

Governmental and Nonprofit Accounting: Theory and Practice, 10e (Freeman)

Chapter 1 Governmental and Nonprofit Accounting—Environment and Characteristics

1. Which of the following would ***not*** be considered a government or nonprofit organization?
 - A. A software company that sells software exclusively to state and local governments.
 - B. A public elementary school.
 - C. A church.
 - D. A private trust organized for charitable purposes.

(Answer: A; Easy; LO1)

2. Which of the following activities would *most likely* be accounted for as a business-type activity?
 - A. Fire protection.
 - B. Recreation.
 - C. Water operations.
 - D. Street maintenance.

(Answer: C; Moderate; LO1)

3. Prior to the creation of the Governmental Accounting Standards Board in 1984, which of the following organizations had the greatest influence over accounting concepts, principles, and standards for the state and local governments?
 - A. The National Council on Governmental Accounting (NCGA)
 - B. The National Association of College and University Business Officers (NACUBO).
 - C. The American Institute of Certified Public Accountants (AICPA).
 - D. The Comptroller General of the United States.

(Answer: A; Moderate; LO1)

4. Which of the following is considered a health and welfare organization?
 - A. Secondary schools.
 - B. Young Men's Christian Association (YMCA).
 - C. Child protection agencies.
 - D. United Way.

(Answer: C; Easy; LO2)

5. Which of the following characteristics best distinguishes a government entity from a business entity?
 - A. Governments operate in a very small section of the economy while businesses operate globally.
 - B. Cost analysis and other control and evaluation techniques are essential to ensure that resources are used economically and efficiently.
 - C. Those contributing resources to the entity do not necessarily receive a direct or proportionate share the services.
 - D. Businesses must acquire and convert scarce resources while governments can demand whatever they need.

(Answer: C; Moderate; LO3)

6. Which source of financial resources is unique to governments?

- A. Borrowings.
- B. Gifts and grants.
- C. Charges for services provided.
- D. Taxation.

(Answer: D; Easy: (LO4)

7. Which of the following is **not** an operational accountability measure for a government?

- A. Economic cost of providing services.
- B. Net income.
- C. Assessment whether a government raised sufficient revenues each period to cover the cost of providing services.
- D. Assessment whether services are being provided economically and efficiently.

(Answer: B; Moderate; LO4)

8. Which of the following is **not** a primary financial reporting objective of state and local government (SLG) reporting?

- A. Provide information necessary to assess the level of LG services and its ability to continue to finance its activities and meet its obligations.
- B. Provide information necessary for investment and credit decisions.
- C. Provide a means of demonstrating the SLG's accountability that enables users to assess that accountability.
- D. Provide information necessary to evaluate the SLG's operating results for the period.

(Answer B; Difficult; LO4)

9. The primary purpose of a fund is

- A. To provide expenditure authority for a government or not-for-profit organization.
- B. To segregate an organization's resources according to the purpose(s) for which they are to be used.
- C. To keep an organization's constituency from trying to insist that the organization utilize resources that it wants to save for a specific future objective.
- D. To confuse and confound the legislative body as to the use and purpose of government resources.

(Answer: B; Moderate; LO4)

10. Which of the following is not a characteristic of a fund?

- A. Fiscal entity.
- B. Separate legal entity.
- C. Accounting entity.
- D. Contains self-balancing set of accounts.

(Answer: B; Moderate; LO4)

11. Fixed-dollar budgets and appropriations are most often found in
- A. All funds of a government.
 - B. Expendable funds.
 - C. Nonexpendable funds.
 - D. In not-for-profit organizations, but not governments.

(Answer: B; Moderate; LO4)

12. *Expenditures* in a governmental (*expendable*) fund would **not** potentially include
- A. Salaries and wages.
 - B. Capital outlay.
 - C. Long-term debt principal retirement.
 - D. Depreciation.

(Answer: D; Easy; LO4)

13. *Expenses* in a proprietary (*nonexpendable*) fund would **not** potentially include
- A. Salaries and wages.
 - B. Long-term debt interest payments.
 - C. Long-term debt principal retirement.
 - D. Depreciation.

(Answer: C; Moderate; LO4)

14. Expenses and expenditures are least likely to differ in amount for which type of transaction?
- A. Salaries.
 - B. Capital asset purchases.
 - C. Debt principal retirements.
 - D. Depreciation on capital assets.

(Answer: A; Moderate; LO4)

15. The primary users of external financial reports, as identified by the GASB, include all of the following **except**
- A. Investors and creditors.
 - B. Other governments.
 - C. Citizens.
 - D. Legislative and oversight bodies.

(Answer: B; Moderate; LO5)

16. Which of the following organizations has had the least - impact on the development of GAAP for state and local governments?
- A. American Hospital Association.
 - B. Federal Accounting Standards Advisory Board
 - C. National Association of College and University Business Officers.
 - D. National Committee on Governmental Accounting.

(Answer B: Easy; LO6)

17. The Financial Accounting Foundation does **not** have oversight responsibilities over
- A. The Financial Accounting Standards Board (FASB).
 - B. The Federal Accounting Standards Advisory Board (FASAB).
 - C. The Financial Accounting Standards Advisory Council (FASAC).
 - D. The Governmental Accounting Standards Board (GASB).

(Answer: B; Easy; LO6)

18. What best describes the relationship of the FASB and the GASB?
- A. They are co-equal bodies with different areas of responsibility for standards setting.
 - B. The FASB standards are authoritative for governments. However, the FASB asks the GASB to establish guidelines for many unique transactions of government that the FASB does not have time to consider.
 - C. GASB standards are authoritative for governments unless they have been overruled by the FASB.
 - D. Governments are not permitted to apply any FASB standard under any circumstances for any government operations.

(Answer: A; Moderate; LO6)

19. Which organization has the highest level of authority for a setting GAAP for nongovernment, not-for-profit organizations?
- A. Financial Accounting Standards Board (FASB).
 - B. Governmental Accounting Standards Board (GASB).
 - C. American Institute of Certified Public Accountants (AICPA).
 - D. National Council on Governmental Accounting (NCGA).

(Answer: A; Easy; LO6)

20. All not-for-profit organizations that do not meet the definition of governments must apply
- A. FASB standards.
 - B. GASB standards.
 - C. FASAB standards.
 - D. AICPA Audit and Accounting Guide, Not-for-Profit Organizations.

(Answer: A; Moderate; LO6)

21. Each of the following would be defined as a governmental entity based on the definition of a government that was jointly developed by the GASB and FASB **except**
- A. A Historic Preservation District created by the governing board of the municipal government.
 - B. A Charter School incorporated in accordance with state law and accountable to the state oversight agency.
 - C. A hospital formerly owned by a local government entity that was sold to and is now owned by a private, for-profit health care management corporation.
 - D. A financing authority that is legally separate from the municipal government, but provides financing for the government's major capital projects. The governing board of the financing authority is appointed by the municipal government's board.

(Answer: C; Moderate; LO6)

22. Which of the following is considered to be an authoritative source of GAAP for a nongovernmental not-for-profit organization?

- A. GASB standards.
- B. AICPA AcSEC Practice Bulletins.
- C. FASB Accounting Standards Codification.
- D. AICPA Audit and Accounting Guide, Not-for-Profit Organizations.

(Answer: C; Difficult; LO6)

23. Which of the following is **not** a characteristic used to determine if an organization is a government?

- A. The majority of governing board members are appointed by government entities.
- B. An entity that has the power to enact and enforce a property tax levy.
- C. An entity receives over half of its resources from other governmental entities.
- D. The potential for unilateral dissolution with the net assets reverting to a government upon dissolution.

(Answer: C; Moderate; LO6)

24. The governmental GAAP hierarchy was established by

- A. The Governmental Accounting Standards Board (GASB).
- B. The Financial Accounting Standards Board (FASB).
- C. The American Institute of Certified Public Accountants (AICPA).
- D. The Government Accountability Office (GAO).

(Answer: A; Easy; LO7)

25. Which of the following publications is specifically identified in the GAAP hierarchy for state and local governments as authoritative?

- A. FASB Accounting Standards Codification.
- B. GASB Implementation Guides.
- C. GAO Yellow Book.
- D. GASB Concepts Statements.

(Answer: B; Moderate; LO7)

26. Which of the following has the highest level of authority for a government under GAAP?

- A. A FASB standard.
- B. A GASB Implementation Guide.
- C. AICPA Industry Audit and Accounting Guide for local governments cleared by the GASB.
- D. An article in the *Journal of Accountancy*.

(Answer: C; Moderate; LO7)

27. Which of the following has the highest level of authority for a government in the governmental GAAP hierarchy?

- A. A FASB standard on pension accounting.
- B. A GASB standard on pension accounting.
- C. AICPA state and local government audit guide coverage of pensions.
- D. The coverage of pensions in a *Journal of Accountancy* article.

(Answer: B; Moderate; LO7)

28. Which of the following has the highest level of authority for a government in the governmental GAAP hierarchy?

- A. GASB *Codification of Governmental Accounting and Financial Reporting Standards*.
- B. GASB Concepts Statement.
- C. GASB Technical Bulletin.
- D. AICPA Industry Audit and Accounting Guide.

(Answer: A; Moderate; LO7)

29. Rank the following documents in the proper order in the governmental GAAP hierarchy:

- a. GASB Implementation Guide.
- b. GASB Interpretation.
- c. GASB Technical Bulletin.
- d. AICPA Practice Bulletin.

- A. a; b; c; d.
- B. b; a; c; d.
- C. b; c; d; a.
- D. c; d; b; a.

(Answer: C; Moderate; LO7)