

CGFM Exam 2 - Governmental Accounting, Financial Reporting, and Budgeting Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	9
Explanations	11
Next Steps	17

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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 of the following best describes 'Transfers Out' in governmental accounting?**
 - A. It is a type of revenue**
 - B. It represents resources leaving a fund**
 - C. It is the assessment of future revenues**
 - D. It increases fund balance**

- 2. What journal entry should be made to record a Property Tax Levy of \$3,265,306 with an estimated uncollectible amount of 2%?**
 - A. Debit Taxes Receivable and credit Estimated Uncollectible Taxes and Revenues Control**
 - B. Debit Estimated Uncollectible Taxes and credit Taxes Receivable**
 - C. Debit Revenues Control and credit Taxes Receivable for a total amount**
 - D. Debit Taxes Receivable for the total and credit cash**

- 3. What measurement focus and basis of accounting do Enterprise Funds use?**
 - A. Current resources measurement focus with cash basis accounting**
 - B. Economic resources measurement focus with accrual basis accounting**
 - C. Modified accrual basis with a focus on cash flow**
 - D. Accrual basis with current resources measurement focus**

- 4. Which of the following accurately describes a restricted fund balance?**
 - A. It can be spent at the discretion of the governing body**
 - B. It is subject to external constraints**
 - C. It is reserved for future infrastructure needs**
 - D. It allows for budget flexibility when needed**

- 5. Which type of serial bond features total principal repayable in equal installments over a specified time?**
- A. Deferred**
 - B. Annuity**
 - C. Irregular**
 - D. Regular**
- 6. Proprietary Funds use which measurement focus and basis of accounting?**
- A. Current financial resources and cash basis**
 - B. Economic resources measurement focus and accrual basis of accounting**
 - C. Modified accrual basis and expendable resources focus**
 - D. Cash flow basis and project financial resources**
- 7. What should be recorded to account for the repayment of Tax Anticipation Notes and interest?**
- A. DR Tax Anticipation Notes Payable 200,000; DR Expenditures Control 5,000; CR Cash 205,000**
 - B. DR Expenditures Control 200,000; DR Cash 5,000; CR Tax Anticipation Notes Payable 205,000**
 - C. CR Tax Anticipation Notes Payable 200,000; CR Expenditures Control 5,000; DR Cash 205,000**
 - D. CR Expenditures Control 200,000; CR Cash 5,000; DR Tax Anticipation Notes Payable 205,000**
- 8. What is the primary source of funding for capital projects in governmental accounting?**
- A. Taxes**
 - B. Long-term Debt**
 - C. Grants**
 - D. Donations**
- 9. Which factor does NOT affect the capital asset calculation in the government-wide statement of net position?**
- A. Capital disposals**
 - B. Investment revenues**
 - C. New capital acquisitions**
 - D. Depreciation expense**

10. Which of the following is NOT a method of classification in governmental accounting?

- A. Functional classification**
- B. Capital classification**
- C. Character classification**
- D. Organizational unit classification**

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Answers

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

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Explanations

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1. Which of the following best describes 'Transfers Out' in governmental accounting?

- A. It is a type of revenue**
- B. It represents resources leaving a fund**
- C. It is the assessment of future revenues**
- D. It increases fund balance**

In governmental accounting, 'Transfers Out' refers to resources that are moved from one fund to another within the governmental entity. This concept is crucial because it helps in understanding the flow of financial resources between different funds, which may be used for various purposes such as inter-departmental funding or support for special projects. When resources are classified as 'Transfers Out', they signify that funds are being allocated from one operational area to another, reflecting a reduction in the financial capacity of the fund from which the resources are being transferred. This transaction does not produce revenue; instead, it is an outflow, illustrating the movement of financial assets rather than generating income. In this context, understanding that 'Transfers Out' result in resources exiting a fund helps highlight how funds are managed and allocated in governmental accounting, ensuring accountability and transparency in financial reporting. Other options, such as those involving revenue or future revenue assessments, do not accurately define the nature of 'Transfers Out'.

2. What journal entry should be made to record a Property Tax Levy of \$3,265,306 with an estimated uncollectible amount of 2%?

- A. Debit Taxes Receivable and credit Estimated Uncollectible Taxes and Revenues Control**
- B. Debit Estimated Uncollectible Taxes and credit Taxes Receivable**
- C. Debit Revenues Control and credit Taxes Receivable for a total amount**
- D. Debit Taxes Receivable for the total and credit cash**

The appropriate journal entry to record a Property Tax Levy, considering an estimated uncollectible amount, involves recognizing both the total amount of taxes receivable and the anticipated uncollectible taxes. In this specific scenario, the total property tax levy is \$3,265,306, and with an estimated uncollectible amount of 2%, it's crucial to adjust for that anticipated loss. Debiting Taxes Receivable reflects the total amount expected to be collected from property taxes. Simultaneously, crediting Estimated Uncollectible Taxes recognizes the portion of the amounts that the government estimates will not be collected. This aligns with the best practices in governmental accounting, where agencies need to disclose their expectations regarding collections accurately. The other entry would credit Revenues Control, reflecting the revenue that would be deferred due to these uncollectibles; however, in this case, it is accounted for within the estimated uncollectibles. This journal entry essentializes the understanding that both the revenue anticipated and the expected losses must be reflected in the financial records accurately, ensuring that the financial statements present a true and fair view of the agency's financial standing regarding tax levies.

3. What measurement focus and basis of accounting do Enterprise Funds use?

- A. Current resources measurement focus with cash basis accounting
- B. Economic resources measurement focus with accrual basis accounting**
- C. Modified accrual basis with a focus on cash flow
- D. Accrual basis with current resources measurement focus

Enterprise Funds are designed to account for activities that operate similarly to private businesses, meaning they aim to generate revenue and can cover their costs through user fees. As such, they employ a measurement focus that emphasizes the economic resources of the funds. This means that all assets, liabilities, net position, revenues, and expenses are presented. The basis of accounting for Enterprise Funds is the accrual basis, which recognizes revenues when earned and expenses when incurred, regardless of the timing of cash flows. This approach provides a more comprehensive view of financial performance and position, as it reflects the total economic resources at the disposal of the fund. Thus, the correct measurement focus and basis of accounting for Enterprise Funds combine to effectively capture the financial activities and position of these funds in a manner that is consistent with the principles of financial reporting for governmental entities.

4. Which of the following accurately describes a restricted fund balance?

- A. It can be spent at the discretion of the governing body
- B. It is subject to external constraints**
- C. It is reserved for future infrastructure needs
- D. It allows for budget flexibility when needed

A restricted fund balance is characterized by limitations that are imposed by external sources, which can include laws, regulations, or agreements. This means that the resources in a restricted fund can only be used for specific purposes, often tied to designated revenues or specific restrictions placed upon those funds. For example, if a government receives grant money meant specifically for infrastructure projects, those funds must be categorized as restricted and cannot be diverted to cover general expenditures. The other options do not accurately reflect the nature of a restricted fund balance. The discretionary aspect of spending does not apply here, as restricted fund balances cannot be spent at the discretion of the governing body because their use is limited by specific external constraints. Similarly, the idea of reserving funds for future infrastructure needs might suggest a planning intent but does not capture the essence of restrictions imposed by external authorities. Lastly, the notion of allowing budget flexibility is not applicable since restricted funds have specific purposes and limitations that prevent flexibility in budget allocation. Thus, option B clearly aligns with the definition and understanding of a restricted fund balance within governmental accounting.

5. Which type of serial bond features total principal repayable in equal installments over a specified time?

- A. Deferred**
- B. Annuity**
- C. Irregular**
- D. Regular**

The correct option refers to a type of serial bond where total principal is repaid in equal installments over a specified time frame. In the context of governmental accounting and financial reporting, serial bonds typically have a predetermined repayment schedule that allows for regular and systematic payments. These bonds are structured so that the borrower pays off a portion of the principal along with interest at each payment interval. This repayment structure provides a clear and manageable way for governments to service their debt obligations over time, making it easier to budget for these payments. In contrast, other types of bonds may not offer the same systematic principal repayment schedule. For instance, deferred bonds typically involve payments that start at a future date, annuity bonds provide payments that can vary, and irregular bonds may have less predictable payment structures. By providing equal principal installments, the responsible management of cash flows and budgeting becomes more straightforward for the issuing government.

6. Proprietary Funds use which measurement focus and basis of accounting?

- A. Current financial resources and cash basis**
- B. Economic resources measurement focus and accrual basis of accounting**
- C. Modified accrual basis and expendable resources focus**
- D. Cash flow basis and project financial resources**

Proprietary Funds are designed to account for a government's business-type activities and are characterized by their measurement focus and basis of accounting, which emphasizes the economic resources of the entity. The correct answer highlights that Proprietary Funds utilize an economic resources measurement focus combined with the accrual basis of accounting. The economic resources measurement focus means that these funds consider all economic resources available, including both current and non-current assets and liabilities, in their reporting. This allows stakeholders to gain a comprehensive understanding of the financial position and overall financial health of the fund, as it encompasses all resources available to the entity, rather than just the immediate cash flow. The accrual basis of accounting means that revenues are recognized when earned, and expenses are recognized when incurred, regardless of when cash transactions occur. This approach provides a more accurate reflection of the true financial performance over time, allowing for better decision-making and financial management. In contrast to the other options, which focus on different measurement focuses or bases of accounting (such as current financial resources or cash basis), the economic resources and accrual basis accurately capture the nature of Proprietary Funds. This method aligns with the reporting standards for similar business entities, providing consistency and transparency in financial reporting for government-operated business activities.

7. What should be recorded to account for the repayment of Tax Anticipation Notes and interest?

A. DR Tax Anticipation Notes Payable 200,000; DR Expenditures Control 5,000; CR Cash 205,000

B. DR Expenditures Control 200,000; DR Cash 5,000; CR Tax Anticipation Notes Payable 205,000

C. CR Tax Anticipation Notes Payable 200,000; CR Expenditures Control 5,000; DR Cash 205,000

D. CR Expenditures Control 200,000; CR Cash 5,000; DR Tax Anticipation Notes Payable 205,000

The correct entry for the repayment of Tax Anticipation Notes and interest should accurately reflect the decrease in the liability and the expenditure incurred for the interest payment. In this case, the debit to Tax Anticipation Notes Payable indicates that the outstanding liability for the notes is being reduced by \$200,000, representing the principal repayment. The additional debit to Expenditures Control for \$5,000 accounts for the interest expense, which is treated as an expenditure in governmental accounting. On the credit side, the credit to Cash for the total amount of \$205,000 reflects the outflow of funds from the governmental entity's cash account, signifying that cash is being used to settle both the principal and the accrued interest. This entry aligns with the double-entry accounting principles, where every debit has a corresponding credit. The debits indicate an increase in expenses (reflecting the expenditure incurred) and a reduction of the liability (the notes payable), while the credit reflects a decrease in cash, thereby accurately portraying the financial effects of the repayment transaction. In summary, the choice correctly depicts the necessary accounting entries to ensure that both the liability for the tax anticipation notes and the interest expenditure are properly recorded in the financial statements of the government entity

8. What is the primary source of funding for capital projects in governmental accounting?

A. Taxes

B. Long-term Debt

C. Grants

D. Donations

The primary source of funding for capital projects in governmental accounting is long-term debt. Governments often rely on long-term debt, such as bonds, to finance capital projects because these projects typically require significant upfront investments that may exceed the immediate cash available through other funding sources. Long-term debt allows governments to spread the cost of capital projects over many years, aligning the expense with the benefits realized by current and future taxpayers. This approach makes it feasible for governments to undertake large infrastructure projects, such as building schools, roads, or bridges, which are critical to community development and public welfare. While taxes, grants, and donations can certainly play roles in funding capital projects, they often do not provide sufficient or flexible funding over the long term required for substantial projects. Taxes can be used for ongoing operational expenses but may not cover lump-sum capital investments, grants are typically project-specific and may have stringent conditions, and donations can be unreliable and are often aimed at specific causes rather than broad capital funding. Therefore, long-term debt emerges as the most viable and strategic option for financing significant capital initiatives within governmental accounting frameworks.

9. Which factor does NOT affect the capital asset calculation in the government-wide statement of net position?

- A. Capital disposals**
- B. Investment revenues**
- C. New capital acquisitions**
- D. Depreciation expense**

In the context of the government-wide statement of net position, the calculation of capital assets is primarily influenced by factors that directly impact the accounting and valuation of those assets. Capital disposals, new capital acquisitions, and depreciation expense all play significant roles in determining the overall value of capital assets reported. Investment revenues, however, are not a factor in the calculation of capital assets. These revenues reflect returns earned on financial investments rather than changes in the value of physical or tangible assets owned by the government. Factors like capital disposals affect asset amounts by reducing the total when assets are sold or otherwise removed from service. New capital acquisitions increase the total value of capital assets, and depreciation expense represents the allocation of the cost of an asset over its useful life, impacting the net book value. In summary, since investment revenues relate to financial activities rather than to the valuation or status of capital assets, they do not affect the calculation of capital assets in the government-wide statement of net position.

10. Which of the following is NOT a method of classification in governmental accounting?

- A. Functional classification**
- B. Capital classification**
- C. Character classification**
- D. Organizational unit classification**

In governmental accounting, the classification of expenditures is essential for understanding how funds are allocated and spent. The correct answer identifies "Capital classification" as not being a recognized method of classification in this context. Functional classification, character classification, and organizational unit classification are all legitimate methods of categorizing expenditures. Functional classification organizes expenditures based on the purpose of spending, such as education, health services, or public safety. This method helps in analyzing how resources are allocated to different functions of government. Character classification focuses on the nature of the expenditure, such as whether it is a capital outlay, operating expense, or debt service. This helps in budgeting and financial reporting by distinguishing between different types of financial activities. Organizational unit classification groups expenditures according to the department or entity responsible for them. This provides a clear view of spending patterns within different sections of a governmental entity. On the other hand, "Capital classification" is less commonly used in this form and may refer more specifically to the categorization of assets rather than a standardized method of classifying expenditures within governmental accounting. Thus, it does not align with the primary classification methods recognized in this field.

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://cgfm2govacctgfinreportingbudgeting.examzify.com>

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

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