FASAB all focus their standards on both internal and external financial reporting.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

11. 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**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Interperiod equity*

12. 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**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: General purpose external financial reports*

13. The Financial Accounting Foundation has oversight over both FASB and GASB.

**TRUE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

14. 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**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: General purpose external financial reports*

15. Providing information on accountability is the primary financial reporting objective for both governmental and not-for-profit entities.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Accountability*

16. A difference in the financial reporting objectives for governmental entities and not-for-profit entities is that governmental entities report on compliance with laws, regulations, and rules that impact financial reports.

**TRUE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Differences between governmental and not-for-profit organizations*

17. Since neither governmental nor not-for-profit entities have investors, the financial reporting objectives are the same for both types of entities.

**FALSE**

*AACSB: Knowledge application  
AICPA: FN Financial reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Differences between governmental and not-for-profit organizations*

18. The GASB provides optional guidance for those entities providing service efforts and accomplishments (SEA) reports to the public.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: General purpose external financial reports*

19. The Office of Management and Budget (OMB) requires major federal departments and agencies to prepare an annual performance report.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-5   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

20. The FASB standards require not-for-profit entities to report net assets in three categories: unrestricted, restricted, and net investment in capital assets.

**FALSE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

21. The FASB standards require not-for-profit entities to separately report program expenses and support expenses.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Reporting of expenses*

22. The governmental fund financial statements are intended to report on fiscal accountability.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: General purpose external financial reports*

23. The governmental fund financial statements are useful in assessing operational accountability.

**FALSE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4  
Topic: General purpose external financial reports*

24. Government-wide financial statements are prepared using the accrual basis of accounting.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4  
Topic: General purpose external financial reports*

25. Both the GASB and the FASB require entities to include a management discussion and analysis in the financial reports.

**FALSE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

**Multiple Choice Questions**

26. 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 governments and all not-for-profit organizations.

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

27. 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. Federal Accounting Foundation (FAF).

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

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

28. 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 not-for-profit organizations and business entities.

C. All not-for-profit organizations.

D. Special purpose governments with a business purpose.

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

29. You are trying to decide if an entity you are reviewing is a government or a not-for-profit. Which of the following would indicate it is a government rather than a not-for-profit entity?

A. Absence of profit motive.

**B.** A primary source of revenues is taxes.

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.

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-1   
Topic: Differences between governmental and not-for-profit organization*

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

A. Decision usefulness.

B. Stewardship.

**C.** Accountability.

D. Interperiod equity.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Accountability*

31. Which of the following organizations issue standards that focus on both internal and external financial reporting?

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

B. Governmental Accounting Standards Board.

C. Financial Accounting Standards Board.

D. American Institute of CPAs.

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

32. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

33. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

34. 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.

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

35. One of the minimum requirements for general purpose external financial reporting by governments is:

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

B. Transmittal letter.

C. Combining and individual fund statements.

D. Statistical information.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: General purpose external financial reporting*

36. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

37. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: General purpose external financial reporting*

38. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

39. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

40. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

41. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

42. On what do the government-wide financial statements report?

**A**. Operational accountability.

B. Fiscal accountability.

C. The cost of government services.

D. Budgetary compliance.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Operational accountability*

43. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

44. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Accountability*

45. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-5   
Topic: Required sections of PAR*

46. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-5   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

47. 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.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

48. The FASB requires that a statement of functional expenses be prepared by which of the following entities?

A. Colleges and universities.

B. Health care entities.

**C.** Voluntary health and welfare entities.

D. Religious entities.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-5   
Topic: Reporting of expenses*

49. Which of the following is *not* a net asset category reported by not-for-profit entities?

A. Unrestricted net assets.

B. Temporarily restricted net assets.

**C.** Restricted net assets.

D. Permanently restricted net assets.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3  
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

50. Which of the following is *not* an example of a support expense reported by not-for-profit entities?

A. Fund-raising expenses.

**B.** Program expenses.

C. Management expenses.

D. General expenses of operating the not-for-profit entity.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Reporting of expenses*

**Essay Questions**

51. 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.**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

52. Identify and explain the characteristics that distinguish government 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. Government 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 Statements).**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-1   
Topic: Differences between governmental and for-profit organization*

53. 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.**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3  
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

54. Why should persons interested in reading financial reports of government 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.**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

55. 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.**

*AACSB: Communication  
AICPA: FN Reporting*

*Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Accountability*

56. 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 government 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.**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

57. Describe the difference between a comprehensive annual financial report (CAFR) and GASB general purpose external financial reporting 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).**

*AACSB: Communication  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: General purpose external financial report*

58. 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.**

*AACSB: Communication  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-5   
Topic: Required sections of a PAR*

59. 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.**

*AACSB: Communication  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Accountability*

60. Describe the comprehensive annual financial report (CAFR). What are the sections of the report and which components of the organization should it include? Is a CAFR required?

**The CAFR is recommended, but not required. The CAFR is comprised of three sections: (1) introductory section, (2) financial section, and (3) statistical section. All activities of the primary government and its component units should be included in the reporting entity covered by the CAFR. The minimum financial reporting requirements include (1) MD&A, (2) basic financial statements, and (3) required supplementary information other than the MD&A.**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*