STATE FINANCE CHALLENGE PRACTICE TEST (SAMPLE)

STUDY GUIDE

SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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

1. **Accrual basis is used in which statements and why?**
   A. In government-wide statements and enterprise/fiduciary funds, to reflect economic resources and obligations.
   B. Only in fund statements, to simplify reporting.
   C. In all government funds to match cash flows.
   D. Only in the general fund, regardless of other funds.

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

3. **Which retirement account allows tax-deferred growth where taxes are paid on withdrawals?**
   A. IRA
   B. Estate Tax
   C. Overdraft Protection
   D. Strict Liability

4. **An automatic loan made to checking account customers to cover the amount of a check written in excess of the available balance in the checking book?**
   A. IRA
   B. Overdraft Protection
   C. Estate Tax
   D. Closed-End Fund

5. **Which law regulates the use of credit reports and provides consumers access to their files and the right to have erroneous data corrected?**
   A. Truth in Lending Act
   B. Fair Credit Reporting Act
   C. Equal Credit Opportunity Act
   D. Fair Debt Collection Practices Act

6. Which fund is used to account for operating activities in a state government?

A. Capital Projects Fund.

B. Debt Service Fund.

C. General Fund.

D. Special Revenue Fund.

7. Which term refers to a tax on earned income?

A. Income

B. Primary Market

C. Line Of Credit

D. Income Tax

8. Which change did GASB 34 introduce regarding financial statements?

A. A shift to cash basis reporting.

B. Government-wide accrual-based financial statements and reconciliation with fund financials.

C. Elimination of all fund financial statements.

D. A requirement to prepare only budgetary comparison schedules.

9. Which type of bond is designed to be repaid from the project's income?

A. General Obligation Bond

B. Municipal Bond

C. Revenue Bond

D. Corporate Bond

10. A fund whose shares are issued by an investment company only when the fund is organized?

A. Closed-End Fund

B. Open-End Fund

C. Mutual Fund

D. Money Market Fund

Answers

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

Explanations

1. Accrual basis is used in which statements and why?

A. In government-wide statements and enterprise/fiduciary funds, to reflect economic resources and obligations.

B. Only in fund statements, to simplify reporting.

C. In all government funds to match cash flows.

D. Only in the general fund, regardless of other funds.

Accrual basis in government accounting is used in government-wide financial statements and in enterprise and fiduciary funds to reflect economic resources and obligations. Government-wide statements present the government as a whole and show assets, liabilities, and net position, recognizing revenues when earned and expenses when incurred, which captures the full economic picture, including long-term items like depreciation, capital assets, and long-term debt. Enterprise funds (the business-type activities) use the same accrual approach because they operate like private businesses and need to report facilities, equipment, receivables, payables, and depreciation—things that affect long-term financial health. Fiduciary funds also use accrual because they hold resources in trust or for beneficiaries and must show the resources and the obligations to those beneficiaries, independent of the government's own operations. Other fund financial statements—such as the general fund and other governmental funds—use modified accrual to focus on current financial resources and near-term inflows and outflows, not on long-term economic resources and obligations.

2. 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.

3. Which retirement account allows tax-deferred growth where taxes are paid on withdrawals?

A. IRA

B. Estate Tax

C. Overdraft Protection

D. Strict Liability

Tax-deferred growth means your earnings grow without being taxed as they accrue; taxes are paid when you withdraw the money, typically in retirement. A traditional IRA fits this pattern: you may get an upfront tax deduction for contributions, the investments grow without current taxes, and withdrawals are taxed as ordinary income in retirement. This contrasts with a Roth IRA, where you pay taxes on contributions and withdrawals are tax-free. The other options aren't retirement accounts, so they don't apply here.

4. An automatic loan made to checking account customers to cover the amount of a check written in excess of the available balance in the checking book?

A. IRA

B. Overdraft Protection

C. Estate Tax

D. Closed-End Fund

Overdraft protection is an automatic loan from the bank that kicks in when you write a check or make a payment that would exceed your account balance. Instead of the check bouncing, the bank covers the shortfall by transferring funds from a linked account or advancing a short-term credit, so the transaction goes through. This helps avoid merchant fees and the negative mark of an overdraft on your account, though fees or interest may apply depending on the arrangement. The other options describe different financial concepts (a retirement savings account, a tax on assets at death, and an investment fund) and do not describe how an automatic loan to cover an overdraft works.

5. Which law regulates the use of credit reports and provides consumers access to their files and the right to have erroneous data corrected?

A. Truth in Lending Act

B. Fair Credit Reporting Act

C. Equal Credit Opportunity Act

D. Fair Debt Collection Practices Act

The key idea is how consumer credit information is handled and controlled. The Fair Credit Reporting Act governs the collection, use, and sharing of credit information by reporting agencies, and it explicitly gives consumers the right to access their credit files and to dispute and have inaccurate data corrected. When you request your file, you can see what's in it and who has accessed it; if you find errors, you can trigger an investigation, and the information must be verified or corrected within a set timeframe. This act is what underpins the accuracy of your credit report and your ability to fix mistakes that could affect your credit decisions. Other laws cover different aspects of lending: the Truth in Lending Act focuses on clear disclosures of loan terms like interest rates and total costs; the Equal Credit Opportunity Act prohibits discrimination in lending; and the Fair Debt Collection Practices Act regulates the behavior of debt collectors, not the content of credit files.

6. Which fund is used to account for operating activities in a state government?

A. Capital Projects Fund.

B. Debt Service Fund.

C. General Fund.

D. Special Revenue Fund.

The General Fund is the primary accounting repository for a state's day-to-day operating activities. It holds the unrestricted revenues that support general government services and records the expenditures needed to run the core functions of the state—things like public safety, health and welfare, education administration, and general government operations. Other funds have specialized roles: the Capital Projects Fund covers major capital improvements; the Debt Service Fund handles payments of interest and principal on long-term debt; and the Special Revenue Fund accounts for revenues restricted to a particular program or purpose. Because operating activities stem from general revenues and ongoing services, the General Fund is the best fit.

7. Which term refers to a tax on earned income?

A. Income

B. Primary Market

C. Line Of Credit

D. Income Tax

The main idea here is a tax on wages and earnings. A tax on earned income is called an income tax. It's the payment governments levy on money you earn from work—like wages, salaries, tips, and commissions—often with rates that rise as income increases. The other options aren't taxes: "income" is the money you earn, not a tax; "primary market" refers to the sale of new securities; and a "line of credit" is a borrowing arrangement. So the correct term for a tax on earned income is income tax.

8. Which change did GASB 34 introduce regarding financial statements?

A. A shift to cash basis reporting.

B. Government-wide accrual-based financial statements and reconciliation with fund financials.

C. Elimination of all fund financial statements.

D. A requirement to prepare only budgetary comparison schedules.

GASB 34 centers on providing a broader, more transparent view of a government's finances by requiring government-wide statements that use accrual accounting and by tying those to the traditional fund statements. The government-wide financial statements present the overall financial position and changes in the government as a whole, using accrual basis—so they recognize long-term assets and liabilities, such as capital assets and debt. Because fund financial statements under the older approach use a different basis (often modified accrual) and focus on individual funds, GASB 34 also requires a reconciliation to connect the fund numbers with the government-wide numbers. This link helps readers see how the activities in the funds affect the overall financial position and performance of the government. So the best answer reflects the move to government-wide accrual-based financial statements and the reconciliation with fund financials, which is exactly what GASB 34 introduced. The other options aren't correct because cash basis reporting isn't adopted for the government-wide statements, fund statements aren't eliminated, and the requirement isn't to prepare only budgetary comparison schedules.

9. Which type of bond is designed to be repaid from the project's income?

A. General Obligation Bond

B. Municipal Bond

C. Revenue Bond

D. Corporate Bond

Repayment source drives the type of bond. A revenue bond is issued to finance a specific project and is repaid from the income the project itself generates—such as tolls, user fees, or utility revenues—rather than from the issuer's taxes or general funds. This means debt service depends on the project's financial performance, which is why it's designed specifically to be paid from project income. For contrast, general obligation bonds are backed by the issuer's taxing power, municipal bonds cover a broad category with various security structures, and corporate bonds are repaid from the issuing company's earnings. The key idea is: debt service tied to a project's revenues points to a revenue bond.

10. A fund whose shares are issued by an investment company only when the fund is organized?

A. Closed-End Fund

B. Open-End Fund

C. Mutual Fund

D. Money Market Fund

The important idea here is the share structure and how it works after a fund is organized. A fund that issues shares only when it is organized has a fixed number of shares after its initial offering. This describes a closed-end fund. Once the initial public offering is completed, the fund does not continuously issue or redeem shares; instead, investors buy and sell existing shares in the market, typically on an exchange, at prices that can be above or below the fund's net asset value. In contrast, open-end funds (often called mutual funds) continuously create and redeem shares at NAV based on investor demand, so the number of shares is not fixed. Money market funds are a type of open-end fund that aims to keep a stable net asset value and provide liquidity, but they still issue and redeem shares as needed.

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!