

Accounting for Governmental and Nonprofit Entities, 18e (Reck)

Chapter 1 Introduction to Accounting and Financial Reporting for Government and Not-for-Profit Entities

- 1) Special purpose governments generally provide a wider range of services to their residents than do general purpose governments.
- 2) Examples of general purpose governments include cities, towns, and public schools that receive tax revenue to finance the services they provide.
- 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.
- 4) The Governmental Accounting Standards Board (GASB) is the body authorized to establish accounting principles for all government entities.
- 5) The Financial Accounting Standards Board (FASB) is the body authorized to establish accounting principles for all colleges and universities and health care entities.
- 6) Neither governments nor not-for-profit entities have residual equity that can be distributed to owners.
- 7) A characteristic common to governments and not-for-profit organizations is that they do *not* exist to provide goods or services at a profit or profit equivalent.
- 8) The needs of users of government financial reports are the same as those of users of business entity financial reports.
- 9) The Federal Accounting Standards Advisory Board (FASAB) recommends accounting principles and standards for the federal government and its agencies and departments.
- 10) The FASB, GASB, and FASAB all focus their standards on both internal and external financial reporting.
- 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.
- 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.
- 13) The Financial Accounting Foundation has oversight over both the FASB and the GASB.
- 14) In addition to financial statements and notes, the GASB requires governments to provide information on service efforts and accomplishments (SEA) in their reports to the public.

- 15) Providing information on accountability is the primary financial reporting objective for both governments and not-for-profit entities.
- 16) A difference in the financial reporting objectives for government entities and not-for-profit entities is that government entities report on compliance with laws, regulations, and rules that impact financial reports.
- 17) Since neither governments nor not-for-profit entities have investors, the financial reporting objectives are the same for both types of entities.
- 18) The GASB provides optional guidance for those entities providing service efforts and accomplishments (SEA) reports to the public.
- 19) The Office of Management and Budget (OMB) requires major federal departments and agencies to prepare an annual performance report.
- 20) The FASB standards require not-for-profit entities to report net assets in three categories: unrestricted, restricted, and net investment in capital assets.
- 21) The FASB standards require not-for-profit entities to separately report program expenses and support expenses.
- 22) The governmental fund financial statements are intended to report on fiscal accountability.
- 23) The governmental fund financial statements are useful in assessing operational accountability.
- 24) Government-wide financial statements are prepared using the accrual basis of accounting.
- 25) Both the GASB and the FASB require entities to include a management discussion and analysis in the financial reports.
- 26) Similar to for-profit entities, net income serves as a good measure of a government's performance.
- 27) 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.

- 28) 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).
- 29) 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.
- 30) 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.
- 31) 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.
- 32) 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.
- 33) 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.

- 34) 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.
- 35) 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.
- 36) 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.
- 37) A comprehensive annual financial report (CAFR) prepared in conformity with the 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.
- 38) 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.
- 39) 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.

40) 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.

41) 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.

42) 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.

43) On what do the government-wide financial statements report?

- A) Operational accountability.
- B) Fiscal accountability.
- C) The cost of government services.
- D) Budgetary compliance.

44) 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 GASB and FASAB.

45) 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.

46) 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.

- 47) Which of the following statements is prepared by all not-for-profit organizations?
- A) Statement of financial position.
 - B) Statement of changes in net position.
 - C) Statement of revenues, expenses, and changes in net position.
 - D) Both Statement of financial position and Statement of changes in net position.
- 48) 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.
- 49) The FASB requires that a statement showing the relationship of functional expenses to natural classifications of expense be prepared by which of the following entities?
- A) Colleges and universities.
 - B) Health care entities.
 - C) Voluntary health and welfare entities.
 - D) All not-for-profit entities.
- 50) Which of the following is a net asset category reported by not-for-profit entities?
- A) Unrestricted net assets.
 - B) Net assets with donor restrictions.
 - C) Temporarily restricted net assets.
 - D) Net investment in capital assets.
- 51) Which of the following is *not* classified as a support activity 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.
- 52) The FASAB's *Statement of Accounting and Reporting Concepts Statement No. 1* identifies four objectives of federal financial reporting. The requirement to be publicly accountable for laws and regulations related to spending tax revenues relates to which of the four objectives?
- A) Stewardship.
 - B) Operating performance.
 - C) Budgetary integrity.
 - D) Accountability.
- 53) Explain the essential differences between general purpose and special purpose governments and give several examples of each.
- 54) Identify and explain the characteristics that distinguish governments and not-for-profit entities from business entities.

55) 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?

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

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

58) 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.

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

60) 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.

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

62) 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?