

GASB and FASAB Standards Practice Test (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

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- 1. Under FASB guidance, not-for-profit organizations must show the relationship of functional expenses to natural classifications in what format?**
 - A. A Separate Statement of Functional Expenses**
 - B. As Part of the Statement of Activities**
 - C. As a Schedule in the Notes to the Financial Statements**
 - D. Any of These Formats Is Acceptable**

- 2. Not-for-profit entities report which of the following as a net asset category?**
 - A. Net assets without donor restrictions**
 - B. Net assets with donor restrictions**
 - C. Net assets with endowments**
 - D. Net assets restricted by time only**

- 3. Unusual and infrequent items are reported on the government-wide statement of activities as which?**
 - A. As separate line items below General Revenues in the statement of activities**
 - B. In notes to financial statements**
 - C. In the program revenues section**
 - D. As part of capital grants**

- 4. Which statement best describes how interest incurred during construction should be treated in the Brown Creek scenario?**
 - A. Interest on short-term notes is capitalized as part of construction cost.**
 - B. Interest is capitalized only when financed by long-term debt.**
 - C. Interest incurred during construction is not capitalized and is expensed in the period.**
 - D. Interest is recorded as a separate asset.**

- 5. In the reconciliation from fund balances to the change in net position of governmental activities, which item would be added to net change in fund balances?**
- A. Debt service payments**
 - B. Reclassifications of fund balances**
 - C. Construction of capital assets**
 - D. Depreciation expense**
- 6. Town of Brewster issued the following during the year: 1) \$600,000 in bonds for installation of new street lights in the downtown corridor, and 2) \$800,000 in bonds for construction of a public golf course to be self-supported from fees collected from golf course users. How much should be accounted for through debt service funds for payments of principal over the life of the bonds?**
- A. 0.**
 - B. 600,000.**
 - C. 800,000.**
 - D. 1,400,000.**
- 7. When a fire truck purchased from General Fund revenues is received, which General Fund account should be debited?**
- A. Expenditures**
 - B. Assets**
 - C. Encumbrances**
 - D. Appropriations**
- 8. How does FASB require not-for-profit organizations to report expenses?**
- A. Natural classification only**
 - B. Functional classification only**
 - C. Both natural classification and functional classification must be reported**
 - D. Neither classification is required**

- 9. For a purchase order approved under encumbrance accounting in the General Fund, which entry records the encumbrance?**
- A. Encumbrances 6,000; Appropriations 6,000**
 - B. Encumbrances 6,000; Encumbrances Outstanding 6,000**
 - C. Supplies 6,000; Vouchers Payable 6,000**
 - D. Expenditures 6,000; Encumbrances 6,000**
- 10. Which would decrease the governmental activities balance in Net Position—Net Investment in Capital Assets?**
- A. Increase in cash**
 - B. Issuance of long-term debt to acquire capital assets**
 - C. Increase in accumulated depreciation**
 - D. Increase in contributed capital**

Answers

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

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Explanations

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1. Under FASB guidance, not-for-profit organizations must show the relationship of functional expenses to natural classifications in what format?

- A. A Separate Statement of Functional Expenses**
- B. As Part of the Statement of Activities**
- C. As a Schedule in the Notes to the Financial Statements**
- D. Any of These Formats Is Acceptable**

The idea being tested is that not-for-profit entities must disclose how expenses relate to both what they cost (natural classifications like salaries, rent, supplies) and what they are used for (functional classifications such as program services versus supporting services). FASB allows this disclosure in multiple formats, not just one prescribed form. A separate statement of functional expenses is one option, showing expenses by function and breaking out the natural classifications. Another is to present the analysis within the main statement of activities, illustrating how each function is supported by different natural expense categories. A third approach is to provide a schedule in the notes to the financial statements with the same functional-versus-natural breakdown. Because the goal is clear transparency about how resources are spent, any of these formats meets the requirement, so all are acceptable formats.

2. Not-for-profit entities report which of the following as a net asset category?

- A. Net assets without donor restrictions**
- B. Net assets with donor restrictions**
- C. Net assets with endowments**
- D. Net assets restricted by time only**

Not-for-profit entities present resources in two net asset categories: those without donor restrictions and those with donor restrictions. This separation shows whether donors have placed restrictions on how funds can be used or when they can be spent. The correct choice identifies the category that reflects donor-imposed restrictions: net assets with donor restrictions. Endowment funds, and other restricted resources, fall under this category when donors restrict them, either in perpetuity or for a specific purpose or time. Time restrictions are simply a type of donor restriction, so they're part of the same restricted category rather than a separate net asset category.

3. Unusual and infrequent items are reported on the government-wide statement of activities as which?

- A. As separate line items below General Revenues in the statement of activities**
- B. In notes to financial statements**
- C. In the program revenues section**
- D. As part of capital grants**

Unusual and infrequent items are shown on the government-wide statement of activities as separate line items, placed below the General Revenues. This presentation keeps ongoing operating results clear—program costs and general revenues reflect normal activity—while highlighting material nonrecurring effects on net position. By presenting these items separately, users can see the impact of nonrecurring events without them distorting the normal cost of services. For example, a significant one-time gain or loss from a settlement would appear as its own line item rather than being embedded in program expenses or capital-related amounts.

4. Which statement best describes how interest incurred during construction should be treated in the Brown Creek scenario?

- A. Interest on short-term notes is capitalized as part of construction cost.**
- B. Interest is capitalized only when financed by long-term debt.**
- C. Interest incurred during construction is not capitalized and is expensed in the period.**
- D. Interest is recorded as a separate asset.**

The main idea being tested is how governments handle interest costs during construction based on how the project is financed. Interest incurred during construction is capitalized and added to the asset's cost only if the asset is financed with debt specifically for that construction. If the project is funded with current resources (no debt), there is no capitalization of interest—the interest is expensed as incurred in the period. In the Brown Creek scenario, the construction was funded with available resources rather than new debt, so the interest costs are not capitalized. They are recorded as an expense in the period they are incurred. This aligns with the rule that capitalization of interest depends on financing source; interest tied to debt financing becomes part of the asset, while interest funded by existing resources does not. The other options would imply capitalization under financing arrangements that aren't present or misclassify interest as a separate asset, which does not match the scenario.

5. In the reconciliation from fund balances to the change in net position of governmental activities, which item would be added to net change in fund balances?

- A. Debt service payments**
- B. Reclassifications of fund balances**
- C. Construction of capital assets**
- D. Depreciation expense**

When moving from the governmental funds balance sheet to the government-wide statements, you adjust for how transactions are reported on a different basis. Construction of capital assets is treated as an outlay in the funds (a reduction in fund balance) but as a capital asset on the government-wide statements. That increase in capital assets will later contribute to higher net position (through depreciation and asset value over time), so you add the amount spent on construction of capital assets in the reconciliation to net change in government activities. The other items don't fit this addition. Debt service payments reduce fund balance but affect long-term liabilities in a way that isn't an additive increase to net position in the reconciliation, reclassifications of fund balances are transfers with no net effect on overall net position, and depreciation expense is a noncash charge that reduces net position on the government-wide statements rather than increasing it, so it's not added in this step.

6. Town of Brewster issued the following during the year: 1) \$600,000 in bonds for installation of new street lights in the downtown corridor, and 2) \$800,000 in bonds for construction of a public golf course to be self-supported from fees collected from golf course users. How much should be accounted for through debt service funds for payments of principal over the life of the bonds?

- A. 0.**
- B. 600,000.**
- C. 800,000.**
- D. 1,400,000.**

Debt service funds are used to accumulate resources specifically for paying principal and interest on long-term debt that is not serviced by an enterprise fund. Here, the street lights bonds are a governmental activity financed by general revenues, so their principal payments will be made from a debt service fund. The golf course bonds, however, are designed to be self-supported from the golf course's user fees, meaning they are enterprise debt funded from the enterprise fund's revenues, not from a separate debt service fund. Therefore, only the street lights debt's principal—600,000—belongs in a debt service fund.

7. When a fire truck purchased from General Fund revenues is received, which General Fund account should be debited?

- A. Expenditures**
- B. Assets**
- C. Encumbrances**
- D. Appropriations**

In the General Fund, a long-term asset purchase is recorded as an expenditure when the goods are received. The fund's focus is on current financial resources, so the outlay for the fire truck is shown as an expenditure rather than directly recording an asset there. The actual asset would appear on the government-wide financial statements later as a capital asset, but in the General Fund the immediate recognition is an expenditure. So, when the fire truck is received, you debit Expenditures (to reflect the outlay from general revenues) and credit Cash or Accounts Payable, depending on whether you've paid or incurred a liability. Encumbrances would have been set up earlier to show a commitment, and Appropriations relate to budget authority, not the actual receipt of goods. That's why Expenditures is the appropriate General Fund debit.

8. How does FASB require not-for-profit organizations to report expenses?

- A. Natural classification only**
- B. Functional classification only**
- C. Both natural classification and functional classification must be reported**
- D. Neither classification is required**

Not-for-profit financial reporting requires expenses to be shown in two dimensions: by function and by nature. Function shows how resources were used—typically program services versus supporting services such as fundraising and administration—while nature shows the type of expense, like salaries, rent, or supplies. Presenting both classifications gives a complete view of how much of the organization's resources are spent on its programs and what those costs consist of. Depending on the presentation format, the two classifications can appear on the face of the statement of activities or in a separate statement of functional expenses, with any method used to allocate costs between functions disclosed. This dual requirement is why both classifications are reported. A natural-only or functional-only presentation would omit essential information about either what the costs were for or what the costs consisted of.

9. For a purchase order approved under encumbrance accounting in the General Fund, which entry records the encumbrance?

A. Encumbrances 6,000; Appropriations 6,000

B. Encumbrances 6,000; Encumbrances Outstanding 6,000

C. Supplies 6,000; Vouchers Payable 6,000

D. Expenditures 6,000; Encumbrances 6,000

When a purchase order is approved under encumbrance accounting, you're not recognizing an actual expenditure yet—you're creating a commitment against the budget. The way this is shown is by increasing the encumbrances amount and creating a corresponding outstanding encumbrance that represents the portion of the budget set aside for that order. So you record a debit to Encumbrances and a credit to Encumbrances Outstanding for the ordered amount. This reflects that funds are reserved and the encumbrance is outstanding. This setup keeps the budgetary control clear: the encumbrance shows the commitment, and the outstanding encumbrances account tracks what remains to be executed. Expenditures and liabilities (like Vouchers Payable) come later, when the goods or services are received and the obligation is liquidated. The other options either move funds directly out of appropriations, record a liability or an expenditure too early, or otherwise don't reflect the encumbrance mechanism.

10. Which would decrease the governmental activities balance in Net Position—Net Investment in Capital Assets?

A. Increase in cash

B. Issuance of long-term debt to acquire capital assets

C. Increase in accumulated depreciation

D. Increase in contributed capital

Net Investment in Capital Assets represents the portion of net position that is tied up in capital assets, after accounting for depreciation and the debt used to finance those assets. Since NIIC is computed as capital assets, net of depreciation minus the outstanding debt related to those assets, an increase in accumulated depreciation lowers the net carrying amount of capital assets. That reduction directly reduces the Net Investment in Capital Assets, making it the correct effect. In contrast, a rise in cash doesn't affect NIIC because cash is not part of capital assets. Issuing long-term debt to acquire capital assets increases both the capital assets and the outstanding debt, leaving the NIIC amount essentially unchanged. An increase in contributed capital adds to net position and typically boosts capital resources without an offsetting debt, so it would not decrease NIIC.

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://gasbfasabstandards.examzify.com>

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

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