

State Finance Challenge 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. Which budgeting approach allocates resources by programs and desired outcomes?**
 - A. Line-item budgeting.**
 - B. Zero-based budgeting.**
 - C. Program budgeting.**
 - D. Incremental budgeting.**

- 2. What is the purpose of encumbrance accounting in government funds?**
 - A. To control spending and indicate commitments until the actual expenditure occurs.**
 - B. To record actual expenditures when they occur.**
 - C. To record liabilities from debt issuance.**
 - D. To depreciate capital assets.**

- 3. Which statement correctly describes PAYG financing for post-employment benefits?**
 - A. Benefits are paid from current revenues.**
 - B. Benefits are funded from accumulated assets.**
 - C. It requires actuarial valuations to set contributions.**
 - D. It has no long-term cost implications.**

- 4. What is the term for a special retirement account in which taxes are not paid on the principal or interest until withdrawal?**
 - A. Estate Tax**
 - B. IRA (Individual Retirement Account)**
 - C. Collective Bargaining**
 - D. Overdraft Protection**

- 5. What does GASB 84 address in fiduciary fund reporting?**
 - A. It eliminates fiduciary funds from financial statements.**
 - B. It clarifies reporting for fiduciary funds and requires separate statements for fiduciary activities.**
 - C. It requires fiduciary funds to be reported as governmental funds.**
 - D. It focuses only on capital asset depreciation.**

- 6. Which term denotes a tax levied on one's earnings?**
- A. Income Tax**
 - B. Income**
 - C. Checking Account**
 - D. Primary Market**
- 7. These shareholders have a greater claim to a company's assets and earnings. Their dividends must be paid out before dividends to common stockholders, and the shares typically do not have voting rights?**
- A. Common Stock**
 - B. Strict Liability**
 - C. Preferred Stock**
 - D. IRA**
- 8. What is the term for transferring funds from one retirement plan to another without taxes or penalties?**
- A. Withdrawal**
 - B. Conversion**
 - C. Rollover**
 - D. Annuity**
- 9. Which statement best describes a Public-Private Partnership (P3) arrangement in public infrastructure financing?**
- A. They involve a contract-based arrangement with private sector for public infrastructure, often sharing risks and rewards.**
 - B. They require the private partner to own the infrastructure permanently after completion.**
 - C. They are illegal in most jurisdictions.**
 - D. They are used only for transportation projects.**

10. Which coverage protects against financial loss for injuries to others if you are at fault in an auto accident?

- A. Property Damage Liability**
- B. Medical Payments**
- C. Uninsured Motorist**
- D. Bodily Injury Liability**

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Answers

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

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Explanations

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1. Which budgeting approach allocates resources by programs and desired outcomes?

- A. Line-item budgeting.**
- B. Zero-based budgeting.**
- C. Program budgeting.**
- D. Incremental budgeting.**

Program budgeting focuses funding decisions on specific programs and the outcomes they are meant to achieve. Instead of assigning money by line items of input (like salaries or equipment) or simply rolling over the previous year, it groups resources by program areas and ties those funds to the expected results and performance measures. This makes it easier to compare how much is invested in different programs and to reallocate funds toward those that deliver the desired public outcomes. Line-item budgeting concentrates on inputs and costs by category, not on what those costs accomplish. Zero-based budgeting is about justifying every expense from zero, but it doesn't inherently structure funding around programs and their outcomes. Incremental budgeting updates the prior year's budget with small changes, which tends to maintain existing programs rather than focusing on achieving specific results.

2. What is the purpose of encumbrance accounting in government funds?

- A. To control spending and indicate commitments until the actual expenditure occurs.**
- B. To record actual expenditures when they occur.**
- C. To record liabilities from debt issuance.**
- D. To depreciate capital assets.**

Encumbrance accounting is a budgetary control tool used in government funds to reserve part of appropriations for anticipated liabilities. It records commitments such as purchase orders and contracts, so managers can see that funds have been set aside and are not available for other spending. This helps prevent overspending by reducing the available appropriations as soon as a commitment is made. The actual outlay is not recorded as an expenditure until the goods or services are received and an invoice is processed; at that point the encumbrance is cleared and the expenditure is recorded. If the order is canceled, the encumbrance is reversed, restoring the funds. The other concepts don't fit because recording actual expenditures as they occur is expenditure accounting, not the purpose of encumbrances; recording liabilities from debt issuance pertains to debt, not purchase commitments; and depreciating capital assets deals with allocating cost over time, not reserving funds for obligations.

3. Which statement correctly describes PAYG financing for post-employment benefits?

- A. Benefits are paid from current revenues.**
- B. Benefits are funded from accumulated assets.**
- C. It requires actuarial valuations to set contributions.**
- D. It has no long-term cost implications.**

Pay-as-you-go financing funds current benefits from current revenues. In post-employment programs, the benefits paid to retirees come out of the taxes or payroll contributions collected in the present period, rather than from assets that were set aside in advance. That makes the defining feature the use of current revenues to cover benefits. Funding from accumulated assets describes a funded approach, not PAYG. While actuarial valuations may appear in many pension contexts to assess sustainability, they aren't the defining trait of PAYG. And assuming no long-term cost implications ignores how demographic shifts can affect the ability to meet future benefits with current revenue, creating sustainability concerns over time.

4. What is the term for a special retirement account in which taxes are not paid on the principal or interest until withdrawal?

- A. Estate Tax**
- B. IRA (Individual Retirement Account)**
- C. Collective Bargaining**
- D. Overdraft Protection**

This question is about tax-deferred growth in retirement savings. An IRA is a retirement account where the money grows without taxes on the principal or the earnings until you withdraw, typically in retirement. In a traditional IRA, contributions may be tax-deductible and the investments grow tax-deferred, with taxes due when distributions are taken. The other options don't describe a retirement account with that tax timing: estate tax applies to a deceased person's estate, collective bargaining pertains to labor negotiations, and overdraft protection is a banking service to cover short-term gaps in funds.

5. What does GASB 84 address in fiduciary fund reporting?

- A. It eliminates fiduciary funds from financial statements.**
- B. It clarifies reporting for fiduciary funds and requires separate statements for fiduciary activities.**
- C. It requires fiduciary funds to be reported as governmental funds.**
- D. It focuses only on capital asset depreciation.**

GASB 84 focuses on how fiduciary activities are identified and presented, ensuring that assets held in trust or for others are reported separately from the government's own resources. It clarifies which funds are fiduciary and mandates that fiduciary activities have their own financial statements, so readers can see the net position and changes in net position that belong to these trust and custodial arrangements, rather than blending them into governmental or business-type funds. This separation highlights that the government is merely a custodian or trustee for those resources, not the primary beneficiary of them. That's why the correct approach is to require clear reporting for fiduciary funds and to present them with their own statements of fiduciary net position and changes in fiduciary net position. The other options imply eliminating fiduciary funds, treating them as governmental funds, or focusing on depreciation, none of which aligns with GASB 84's purpose of clarifying fiduciary reporting and requiring separate fiduciary financial statements.

6. Which term denotes a tax levied on one's earnings?

- A. Income Tax**
- B. Income**
- C. Checking Account**
- D. Primary Market**

This question is testing your understanding of terms related to taxation on earnings. The term that denotes a tax levied on earnings is income tax—the government charge applied to wages, salaries, and other income, often structured with brackets that determine the rate you pay. The other options don't fit: income refers to the earnings themselves, not the tax; a checking account is a bank account for managing money; and the primary market describes where new securities are issued, not anything to do with taxation.

7. These shareholders have a greater claim to a company's assets and earnings. Their dividends must be paid out before dividends to common stockholders, and the shares typically do not have voting rights?

- A. Common Stock**
- B. Strict Liability**
- C. Preferred Stock**
- D. IRA**

Preferred stock represents a class of ownership that has priority over common stock in both earnings and assets. This means their dividends are typically fixed and must be paid before any dividends to common stockholders. If the company is liquidated, preferred shareholders are paid before common shareholders, though they usually don't have voting rights. This combination of priority in income and during liquidation, along with limited or no voting power, is why the described shareholders fit preferred stock. Common stockholders, by contrast, have lower claim to dividends and assets and usually have voting rights. The other options don't fit because they don't describe ownership with dividend and liquidation priority (IRA is a retirement account) or are unrelated concepts (strict liability).

8. What is the term for transferring funds from one retirement plan to another without taxes or penalties?

- A. Withdrawal**
- B. Conversion**
- C. Rollover**
- D. Annuity**

Rollover. The idea is to move assets from one retirement plan to another without triggering taxes or penalties by preserving the tax-deferred status. This happens most cleanly with a direct rollover—trustee to trustee—so the funds never pass through your hands. Even an indirect rollover can work if you redeposit the money into another qualified plan within 60 days, avoiding taxes and penalties, though it carries more risk and potential complications. This differs from a withdrawal, which takes cash out of the plan and is usually a taxable event (and may incur penalties if you're under age 59½). A conversion involves changing the type of retirement account (like traditional to Roth) and typically triggers taxes on the amount converted. An annuity is a product that provides a stream of payments and isn't itself a transfer between retirement plans.

9. Which statement best describes a Public-Private Partnership (P3) arrangement in public infrastructure financing?

- A. They involve a contract-based arrangement with private sector for public infrastructure, often sharing risks and rewards.**
- B. They require the private partner to own the infrastructure permanently after completion.**
- C. They are illegal in most jurisdictions.**
- D. They are used only for transportation projects.**

Public-Private Partnerships are contract-based collaborations where the private sector helps deliver a public infrastructure project, typically by providing financing and handling elements like design, construction, and long-term operation and maintenance. The arrangement is driven by outputs and performance, not by who owns the asset. The government sets the required service levels and pays the private partner based on meeting those standards, with some payments tied to availability or usage. The private partner takes on risks such as cost overruns, delays, and maintenance quality, while the public sector retains ownership or broad oversight and aims to achieve value for money by transferring appropriate risks and leveraging private sector efficiency. This concept is not limited to ownership transfer, illegal in any jurisdiction, or confined to transportation; it is used across various sectors and project types.

10. Which coverage protects against financial loss for injuries to others if you are at fault in an auto accident?

- A. Property Damage Liability**
- B. Medical Payments**
- C. Uninsured Motorist**
- D. Bodily Injury Liability**

Bodily Injury Liability is the coverage that protects you from paying out-of-pocket for injuries to other people when you are at fault in an auto accident. It covers the medical expenses, lost wages, and other damages that you're legally responsible for, up to the policy's limits. This is different from property damage liability, which pays for damage you cause to other people's property (like their car or a fence); medical payments coverage, which covers medical bills for occupants of your vehicle regardless of fault; and uninsured/underinsured motorist coverage, which covers injuries when the at-fault driver lacks sufficient insurance.

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://statefinancechallenge.examzify.com>

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

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