

CERTIFIED GOVERNMENT FINANCIAL MANAGER (CGFM) PRACTICE EXAM (SAMPLE) STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE**

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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

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- 1. Which advisory body issued the Governmental Accounting, Auditing, and Financial Reporting (GAAFR) guide?**
 - A. National Committee of Municipal Accounting
 - B. National Council of Government Accounting
 - C. Government Finance Officers Association
 - D. Government Accountability Office

- 2. The principle that prevents the government from becoming tyrannical is known as what?**
 - A. Federalism
 - B. Separation of Powers
 - C. Separation of Church and State
 - D. Checks and Balances

- 3. What type of accounting focuses on the financial position of an entity based on financial events?**
 - A. Cost Accounting
 - B. Financial Accounting
 - C. Tax Accounting
 - D. Auditing

- 4. What is the appropriate accounting treatment for escheat property?**
 - A. It is fully recognized as revenue without liabilities.
 - B. An estimated off-setting liability should be recognized.
 - C. It is treated as capital assets only.
 - D. It can only be recognized after court settlements.

- 5. What type of tax is paid at each stage in the production process?**
 - A. Sales tax
 - B. Value Added Tax (VAT)
 - C. Use tax
 - D. Income tax

- 6. What is the measurement focus in governmental funds?**
- A. Current market trends
 - B. Current financial resources
 - C. Future financial projections
 - D. Economic resources
- 7. What type of tax is levied for a specific purpose, with proceeds deposited into an account restricted to that purpose?**
- A. Deductible Tax
 - B. Dedicated Tax
 - C. Discretionary Tax
 - D. Earmarked Tax
- 8. Who is NOT a primary user of financial reports in government?**
- A. Citizens and taxpayers
 - B. Legislators and oversight groups
 - C. Media
 - D. Shareholders
- 9. What type of bonds are generally considered to have the lowest interest rate?**
- A. Revenue bonds
 - B. General obligation bonds
 - C. Serial bonds
 - D. Convertible bonds
- 10. What is the primary role of discretionary grants in government funding?**
- A. To cover mandatory spending
 - B. To support competitive projects
 - C. To deliver direct aid to individuals
 - D. To fund emergency relief efforts

Answers

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

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Explanations

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1. Which advisory body issued the Governmental Accounting, Auditing, and Financial Reporting (GAAFR) guide?

- A. National Committee of Municipal Accounting
- B. National Council of Government Accounting**
- C. Government Finance Officers Association
- D. Government Accountability Office

The Governmental Accounting, Auditing, and Financial Reporting (GAAFR) guide was issued by the National Council of Government Accounting. This organization plays a crucial role in establishing guidelines and standards specifically tailored for government accounting practices. It addresses the complexities of financial reporting and auditing in the public sector, emphasizing the unique needs of governmental entities. The guide is essential for government finance professionals as it provides comprehensive information on accounting principles and financial reporting for local, state, and federal governments. It serves as a fundamental resource for promoting transparency, accountability, and effective financial management within government agencies. The other options are related organizations but do not specifically issue the GAAFR guide. The National Committee of Municipal Accounting focuses on municipal accounting standards, while the Government Finance Officers Association primarily provides certification and resources for financial officers. The Government Accountability Office is responsible for auditing and evaluating government programs but does not issue accounting guides. Thus, choosing the National Council of Government Accounting aligns directly with the source of the GAAFR guide.

2. The principle that prevents the government from becoming tyrannical is known as what?

- A. Federalism
- B. Separation of Powers**
- C. Separation of Church and State
- D. Checks and Balances

The principle that prevents the government from becoming tyrannical is best captured by the concept of separation of powers. This framework divides government responsibilities into distinct branches, typically the executive, legislative, and judicial branches. By assigning different powers and responsibilities to each branch, this principle ensures that no single branch can exercise total control or authority over the government, thereby creating a system of governance that is more accountable and less prone to abuse of power. Separation of powers works in tandem with other mechanisms such as checks and balances, but its primary role is to delineate governmental authority to mitigate the risk of tyranny. This architecture helps to maintain liberty and protect the rights of individuals by ensuring each branch operates within its jurisdiction and can limit the powers of the others when necessary.

3. What type of accounting focuses on the financial position of an entity based on financial events?

- A. Cost Accounting
- B. Financial Accounting**
- C. Tax Accounting
- D. Auditing

Financial accounting is designed to provide a clear picture of an entity's financial position as it focuses on recording, summarizing, and reporting financial transactions. This type of accounting is crucial for external stakeholders, such as investors, creditors, and regulatory agencies, because it reflects the entity's profitability, liquidity, and overall financial health through standardized reports like the income statement, balance sheet, and cash flow statement. In contrast, other types of accounting serve different purposes. For instance, cost accounting is primarily concerned with capturing a company's costs of production or service delivery, which aids in internal management decisions rather than focusing solely on the entity's financial position from an external perspective. Tax accounting is focused specifically on compliance with tax laws and regulations, and while it can reflect financial position aspects, its primary aim is optimizing tax liabilities rather than presenting an overall financial view. Auditing, on the other hand, involves examining and verifying financial records and statements to ensure accuracy and compliance, which is also not centered on providing direct insight into the financial position itself. Thus, in the context of assessing and understanding the financial standing of an entity based on financial events, financial accounting is the most relevant and appropriate choice.

4. What is the appropriate accounting treatment for escheat property?

- A. It is fully recognized as revenue without liabilities.
- B. An estimated off-setting liability should be recognized.**
- C. It is treated as capital assets only.
- D. It can only be recognized after court settlements.

The appropriate accounting treatment for escheat property involves recognizing an estimated off-setting liability. This approach reflects the obligation the government has regarding unclaimed property, ensuring that it acknowledges both the rights to the property and the claims of the rightful owners. When property is deemed escheated—meaning it has been abandoned or unclaimed for a specified period—governing laws generally mandate that this property be handed over to the state. The state then has a responsibility to return this property to the rightful owners or their heirs when they come forward to claim it. By recognizing an estimated off-setting liability, an entity accurately reflects its potential obligation and ensures transparency in its financial statements. This treatment aligns with the principles of matching and conservatism in accounting, where revenues should not be recognized without related liabilities being accounted for. Thus, treating escheat property in this manner acknowledges both the potential for future claims and the financial responsibility that arises from the state's control over these unclaimed assets.

5. What type of tax is paid at each stage in the production process?

- A. Sales tax
- B. Value Added Tax (VAT)**
- C. Use tax
- D. Income tax

The correct choice is Value Added Tax (VAT) because it is a type of indirect tax that is levied at each stage of the production and distribution process. The key feature of VAT is that it is charged on the value added to goods and services at each stage of production, from manufacturing to final sale. This means that every entity in the production chain contributes to the tax, allowing for a cumulative tax effect based on the incremental value added at each phase. When a business purchases raw materials, it pays VAT on the purchase. As that business transforms the materials into products, it adds value and charges VAT on the sales price when those products are sold to the next entity in the supply chain. This continues up until the final consumer makes a purchase. Each business in the chain can then reclaim the VAT it has paid on its purchases, which avoids double taxation on the various stages of production. In contrast, sales tax is typically only charged on the final sale to the consumer and is not accounted for at each stage of production. Use tax applies to the purchase of goods for use when no sales tax was paid, whereas income tax is levied on the profit a business or individual earns and is not directly related to the production process itself. Thus, VAT

6. What is the measurement focus in governmental funds?

- A. Current market trends
- B. Current financial resources**
- C. Future financial projections
- D. Economic resources

The measurement focus in governmental funds is on current financial resources, which means that these funds are concerned with the short-term inflows and outflows of financial assets. This approach prioritizes the flow of funds that are expected to be available for spending and the liabilities that are expected to be settled in the short term. In the context of governmental funds, which are used to account for activities funded primarily through taxes and intergovernmental revenues, the focus is on the current resources that ensure that governments can meet their financial obligations on a timely basis. The goal is to deliver services to the public while ensuring that resources are managed prudently and within financial limits. While other options mention aspects of finance, they do not align with the specific measurement focus of governmental funds. For example, current market trends and future financial projections involve broader considerations beyond the immediate financial resources that governments can utilize for their operations. Additionally, the economic resources measurement focus pertains more to activities recorded in proprietary and fiduciary funds, where a longer-term perspective on assets and liabilities is used. Thus, the emphasis on current financial resources in governmental funds aligns with the nature of their operations and the accountability required in public financial management.

7. What type of tax is levied for a specific purpose, with proceeds deposited into an account restricted to that purpose?

- A. Deductible Tax
- B. Dedicated Tax**
- C. Discretionary Tax
- D. Earmarked Tax

The correct choice identifies a tax that is explicitly designated for a particular use, with the funds collected being directed into an account that is specifically restricted to that purpose. This type of tax ensures that the revenue generated can only be utilized for the designated project or service, creating a direct link between the tax levied and the funding of specific governmental activities or programs. Dedicated taxes are often used for funding essential public services such as education, infrastructure, or health care, among others. This dedicated nature provides transparency to taxpayers, as they can see that their contributions are directly supporting the intended projects. Understanding dedicated taxes is important for effective public finance management, as it helps ensure accountability and can aid in garnering support for various initiatives since taxpayers understand how their money is being utilized.

8. Who is NOT a primary user of financial reports in government?

- A. Citizens and taxpayers
- B. Legislators and oversight groups
- C. Media
- D. Shareholders**

The option identifying shareholders as not a primary user of financial reports in government is correct because shareholders are typically associated with private sector companies, where they seek information to assess the performance and value of their investments. In contrast, government financial reports are primarily designed to meet the needs of stakeholders involved in public resource management and accountability, such as citizens and taxpayers, legislators, and oversight groups. Citizens and taxpayers rely on financial reports to understand how their tax dollars are spent, ensuring transparency and accountability in government operations. Legislators and oversight groups utilize these reports to inform policy decisions, evaluate financial health, and monitor compliance with laws and regulations. The media may also be involved as they disseminate information about government finances to the public; however, their interest is often secondary to the needs of the primary users. In summary, while shareholders focus on profitability and investment returns in the private sector, government financial reports serve a distinct purpose related to public accountability and resource management.

9. What type of bonds are generally considered to have the lowest interest rate?

- A. Revenue bonds
- B. General obligation bonds**
- C. Serial bonds
- D. Convertible bonds

General obligation bonds are typically viewed as having the lowest interest rates among the options provided because they are backed by the full faith, credit, and taxing power of the issuing government entity, such as a state or municipality. This backing provides a strong assurance to investors that the bonds will be repaid, which reduces the risk associated with the investment. Consequently, since the perceived risk is lower, the interest rates on these bonds are also lower compared to other types of bonds, making them an attractive option for conservative investors seeking to preserve capital while earning a modest return. In contrast, revenue bonds are supported by specific revenue sources, such as user fees from public projects, which may present higher risk depending on the performance of the revenue-generating project. Serial bonds, which are issued with multiple maturity dates, and convertible bonds, which allow conversion into equity, also come with varying levels of risk and often carry higher interest rates as a result. Thus, the secure nature of general obligation bonds is a significant factor in their lower interest rates.

10. What is the primary role of discretionary grants in government funding?

- A. To cover mandatory spending
- B. To support competitive projects**
- C. To deliver direct aid to individuals
- D. To fund emergency relief efforts

Discretionary grants primarily serve to support competitive projects within various sectors, such as education, health, and community development. Unlike mandatory spending, which is required by law and focuses on predefined obligations, discretionary grants allow government agencies to allocate funds based on a competitive process. This means that the funding is awarded to entities that submit compelling proposals demonstrating how their projects align with governmental priorities and objectives. These grants are intended to encourage innovation, foster improvement, and promote effective project implementation by offering financial resources to those projects deemed most beneficial or impactful. This competitive nature ensures that the funds are utilized effectively and support projects that can demonstrate clear outcomes and benefits to the public. In contrast, while mandatory spending addresses statutory commitments, direct aid programs focus on individual assistance rather than competitive projects. Emergency relief efforts, while also crucial, do not typically fall under the framework of discretionary grant programs, as they often involve immediate response to crises rather than a project-based competition for funding.

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!

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