

CPFO Accounting Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

Copyright © 2026 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

SAMPLE

Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	16

SAMPLE

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

SAMPLE

- 1. Which criterion ensures that a special-purpose government qualifies as a primary government?**
 - A. Legal dependence on another government**
 - B. Presence of a governing body**
 - C. Ability to raise taxes independently**
 - D. Clear resolution of service areas**

- 2. What should be reported as an expense if the capitalization contribution period is not determinable?**
 - A. Lump-sum expenditure**
 - B. Amortized expenditure**
 - C. Emergency fund expenditure**
 - D. Technical assistance expenditure**

- 3. Which statement reflects the main purpose of an operating statement for governmental funds?**
 - A. To show total financial position**
 - B. To highlight cash inflows and outflows**
 - C. To report on expenditures against available revenues**
 - D. To reflect total economic resource changes**

- 4. Which of the following would properly be accounted for in an investment trust fund?**
 - A. Public-entity risk pools**
 - B. Venture capital limited partnerships**
 - C. Idle funds of joint ventures**
 - D. None of the above**

- 5. Which of the following statements is true regarding the fund types used in governmental accounting?**
 - A. All fund types must focus on economic resources**
 - B. Agency funds must report equity changes**
 - C. Governmental funds focus on current financial resources**
 - D. Proprietary funds exclude revenues from operating statements**

6. What is the classification of shared sales taxes from the perspective of the ultimate recipient?

- A. Derived tax revenues**
- B. Imposed nonexchange revenues**
- C. Government-mandated or voluntary nonexchange transactions**
- D. A or C**

7. Is the CAFR appropriate for meeting SEC Rule 15c2-12 disclosure requirements?

- A. No, it must follow a different format**
- B. Yes, it is sufficient for disclosure requirements**
- C. Only if supplemented by an independent auditor's report**
- D. No, it is outdated**

8. Regarding the recognition of receivables in governmental funds, which statement is TRUE?

- A. Receivables may not be recognized until they are available**
- B. The rules governing the recognition of receivables are the same as those that apply to the recognition of revenue**
- C. There is no difference in receivables recognition between governmental funds and proprietary funds**
- D. Both A and B**

9. Do both modified accrual accounting and accrual accounting recognize expenditures/expenses when a liability is incurred?

- A. True**
- B. False**
- C. Only in cash-based accounting**
- D. Only for capital expenditures**

10. Are there substantive differences between financial auditing and performance auditing?

- A. Yes**
- B. No**
- C. Only in methodology**
- D. Only in scope**

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. Which criterion ensures that a special-purpose government qualifies as a primary government?

- A. Legal dependence on another government**
- B. Presence of a governing body**
- C. Ability to raise taxes independently**
- D. Clear resolution of service areas**

The criterion that ensures a special-purpose government qualifies as a primary government is the presence of a governing body. In governmental accounting, a primary government is typically characterized by having an organized structure with a governing body that has the authority to make decisions and take actions for the entity. This governing body is responsible for establishing policies, managing resources, and overseeing operations, which distinguishes it as a self-governing entity. For a special-purpose government to be classified as a primary government, it must have its own governing body, be accountable for its operations, and be able to incur liabilities, enter into contracts, and impose taxes or fees if it has that authority. The presence of a governing body indicates that the entity has a level of autonomy and oversight that allows it to operate independently from other governmental bodies. In contrast, other criteria such as legal dependence on another government or the ability to raise taxes independently pertain to additional aspects of governance and financial capability but do not intrinsically establish the entity's status as a primary government. Clear resolution of service areas, while important for defining the scope of services provided, does not determine the foundational governance structure necessary to satisfy the definition of a primary government.

2. What should be reported as an expense if the capitalization contribution period is not determinable?

- A. Lump-sum expenditure**
- B. Amortized expenditure**
- C. Emergency fund expenditure**
- D. Technical assistance expenditure**

When the capitalization contribution period is not determinable, the appropriate treatment is to report costs as an expense. Amortized expenditure refers to costs that are gradually recognized as expenses over time, rather than being capitalized. This approach is taken because when the period during which a benefit is expected from the expenditure cannot be determined, it is prudent to recognize the cost right away in order to match it against revenues in the proper accounting period. In the absence of a determinable capitalization period, recognizing these costs as expenses ensures that financial statements reflect the current economic reality, maintaining accuracy and compliance with accounting principles. Thus, reporting these costs as an amortized expenditure aligns with the necessity to expense costs that cannot be connected to future benefits over a clear timeframe.

3. Which statement reflects the main purpose of an operating statement for governmental funds?

- A. To show total financial position**
- B. To highlight cash inflows and outflows**
- C. To report on expenditures against available revenues**
- D. To reflect total economic resource changes**

The main purpose of an operating statement for governmental funds is to report on expenditures against available revenues. This is essential for understanding how effectively a governmental entity is managing its financial resources. Governmental funds focus on the current financial activities of an organization, and the operating statement provides information on how much money was earned versus how much was spent during a specific period. In the context of governmental accounting, the operating statement supports accountability and transparency. It helps stakeholders, such as taxpayers and oversight bodies, assess whether the government is adhering to budgetary constraints and effectively allocating resources to meet public service needs. By showcasing the relationship between revenues and expenditures, the operating statement allows for an evaluation of fiscal performance and helps ensure that resources are used efficiently in accordance with the priorities set by the government. This is particularly crucial in the public sector, where accountability to the public is paramount. Overall, this focus on expenditures in relation to revenues is a fundamental aspect of governmental accounting, distinguishing it from other types of financial reporting that might emphasize broader economic resource changes or overall financial position.

4. Which of the following would properly be accounted for in an investment trust fund?

- A. Public-entity risk pools**
- B. Venture capital limited partnerships**
- C. Idle funds of joint ventures**
- D. None of the above**

An investment trust fund is designed to manage investments on behalf of a group of investors, primarily focusing on maximizing returns through various types of investment strategies. In the context of the options provided, it's important to understand what qualifies as an appropriate investment for such a fund. Investment trust funds typically include financial instruments that can be easily managed and monitored, such as stocks, bonds, and mutual funds. They are not typically used for specific types of entities or operational activities that don't fall under standard investment practices. Public-entity risk pools, venture capital limited partnerships, and idle funds of joint ventures generally do not fit within the scope of a traditional investment trust fund. They often serve specific operational needs, risk sharing among entities, or strategic partnerships, rather than pure investment purposes. For instance, public-entity risk pools involve the assessment of risks and insurance needs rather than capital accumulation, while venture capital partnerships focus on funding startups and other high-risk projects, which is not aligned with the primary mission of an investment trust fund. Idle funds of joint ventures may be temporarily invested but do not constitute the overall investment strategy of a dedicated fund. Thus, none of the options given fit the criteria for inclusion in an investment trust fund, which supports the conclusion that all of them

5. Which of the following statements is true regarding the fund types used in governmental accounting?

- A. All fund types must focus on economic resources**
- B. Agency funds must report equity changes**
- C. Governmental funds focus on current financial resources**
- D. Proprietary funds exclude revenues from operating statements**

Governmental funds are specifically designed to emphasize the current financial resources available to a government entity. This means that their primary objective is to facilitate the tracking and management of financial resources that are considered spendable within the current fiscal period. These funds focus on the inflows and outflows of cash and other financial resources, rather than looking towards long-term economic resources or capital assets, which is the focus of other fund types like proprietary funds. This approach is aligned with the budgetary and accountability needs of government operations, which often require a clear understanding of available resources for short-term obligations and service delivery. By concentrating on current financial resources, governmental funds ensure that public entities operate within their means, which is crucial for maintaining fiscal responsibility and accountability to taxpayers.

6. What is the classification of shared sales taxes from the perspective of the ultimate recipient?

- A. Derived tax revenues**
- B. Imposed nonexchange revenues**
- C. Government-mandated or voluntary nonexchange transactions**
- D. A or C**

Shared sales taxes, from the perspective of the ultimate recipient, are classified as government-mandated or voluntary nonexchange transactions. This classification reflects the nature of the funds being received and how they are allocated to different entities, such as local governments. In a government-mandated nonexchange transaction, the government requires the collection of taxes, and those funds are then shared among various jurisdictions based on predetermined formulas or regulations. Therefore, recipients are not providing goods or services directly in exchange for these funds, but rather receiving them due to mandates from higher levels of government. The classification emphasizes the concept that the recipient does not have to provide a corresponding benefit to the entity providing the funds. In the case of sales taxes that are distributed to various jurisdictions, the funds are usually derived from the collective contributions of taxpayers, and those jurisdictions receive allocations without a direct exchange or transactional basis. This classification distinguishes shared sales taxes from derived tax revenues, which are typically based on the revenue generated by the sale of goods and services within a specific jurisdiction, directly correlating benefits to service provision. Thus, shared sales taxes appropriately belong in the government-mandated or voluntary nonexchange transaction category, aligning with how these funds are operationalized across jurisdictions.

7. Is the CAFR appropriate for meeting SEC Rule 15c2-12 disclosure requirements?

- A. No, it must follow a different format**
- B. Yes, it is sufficient for disclosure requirements**
- C. Only if supplemented by an independent auditor's report**
- D. No, it is outdated**

The Comprehensive Annual Financial Report (CAFR) is a financial report designed to provide detailed information about a government's financial position and performance. It is appropriate for meeting the SEC Rule 15c2-12 disclosure requirements primarily because it encompasses all necessary elements that come under the purview of these regulations. The SEC Rule 15c2-12 requires issuers of municipal securities to provide ongoing disclosure about their financial condition. The CAFR typically includes a thorough set of financial statements, notes, and statistical information which goes beyond what is necessary for the SEC's requirements, thus providing comprehensive and transparent information. This detailed level of disclosure helps investors make informed decisions regarding their investments in municipal securities. Furthermore, CAFRs are prepared according to Generally Accepted Accounting Principles (GAAP) and undergo rigorous review processes, which add to their reliability and relevance in financial reporting. This makes it evident why the CAFR is a sufficient and suitable document for fulfilling the SEC disclosure requirements.

8. Regarding the recognition of receivables in governmental funds, which statement is TRUE?

- A. Receivables may not be recognized until they are available**
- B. The rules governing the recognition of receivables are the same as those that apply to the recognition of revenue**
- C. There is no difference in receivables recognition between governmental funds and proprietary funds**
- D. Both A and B**

The recognition of receivables in governmental funds is based on specific criteria that dictate when revenues can be recognized, which directly relates to the recognition of receivables. In governmental accounting, receivables are recognized when they are measurable and available to finance expenditures of the current period. This concept aligns with the revenue recognition criteria established for governmental funds, which requires that revenues be earned and available before they can be recognized in the accounting records. Therefore, the statement indicating that the rules governing the recognition of receivables are the same as those that apply to the recognition of revenue is indeed true. This is an important aspect of governmental accounting, as it emphasizes the fiscal accountability of governmental entities to recognize resources only when they can be utilized to provide public services in the current period. In contrast, the other statements either misinterpret the timing of when receivables are recognized, do not distinguish between different types of funds appropriately, or inaccurately suggest equivalence in recognition criteria across fund types. Understanding these distinctions is crucial for accurate financial reporting and compliance within governmental accounting frameworks.

9. Do both modified accrual accounting and accrual accounting recognize expenditures/expenses when a liability is incurred?

- A. True**
- B. False**
- C. Only in cash-based accounting**
- D. Only for capital expenditures**

Both modified accrual accounting and accrual accounting indeed recognize expenditures or expenses at the point when a liability is incurred. In accrual accounting, expenses are recognized when they are incurred, regardless of when the cash is paid. This approach ensures that the financial statements reflect the economic activities of an organization as they happen, providing a more accurate picture of its financial performance and position. Modified accrual accounting, often used by governmental entities, applies a similar principle but with some specific nuances related to revenues. Under this method, expenditures are recognized when the related liability is incurred, much like in full accrual accounting, ensuring that the financial statements provide insight into current obligations and resources available to meet those obligations. Therefore, the assertion that both modified accrual accounting and accrual accounting recognize expenditures or expenses when a liability is incurred is indeed true, as it aligns with the fundamental principles of these accounting methods.

10. Are there substantive differences between financial auditing and performance auditing?

- A. Yes**
- B. No**
- C. Only in methodology**
- D. Only in scope**

There are substantive differences between financial auditing and performance auditing. Financial auditing primarily focuses on the accuracy and completeness of financial statements, ensuring that reported financial data adheres to generally accepted accounting principles (GAAP) or relevant financial reporting standards. The main goal is to provide assurance that the financial statements are free from material misstatement, whether due to fraud or error. On the other hand, performance auditing takes a broader approach, evaluating the effectiveness and efficiency of an organization's operations, programs, or projects. It assesses whether resources are being used effectively to achieve goals and objectives, aligning with the principles of economy, efficiency, and effectiveness. Performance audits may examine aspects such as program outcomes, compliance with laws and regulations, and operational processes to provide insights for improvement. The focus on different objectives and the varied aspects of evaluation in these two types of audits underline their substantive differences, making the assertion that there are indeed significant distinctions accurate.

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://cpfoaccounting.examzify.com>

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

SAMPLE