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
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

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

True    False

1. 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 provided.

True    False

1. 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

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

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

True  False

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

True  False

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

Since neither governmental nor not-for-profit entities have investors, the financial reporting objectives are the same for both types.
1. The GASB provides optional guidance for those entities providing service efforts and accomplishments (SEA) reports to the public.

True  False

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

True  False

3. 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

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

True  False

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

True  False
2. The governmental fund financial statements are useful in assessing operational accountability.

   True  False

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

   True  False

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

   True  False

Multiple Choice Questions
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 governementally-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.

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).
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.
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.
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.

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.
2. 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.

3. 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.
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.

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.
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.
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.
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.

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.
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.
1. 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.

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

A. Operational accountability.

B. Fiscal accountability.

C. The cost of government services.

D. Budgetary compliance.
3. 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.

4. 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.
4. 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.

6. 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.
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.
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.

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.
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

Explain the essential differences between general purpose and special purpose governments and give several examples of each.
Identify and explain the characteristics that distinguish government and not-for-profit entities from business entities.

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?
5. 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?

5. Explain in your own words why accountability is the cornerstone of all financial reporting in government.
5. In your own words state the primary uses the GASB believes external users have for financial reports of state and local governments.

6. State the uses the FASB believes external users have for the financial reports of not-for-profit organizations.

7. Describe the difference between a comprehensive annual financial report (CAFR) and GASB general purpose external financial reporting for state and local governments.
Identify and briefly explain the four sections of the performance and accountability report (PAR) that the Office of Management and major federal departments and agencies to prepare.

Explain the concepts fiscal and operational accountability and the basis of accounting used to capture each concept.
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?
True / False Questions

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

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

TRUE

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
Learning Objective: 01-02 Identify the authoritative bodies responsible for setting financial reporting standards for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

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

Learning Objective: 01-02 Identify the authoritative bodies responsible for setting financial reporting standards for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-02 Identify the authoritative bodies responsible for setting financial reporting standards for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

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

TRUE
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

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

FALSE
Learning Objective: 01-01 Identify and explain the characteristics that distinguish governmental and not-for-profit entities from for-profit entities.

Topic: Differences between governmental and for-profit organization


**TRUE**

Learning Objective: 01-02 Identify the authoritative bodies responsible for setting financial reporting standards for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Primary source of reporting standards

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

**FALSE**
Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations

1. 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**
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

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

TRUE
Learning Objective: 01-02 Identify the authoritative bodies responsible for setting financial reporting standards for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

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

Learning Objective: 01-04 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

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

FALSE

AACSB: Knowledge application
AICPA: FN Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

AICPA: BB Industry
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

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

FALSE

Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Differences between governmental and not-for-profit organization

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

TRUE

Learning Objective: 01-04 Explain the minimum requirements for general purpose external financial reporting for state and
local governments and how they relate to comprehensive annual financial reports.

**Topic:** General purpose external financial reporting

1. 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  
   **Accessibility:** Keyboard Navigation  
   **Blooms:** Remember  
   **Difficulty:** 1 Easy  
   **Learning Objective:** 01-05 Identify and describe the required financial statements for the federal government and not-for-profit organizations.  
   **Topic:** Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations

2. 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  
   **Accessibility:** Keyboard Navigation
Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations

2.

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

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

**TRUE**

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

**FALSE**
2. Government-wide financial statements are prepared using the accrual basis of accounting.  

TRUE

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

FALSE
Multiple Choice Questions

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

6. The Governmental Accounting Standards Board is assigned responsibility for setting accounting and financial reporting standards for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

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.
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-02 Identify the authoritative bodies responsible for setting financial reporting standards for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Primary source of reporting standards
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-02 Identify the authoritative bodies responsible for setting financial reporting standards for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Primary source of reporting standards
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
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-01 Identify and explain the characteristics that distinguish governmental and not-for-profit entities from for-profit entities.

Topic: Differences between governmental and not-for-profit organization
3. 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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Accountability
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
3. 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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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.
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-04 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

Topic: General purpose external financial reporting
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

Topic: Operational accountability
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
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-04 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

Topic: Accountability
4. 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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-05 Identify and describe the required financial statements for the federal government and not-for-profit organizations.

Topic: Required sections of a PAR
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-05 Identify and describe the required financial statements for the federal government and not-for-profit organizations.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations.
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-05 Identify and describe the required financial statements for the federal government and not-for-profit organizations.

Topic: Reporting of expenses
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
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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.

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

2. Identify and explain the characteristics that distinguish government and not-for-profit entities from business entities.
3. 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?

$$FeedBack$$

AACSB: Communication
AICPA: BB Industry
Blooms: Understand
Difficulty: 2 Medium

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

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Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
5. Explain in your own words why accountability is the cornerstone of all financial reporting in government.

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Topic: Accountability

5. 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.

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Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
Describe the difference between a comprehensive annual financial report (CAFR) and GASB general purpose external financial reporting for state and local governments.

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AACSB: Communication
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Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-04 Explain the minimum requirements for general purpose external financial reporting for state and local governments and how they relate to comprehensive annual financial reports.

Topic: General purpose external financial reporting
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.

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Learning Objective: 01-05 Identify and describe the required financial statements for the federal government and not-for-profit organizations.

Topic: Required sections of a PAR
5. Explain the concepts fiscal and operational accountability and the basis of accounting used to capture each concept.

6. 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?

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Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 01-03 Contrast and compare the objectives of financial reporting for (1) state and local governments, (2) the federal government, and (3) not-for-profit organizations.

Topic: Accountability

6. 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?

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Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations
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