

Certified Government Financial Manager (CGFM) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

- 1. What legislative act established the Congressional Budget Office?**
 - A. Budget and Accounting Act of 1921**
 - B. Federal Budget Control Act of 1974**
 - C. Congressional Budget and Impoundment Control Act of 1974**
 - D. Government Performance and Results Act of 1993**
- 2. Which of the following is a requirement for allowable costs under grants?**
 - A. Costs must always be matched with future funding**
 - B. Costs must be properly documented and conform to limitations**
 - C. Costs may exceed initial budgets if justified**
 - D. Costs must be the lowest among competing bids**
- 3. What are exceptions to tax laws and regulations commonly referred to as?**
 - A. Tax loopholes**
 - B. Tax allowances**
 - C. Tax expenditures**
 - D. Tax benefits**
- 4. Which principle suggests that citizens who benefit from a service should pay for that service?**
 - A. Interperiod Equity**
 - B. Public Good Theory**
 - C. Benefit Principle**
 - D. Proportional Taxation**
- 5. What is essential for timely communication of deficiencies in monitoring activities?**
 - A. Annual review meetings**
 - B. Documentation of all processes**
 - C. Immediate escalation to management**
 - D. Audit trails for all records**

- 6. What is a key factor in determining whether a deficit exists?**
- A. The budget is balanced.**
 - B. Expenditures do not meet planned amounts.**
 - C. Expenditures exceed revenues for a fiscal period.**
 - D. Revenues are guaranteed to increase.**
- 7. Which of the following is a key purpose of an informational data dashboard?**
- A. To provide high-level static snapshots updated periodically**
 - B. To assess monitoring activities that constantly change**
 - C. To fulfill responsibility for transparency and accountability**
 - D. To indicate subtle performance indicators for historical comparison**
- 8. Which describes a key feature of categorical grants?**
- A. They are highly flexible in usage**
 - B. They focus on broad societal needs**
 - C. They are intended for specific purposes**
 - D. They require minimal documentation of expenditures**
- 9. Under which principle can courts overturn laws that are deemed unconstitutional?**
- A. Judicial Review**
 - B. Legislative Oversight**
 - C. Constitutional Review**
 - D. Judicial Authority**
- 10. What is one responsibility of an audit committee?**
- A. Creating financial policies**
 - B. Reviewing financial information for reliability**
 - C. Conducting employee evaluations**
 - D. Preparing financial statements**

Answers

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1. C
2. B
3. C
4. A
5. C
6. C
7. C
8. C
9. A
10. B

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Explanations

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1. What legislative act established the Congressional Budget Office?

- A. Budget and Accounting Act of 1921**
- B. Federal Budget Control Act of 1974**
- C. Congressional Budget and Impoundment Control Act of 1974**
- D. Government Performance and Results Act of 1993**

The Congressional Budget Office (CBO) was established by the Congressional Budget and Impoundment Control Act of 1974. This act was a significant piece of legislation that was designed to enhance the budgetary control of Congress over federal spending and reduce the executive branch's ability to unilaterally withhold funding. The creation of the CBO was intended to provide Congress with an independent source of budgetary analysis, which would improve the legislative process by offering impartial analysis of budget proposals, economic forecasts, and the impact of legislative initiatives on the federal budget. This was especially relevant as Congress sought to exert greater authority in the budgeting process, particularly in response to the increasing complexities of the federal budgeting system and the need for transparency. In contrast, the other legislative acts mentioned focused on different aspects of budgeting and governmental accountability. The Budget and Accounting Act of 1921 primarily established the modern framework for federal budgeting and accounting but did not create the CBO. The Federal Budget Control Act of 1974 aimed to set budgetary ceilings and enforce discipline in federal spending but was published concurrently with the establishment of the CBO. The Government Performance and Results Act of 1993 focused on performance accountability and program evaluation rather than on the creation of budgetary offices.

2. Which of the following is a requirement for allowable costs under grants?

- A. Costs must always be matched with future funding**
- B. Costs must be properly documented and conform to limitations**
- C. Costs may exceed initial budgets if justified**
- D. Costs must be the lowest among competing bids**

The requirement for allowable costs under grants emphasizes that costs must be properly documented and conform to limitations set forth in the grant agreement and applicable regulations. Proper documentation ensures that there is a clear record of expenses incurred, which is vital for accountability and transparency in the use of public funds. Additionally, grants often have specific limitations regarding what costs can be charged to the grant. These limitations can include restrictions on the types of expenses that are allowable, as well as caps on the amount that can be charged for certain expenditures. Conforming to these requirements ensures compliance with the terms of the grant and helps protect the integrity of the funding process. The other options do not align with the established guidelines for allowable costs under grants. Matching costs with future funding is not a general requirement for allowable costs; rather, it focuses more on the matching principle in some accounting practices. Allowing costs to exceed initial budgets without justification undermines budgeting discipline, while requiring costs to always be the lowest among competing bids could be overly restrictive and may not consider other factors such as quality and service, which are important in procurement processes.

3. What are exceptions to tax laws and regulations commonly referred to as?

- A. Tax loopholes**
- B. Tax allowances**
- C. Tax expenditures**
- D. Tax benefits**

Exceptions to tax laws and regulations are commonly referred to as tax expenditures. This term encompasses various ways the government adjusts tax obligations through exemptions, deductions, and credits, ultimately resulting in a reduction of government revenue. Tax expenditures are seen as a means to promote certain social or economic activities by providing financial incentives to taxpayers. Tax loopholes typically refer to unintended gaps or ambiguities in the tax law that can be exploited by taxpayers to minimize their tax liability, often seen in a more negative light than tax expenditures. Tax allowances, on the other hand, generally refer to specific amounts that can be deducted from taxable income, which differ from expenditures since they are usually a standard provision within the tax framework. Tax benefits is a broader term that can apply to any financial advantage related to tax laws, including but not limited to tax expenditures. In summary, tax expenditures distinctly represent the formal exceptions within tax laws and regulations that modify taxpayer obligations and are recognized as a strategic tool of fiscal policy.

4. Which principle suggests that citizens who benefit from a service should pay for that service?

- A. Interperiod Equity**
- B. Public Good Theory**
- C. Benefit Principle**
- D. Proportional Taxation**

The principle that asserts citizens who benefit from a service should pay for that service is known as the Benefit Principle. This principle is grounded in the idea of fairness and equity, indicating that individuals who derive value from government services should contribute to the funding of those services. In practical terms, it implies that taxes or fees should be levied in proportion to the benefits received by each citizen. For instance, those who use public transportation or public parks would be expected to pay for these services, reflecting their use and the benefits derived. Interperiod Equity focuses on the fairness of distributing the cost of public services across different periods, ensuring that current and future taxpayers do not unfairly bear the burdens of present costs. Public Good Theory relates more to goods that are non-excludable and non-rivalrous, meaning that they are available for anyone to use without depleting resources. Proportional Taxation refers to a tax system where the tax rate remains the same regardless of income level, not directly addressing the relationship between benefits received and payments made.

5. What is essential for timely communication of deficiencies in monitoring activities?

- A. Annual review meetings**
- B. Documentation of all processes**
- C. Immediate escalation to management**
- D. Audit trails for all records**

Timely communication of deficiencies in monitoring activities is critical to maintaining effective oversight and ensuring that any issues are addressed promptly. Immediate escalation to management is essential because it minimizes the time lapse between identifying a deficiency and taking action to resolve it. When deficiencies are communicated to management without delay, it allows for quick decision-making and resource allocation to address the issues, ultimately helping to prevent further complications or negative impacts on operational effectiveness. The other options, while beneficial in their own contexts, do not emphasize the immediacy of communication required in these situations. Annual review meetings, for instance, are typically scheduled events that may not allow for the rapid response needed when a deficiency is first identified. Documentation of processes is important for clarity and accountability but does not directly facilitate quick communication regarding deficiencies. Similarly, audit trails are crucial for maintaining transparency and accountability but are not direct mechanisms for notifying management about deficiencies; they serve more as a historical record of compliance rather than a tool for immediate action.

6. What is a key factor in determining whether a deficit exists?

- A. The budget is balanced.**
- B. Expenditures do not meet planned amounts.**
- C. Expenditures exceed revenues for a fiscal period.**
- D. Revenues are guaranteed to increase.**

A key factor in determining whether a deficit exists is when expenditures exceed revenues for a fiscal period. This indicates that the total amount spent during that period surpasses the income generated, thereby leading to a financial shortfall or deficit. A budget is considered balanced when revenues are equal to expenditures, which does not indicate a deficit. If expenditures do not meet planned amounts, it may imply underspending, but it does not directly confirm that a deficit has occurred. Lastly, while guaranteed revenue increases can improve the financial outlook, they do not determine current deficits; rather, they focus on future financial projections. Understanding this relationship between expenditures and revenues is crucial for assessing the fiscal health of an entity.

7. Which of the following is a key purpose of an informational data dashboard?

- A. To provide high-level static snapshots updated periodically**
- B. To assess monitoring activities that constantly change**
- C. To fulfill responsibility for transparency and accountability**
- D. To indicate subtle performance indicators for historical comparison**

A key purpose of an informational data dashboard is to fulfill the responsibility for transparency and accountability. Dashboards present data in a clear, visual format, allowing stakeholders to easily understand the performance and status of various initiatives, programs, or operations. By consolidating data in an accessible manner, dashboards enhance the visibility of key metrics and facilitate informed decision-making processes, ensuring that there is oversight in how resources are managed and outcomes are achieved. This structure supports transparent communication within an organization and fosters accountability among team members and management. In comparison, providing high-level static snapshots updated periodically does not fully capture the dynamic nature of dashboards, which are designed for real-time data tracking rather than just periodic updates. Assessing monitoring activities that constantly change points toward a proactive analytical approach, which is essential but not the sole purpose of informational dashboards. Additionally, while indicating subtle performance indicators for historical comparison can be a feature of some dashboards, the core purpose revolves around ensuring that information is readily available to promote accountability and transparency in decision-making processes.

8. Which describes a key feature of categorical grants?

- A. They are highly flexible in usage**
- B. They focus on broad societal needs**
- C. They are intended for specific purposes**
- D. They require minimal documentation of expenditures**

Categorical grants are financial assistance provided by the federal government to state or local governments, specifically earmarked for particular projects or programs. The defining characteristic of these grants is that they have specified purposes, meaning the funding must be used for particular activities or within specific categories, such as education, healthcare, or transportation. This focused approach allows the federal government to direct funding toward specific areas of need and ensures that the money is utilized to achieve targeted outcomes or to address certain priorities established by legislation. The intent behind this specificity is to help ensure that grant funds are used effectively to tackle designated issues, provide structured programs, or improve certain services within the community. The requirement for specific usage can also enhance accountability, as it allows for clearer oversight of how federal funds are spent. In contrast, other types of funding, such as block grants, provide greater flexibility for usage across a broader range of activities and programs, which is why categorical grants are not described as highly flexible in usage. Therefore, the key feature that sets categorical grants apart is their intention for specific purposes.

9. Under which principle can courts overturn laws that are deemed unconstitutional?

A. Judicial Review

B. Legislative Oversight

C. Constitutional Review

D. Judicial Authority

Judicial review is the principle that empowers courts to evaluate the constitutionality of legislative and executive actions. It allows them to ensure that laws align with the Constitution and can result in striking down those that are found to be unconstitutional. This process plays a vital role in maintaining the rule of law and protecting individual rights by providing a check on the powers of government entities. Judicial review is rooted in the case of *Marbury v. Madison*, which established the precedent that the judiciary has the authority to review acts of Congress and state legislatures. This principle ensures that no law can exceed the boundaries set by the Constitution, effectively safeguarding against potential abuses of power and ensuring that all government actions are conducted within the framework of the law.

10. What is one responsibility of an audit committee?

A. Creating financial policies

B. Reviewing financial information for reliability

C. Conducting employee evaluations

D. Preparing financial statements

One key responsibility of an audit committee is to review financial information for reliability. This involves examining the organization's financial statements, ensuring that they are accurate, comprehensive, and compliant with accounting standards and regulations. The audit committee plays a critical role in overseeing the internal and external audit processes, which helps in identifying any discrepancies or issues within the financial reporting system. Furthermore, by ensuring the reliability of financial information, the audit committee not only protects the organization's assets but also enhances the credibility of its financial reporting, which is vital for instilling confidence among stakeholders such as investors, regulators, and the public. This oversight is crucial in fostering accountability and transparency within the organization, aligning with best practices in corporate governance.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://cgfm.examzify.com>

We wish you the very best on your exam journey. You've got this!