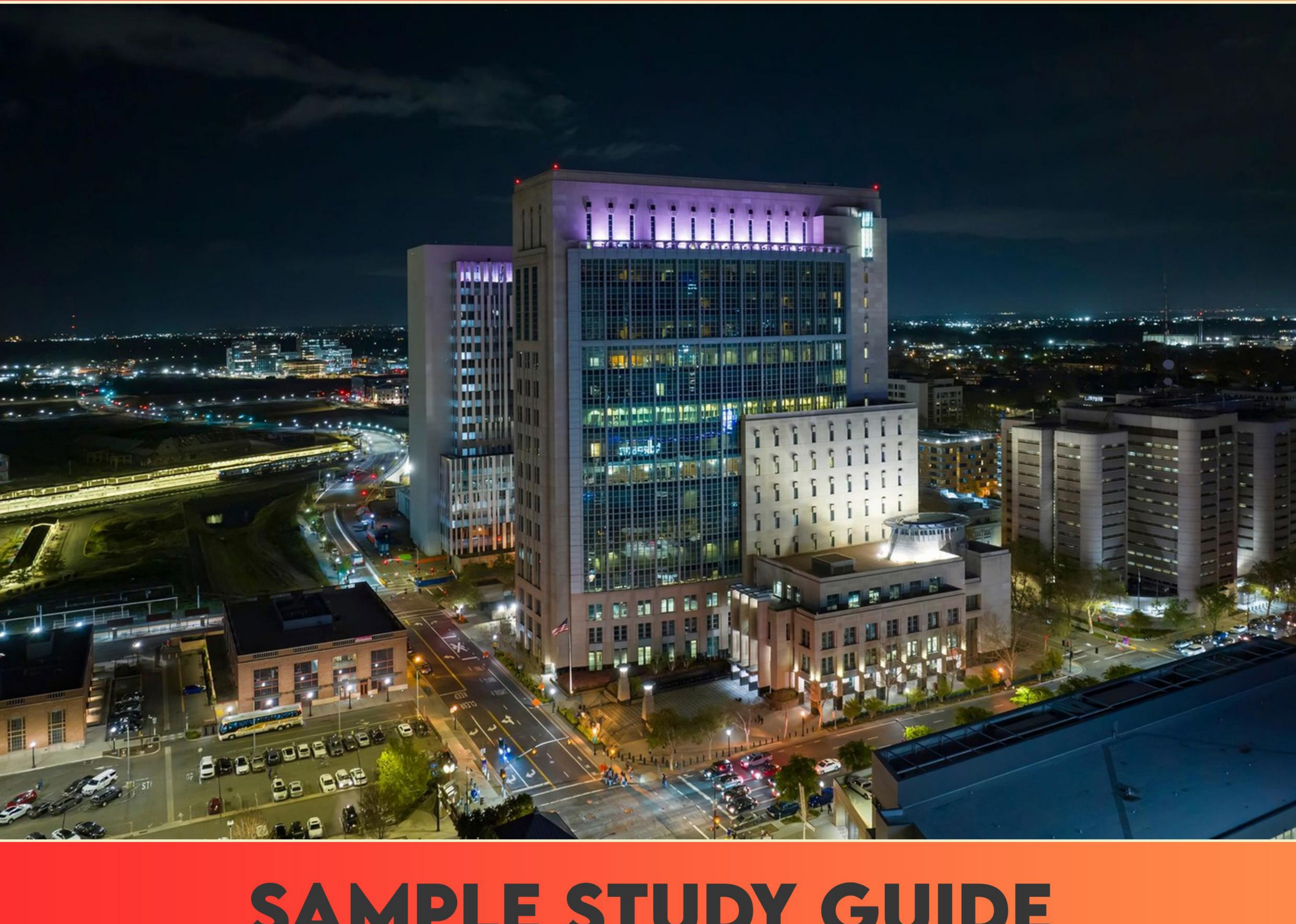
CGFM EXAM 2 – GOVERNMENTAL ACCOUNTING, FINANCIAL REPORTING, AND BUDGETING PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

https://cgfm
2govacctgfinreportingbudgeting.examzify.com

Table of Contents

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 defines "Non-spendable" in terms of fund balance classification?

A. Funds in the bank

B. Funds that cannot be spent due to legal or contractual restrictions

C. Funds that have been earmarked for specific projects

D. Funds that can be spent at local government's discretion

2. How does GASB require operating revenues and operating expenses to be displayed?

A. Combined with non-operating items

B. Separately from and prior to non-operating revenues and expenses

C. Only in annual reports

D. In footnotes

3. How are Internal Service Funds represented on the Statement of Net Position?

A. In multiple columns

B. As a footnote

C. In a single column

D. As a separate section

4. What is the purpose of capital projects funds?

A. To report financial resources for ongoing operations

B. To manage resources restricted for capital expenditures

C. To account for revenues from special taxes

D. To track payments for debt service

5. What component is NOT included in the calculation of capital assets for the government-wide statement?

A. Beginning Capital Assets

B. Depreciation

C. Capital acquisitions

D. Operational expenses

6. **Which classification method involves separating expenditures by the organization involved?**
   A. Functional classification
   B. Character classification
   C. Organizational unit classification
   D. Activity classification

7. **Which of the following is NOT a budgetary account in a governmental fund?**
   A. Estimated Revenues
   B. Appropriations
   C. Expenditures
   D. Encumbrances

8. **Which three financial statements are required for Proprietary Funds?**
   A. Statement of Cash Flows, Income Statement, Balance Sheet
   B. Statement of Financial Position, Statement of Revenues, Statement of Changes in Fund Balance
   C. Statement of Revenues, Expenditures and Changes in Fund Balance
   D. Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position, Statement of Cash Flows

9. **What does the consumption method of inventory recognize when supplies are acquired?**
   A. Credit Inventory
   B. Debit Inventory
   C. Debit Supplies Expense
   D. Credit Cash

10. **What financial statement is associated with Governmental Funds?**
   A. Statement of Cash Flow
   B. Statement of Net Position
   C. Balance Sheet
   D. Statement of Fiduciary Net Position

Answers

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

Explanations

1. What defines "Non-spendable" in terms of fund balance classification?

A. Funds in the bank

B. Funds that cannot be spent due to legal or contractual restrictions

C. Funds that have been earmarked for specific projects

D. Funds that can be spent at local government's discretion

"Non-spendable" in fund balance classification refers specifically to resources that cannot be spent because of legal or contractual restrictions. These restrictions may arise from laws, regulations, or agreements that dictate how certain funds can be used, effectively making them unavailable for general spending purposes. Examples of non-spendable amounts could include inventory or pre-paid expenses, which are resources already committed and cannot be liquidated or redirected for other uses. This classification is crucial because it helps clarify the actual availability of financial resources in a governmental entity's budget, ensuring that stakeholders accurately understand the liquidity and fiscal capacity of the government. In contrast, funds in the bank could represent available and spendable resources; earmarked funds suggest a commitment to specific projects but may still be spent if the governing body decides to reallocate them; while discretionary funds are altogether considered spendable, as they can be utilized at the local government's direction without restrictions.

2. How does GASB require operating revenues and operating expenses to be displayed?

A. Combined with non-operating items

B. Separately from and prior to non-operating revenues and expenses

C. Only in annual reports

D. In footnotes

GASB, or the Governmental Accounting Standards Board, mandates that operating revenues and operating expenses be displayed separately from non-operating revenues and expenses. This requirement is focused on enhancing the clarity and usefulness of financial statements for users looking to assess the performance and financial position of governmental entities. By separating these items, stakeholders can better understand the core activities that generate revenue and incur expenses, distinct from those that arise from non-routine or ancillary activities, which may not reflect the entity's primary mission. This separation assists analysts and decision-makers in evaluating operational efficiency and determining how well the entity is managing its resources in essential service delivery. Such distinctions in reporting are crucial for transparency and allow for more effective comparison across governmental entities.

3. How are Internal Service Funds represented on the Statement of Net Position?

A. In multiple columns

B. As a footnote

C. In a single column

D. As a separate section

Internal Service Funds are typically represented in a single column on the Statement of Net Position. This presentation is consistent with the overall format of government financial statements, where Internal Service Funds are incorporated as part of the proprietary funds section. Proprietary funds, which include both Internal Service Funds and Enterprise Funds, are generally reported on a combined basis in a single column to simplify the understanding of the overall financial position. This approach allows for easier comparison and analysis of the fund's financial health without overcrowding the statement with multiple columns that could complicate the presentation. Thus, when reviewing the Statement of Net Position in governmental accounting, Internal Service Funds are seen alongside other proprietary funds in a unified manner, effectively summarizing the financial status of these funds.

4. What is the purpose of capital projects funds?

A. To report financial resources for ongoing operations

B. To manage resources restricted for capital expenditures

C. To account for revenues from special taxes

D. To track payments for debt service

The purpose of capital projects funds is to manage resources that are restricted exclusively for capital expenditures. This means that these funds are used specifically for the acquisition or construction of major capital assets, such as buildings, infrastructure, and other long-term assets that will benefit the public over an extended period. These funds ensure that the financial resources allocated for such projects are properly accounted for and utilized in a way that aligns with the intended purpose of funding significant improvements or expansions in public services. Capital project funds are distinct from other types of funds, as they focus specifically on long-term investments rather than daily operational expenses or routine maintenance. This segregation helps governmental entities maintain transparency and accountability regarding how public funds are being spent on capital initiatives, ensuring that necessary resources are available for essential infrastructure projects.

5. What component is NOT included in the calculation of capital assets for the government-wide statement?

A. Beginning Capital Assets

B. Depreciation

C. Capital acquisitions

D. Operational expenses

The calculation of capital assets in the government-wide financial statements focuses primarily on the acquisition, value, and reduction of capital assets over time. This includes components such as beginning capital assets, which serve as the starting point for tracking changes in value, capital acquisitions that reflect new investments in capital assets, and depreciation, which accounts for the systematic allocation of the cost of tangible assets over their useful lives. Operational expenses, on the other hand, are not included in the calculation of capital assets as they relate to the day-to-day running of government operations rather than the acquisition or maintenance of long-term assets. These expenses cover costs such as salaries, utilities, and supplies, which do not directly impact the valuation or calculation of capital assets on a balance sheet. Therefore, operational expenses are distinctly separate from capital assets in financial reporting for governmental entities.

6. Which classification method involves separating expenditures by the organization involved?

A. Functional classification

B. Character classification

C. Organizational unit classification

D. Activity classification

The classification method that involves separating expenditures by the organization involved is the organizational unit classification. This method groups expenditures to align with specific units, departments, or agencies within a governmental entity. By doing so, it allows for a clearer exploration of how funds are allocated and utilized across different parts of the organization. This classification helps in assessing the performance and operational efficiency of each unit within the governmental structure, providing valuable insights for budgetary and financial reporting purposes. In contrast, other classification methods focus on different aspects of expenditures. Functional classification categorizes expenditures by the function or purpose, such as public safety or education. Character classification emphasizes the nature of the expenditure, such as salaries or capital outlays. Activity classification organizes expenditures by activities undertaken, such as maintenance or construction. Each of these classifications serves distinct purposes in financial reporting, but when the focus is specifically on the organizational involvement, the organizational unit classification is the appropriate method.

7. Which of the following is NOT a budgetary account in a governmental fund?

A. Estimated Revenues

B. Appropriations

C. Expenditures

D. Encumbrances

In the context of governmental accounting, it is essential to differentiate between budgetary accounts and operating accounts. Budgetary accounts are used to track the planned revenues and expenditures in accordance with the budget that has been established for a fiscal period. Estimated Revenues, Appropriations, and Encumbrances are all examples of budgetary accounts. Estimated Revenues reflect the anticipated income for the period, while Appropriations represent the authorized spending limit set by the governing body. Encumbrances are commitments related to unperformed contracts for goods or services, which help in managing budget allocations. Expenditures, on the other hand, are not classified as budgetary accounts because they represent actual outflows of resources when goods or services are received, as opposed to planned outflows. Expenditures occur after the budget has been approved and spending has taken place, making them a part of the operating accounts rather than the budgetary accounts. This distinction is crucial for understanding how governmental funds manage and report their financial activities.

8. Which three financial statements are required for Proprietary Funds?

A. Statement of Cash Flows, Income Statement, Balance Sheet

B. Statement of Financial Position, Statement of Revenues, Statement of Changes in Fund Balance

C. Statement of Revenues, Expenditures and Changes in Fund Balance

D. Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position, Statement of Cash Flows

The three financial statements required for Proprietary Funds are the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows. The Statement of Net Position provides a snapshot of the fund's financial position at a specific point in time, detailing assets, liabilities, and net position. This statement is crucial for understanding the overall financial health of the proprietary fund. The Statement of Revenues, Expenses and Changes in Fund Net Position shows the financial results of the operations of the proprietary fund during a reporting period. It outlines how much revenue was generated, what expenses were incurred, and how these two factors contributed to changes in the fund's net position, highlighting the fund's operational performance. The Statement of Cash Flows is vital as it details the inflows and outflows of cash and cash equivalents, categorized into operating, investing, and financing activities. This statement helps assess the fund's liquidity and its ability to meet obligations as they come due. Together, these three statements provide a comprehensive view of the financial performance and position of proprietary funds, which are used to account for activities similar to those of private sector businesses and require a more extensive reporting approach.

9. What does the consumption method of inventory recognize when supplies are acquired?

A. Credit Inventory

B. Debit Inventory

C. Debit Supplies Expense

D. Credit Cash

The consumption method of inventory recognizes the acquisition of supplies by debiting inventory. This approach reflects the idea that supplies are considered an asset until they are consumed in the course of operations. By debiting inventory when supplies are acquired, the accounting records align with the matching principle, which dictates that expenses should be recognized in the period in which they help generate revenue. Under this method, the inventory remains on the balance sheet until the supplies are used, at which point the expense is recognized on the income statement, typically through a subsequent transaction that debits supplies expense and credits inventory. This method is particularly useful for tracking the actual flow of supplies through the organization and ensuring that expenses are recorded appropriately when the supplies are consumed, rather than at the time of purchase. In the context of governmental accounting, recognizing supplies in this way helps maintain accurate financial records and provides a clear view of both assets and expenses over time.

10. What financial statement is associated with Governmental Funds?

A. Statement of Cash Flow

B. Statement of Net Position

C. Balance Sheet

D. Statement of Fiduciary Net Position

The financial statement associated with Governmental Funds is the Balance Sheet. This document provides a snapshot of the financial position of a governmental fund at a specific point in time, detailing assets, liabilities, and fund balances. Governmental funds are typically used to account for most of a government's functions, focusing on the flow of financial resources rather than economic resources. The Balance Sheet reflects the current assets available to meet obligations, the liabilities that the government has, and the difference between these two, which is the fund balance. This emphasis on current financial resources is crucial for governmental operations since these funds are primarily intended to support current expenditures. In contrast, the other statements mentioned, like the Statement of Cash Flow and the Statement of Net Position, pertain to different accounting frameworks or types of funds. For example, the Statement of Cash Flow is typically associated with enterprise or proprietary funds, while the Statement of Net Position relates more to government-wide financial statements, conveying a broader view of the government's overall financial position. The Statement of Fiduciary Net Position focuses specifically on fiduciary funds, which handle resources held for the benefit of parties outside the government. Therefore, the Balance Sheet is the correct choice for Governmental Funds due to its alignment with the reporting requirements and

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!