

Western Governors University (WGU) ACCT5201 D250 Governmental and Nonprofit 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

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 should the journal entry for the general fund include upon reimbursement for supplies inadvertently recorded in the general fund?**
 - A. A credit to Expenditures**
 - B. A credit to Encumbrances**
 - C. A credit to Interfund Transfers In**
 - D. A credit to Fund Balance**
- 2. What is an enterprise fund primarily used for in government accounting?**
 - A. A fund for accounting a government's business-type activities**
 - B. A fund for managing tax revenues**
 - C. A fund solely for public service programs**
 - D. A fund for tracking donations**
- 3. What characterizes deferred revenue in governmental accounting?**
 - A. Revenue earned but not yet collected**
 - B. Revenue received before services are provided**
 - C. Funds allocated for future expenses**
 - D. Taxes collected prior to distribution**
- 4. What is the concept of fund accounting primarily focused on?**
 - A. Maximizing profit margins for government entities**
 - B. Emphasizing accountability rather than profitability**
 - C. Managing investments for future growth**
 - D. Calculating tax revenues for budgets**
- 5. What are the categories of net assets for nonprofits?**
 - A. Permanently restricted, temporarily restricted, and unrestricted**
 - B. Temporarily restricted, permanently restricted, and independently restricted**
 - C. Unrestricted, fully restricted, and partially restricted**
 - D. Temporarily restricted, unrestricted, and dependent**

- 6. When are expenses recorded under modified accrual accounting in governmental accounting?**
- A. When cash payments are made**
 - B. When services are received, regardless of cash flow**
 - C. When budget authority is granted**
 - D. When the accrual method is not permissible**
- 7. What is the role of the audit committee in a nonprofit organization?**
- A. To prepare the annual budget**
 - B. To oversee the financial auditing process and ensure ethical practices**
 - C. To manage day-to-day financial operations**
 - D. To direct fundraising campaigns**
- 8. How should special assessment amounts collected and the amount owed to the federal government be reported according to government-wide financial statements?**
- A. Collected amounts—revenue; amount owed—liability**
 - B. Collected amounts—not reported; amount owed—not reported**
 - C. Collected amounts—revenue; amount owed—not reported**
 - D. Collected amounts—not reported; amount owed—liability**
- 9. City A owns 20% of a public transportation system operated jointly with City B. How should City A report this interest?**
- A. As a joint venture**
 - B. As a component unit**
 - C. As a nonmajor fund**
 - D. As a proprietary fund**
- 10. When a city issues bonds at par to fund a capital improvement, how much interest expense should be reported for the year ended December 31, 20X1?**
- A. \$0**
 - B. \$50,000**
 - C. \$100,000**
 - D. \$75,000**

Answers

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

SAMPLE

Explanations

SAMPLE

1. What should the journal entry for the general fund include upon reimbursement for supplies inadvertently recorded in the general fund?

- A. A credit to Expenditures**
- B. A credit to Encumbrances**
- C. A credit to Interfund Transfers In**
- D. A credit to Fund Balance**

When a reimbursement for supplies that were mistakenly recorded in the general fund occurs, the appropriate journal entry would involve reversing the original expenditure. This is because the reimbursement reduces the financial impact that the original expenditure had on the fund's resources. In this case, crediting Expenditures reflects the reduction of the previously recognized expenses that the fund incurred when the supplies were recorded. This means that the expenses would now be adjusted to show the proper impact of the reimbursement, thereby accurately reflecting the fund's financial position. It's important to note that crediting Encumbrances would not be relevant in this situation, as Encumbrances relate to commitments made for future expenditures and do not affect the current expense accounts directly tied to the actual consumption of supplies. Similarly, a credit to Interfund Transfers In or Fund Balance would not correctly address the reimbursement of an expenditure; these choices pertain to different accounting phenomena not associated with correcting an expense error in the general fund.

2. What is an enterprise fund primarily used for in government accounting?

- A. A fund for accounting a government's business-type activities**
- B. A fund for managing tax revenues**
- C. A fund solely for public service programs**
- D. A fund for tracking donations**

An enterprise fund is primarily utilized in government accounting to account for a government's business-type activities. These activities are typically those that operate in a manner similar to private enterprises, meaning they charge customers for goods or services provided, allowing the fund to be self-sustaining based on user fees. Common examples of enterprise funds include public utilities (like water and sewer services), airports, and public transportation systems. The concept behind the enterprise fund is the separation between the government's business activities and its governmental activities, which often rely on tax revenues and grants. This separation allows for clearer financial reporting and accountability for services that are intended to be self-supporting. Therefore, the correct answer emphasizes the fund's role in managing those specific business-type activities, reflecting the cost of providing those services directly through user charges rather than relying on general tax funds. This framework is essential for maintaining transparency and fiscal responsibility in governmental accounting practices.

3. What characterizes deferred revenue in governmental accounting?

- A. Revenue earned but not yet collected
- B. Revenue received before services are provided**
- C. Funds allocated for future expenses
- D. Taxes collected prior to distribution

Deferred revenue in governmental accounting is characterized by the situation where funds are received before services are provided. This is a common occurrence in various government and nonprofit organizations, as they may collect fees, taxes, or grants in advance of actually delivering the related services or conducting activities. When revenue is classified as deferred, it indicates that the organization has an obligation to provide goods or services in the future, essentially creating a liability on the financial statements until the service has been rendered or the conditions for revenue recognition have been met. This ensures that financial statements accurately reflect the timing of revenue recognition according to accrual accounting principles, where revenue is recognized when earned, not necessarily when cash is received. In this context, the other choices do not accurately describe deferred revenue in governmental accounting. Revenue earned but not collected pertains to accounts receivable, while funds allocated for future expenses relate more to budgeting rather than revenue. Taxes collected prior to distribution might imply collecting taxes but does not necessarily encompass the concept of deferred revenue, which focuses more on the receipt of funds before services. Thus, the nature of deferred revenue aligns directly with the understanding of revenue received before services are provided.

4. What is the concept of fund accounting primarily focused on?

- A. Maximizing profit margins for government entities
- B. Emphasizing accountability rather than profitability**
- C. Managing investments for future growth
- D. Calculating tax revenues for budgets

The concept of fund accounting is primarily focused on emphasizing accountability rather than profitability. Fund accounting is used predominantly by governmental and nonprofit organizations to ensure that resources are being used in accordance with specified purposes and legal restrictions. In this framework, funds are segregated into various categories based on the sources of funding and their intended use, allowing organizations to track expenditures against budgets and ensure compliance with regulations. This approach enables these entities to demonstrate how money is spent, showing transparency and accountability to stakeholders such as taxpayers, donors, and grantors, rather than prioritizing profit-making, which is typical in for-profit entities. Fund accounting is designed to provide clear information regarding the management of funds, ensuring that resources are utilized efficiently and effectively for public good or charitable purposes.

5. What are the categories of net assets for nonprofits?

- A. Permanently restricted, temporarily restricted, and unrestricted**
- B. Temporarily restricted, permanently restricted, and independently restricted
- C. Unrestricted, fully restricted, and partially restricted
- D. Temporarily restricted, unrestricted, and dependent

The categories of net assets for nonprofits are indeed classified as permanently restricted, temporarily restricted, and unrestricted. Permanently restricted net assets refer to funds that must be maintained in perpetuity, often associated with endowments where the principal amount is kept intact while the income generated can be used for specified purposes. This ensures long-term financial stability and support for the organization's mission. Temporarily restricted net assets are those that are subject to donor-imposed restrictions that can be satisfied through the passage of time or the accomplishment of specific purposes. For example, a donor may contribute funds that can only be used for a particular program or project, with the understanding that once the project is completed or the time has elapsed, the funds can be reallocated. Unrestricted net assets are available for use at the discretion of the organization's governing board. They are not subject to any restrictions and can be utilized to meet the general needs of the nonprofit, providing flexibility in funding operations and programs. This classification framework aligns with generally accepted accounting principles (GAAP) for nonprofit organizations, allowing stakeholders to understand how resources are constrained and available for uses that adhere to the organization's mission.

6. When are expenses recorded under modified accrual accounting in governmental accounting?

- A. When cash payments are made
- B. When services are received, regardless of cash flow**
- C. When budget authority is granted
- D. When the accrual method is not permissible

Under modified accrual accounting, which is commonly used in governmental accounting, expenses are recorded when the services are received, regardless of when the cash payment is made. This method combines aspects of both cash basis and accrual accounting. In this approach, the focus is on the measurable period in which the resources are consumed or the liabilities are incurred rather than the timing of cash transactions. This allows for a more accurate representation of the financial position and performance of governmental entities by reflecting the obligations that have been incurred and the resources that have been utilized within the accounting period. Tracking expenses at the time services are received provides a clearer picture of the government's financial activities. This is essential for accountability and transparency in public sector financial reporting. As a result, option B captures the fundamental principle of expense recognition under modified accrual accounting.

7. What is the role of the audit committee in a nonprofit organization?

- A. To prepare the annual budget**
- B. To oversee the financial auditing process and ensure ethical practices**
- C. To manage day-to-day financial operations**
- D. To direct fundraising campaigns**

The role of the audit committee in a nonprofit organization is primarily to oversee the financial auditing process and ensure that ethical practices are being maintained. This committee is responsible for monitoring the organization's financial reporting and disclosure processes, which involves evaluating the performance of the external auditors, reviewing their findings, and ensuring that there are adequate controls in place to safeguard the organization's assets. By overseeing these aspects, the audit committee helps to ensure transparency and accountability within the organization. They play a crucial role in instilling stakeholder confidence by ensuring that financial statements accurately reflect the organization's financial position and comply with relevant regulations and standards. This oversight helps prevent fraud and mismanagement, which is vital for maintaining trust with donors, beneficiaries, and the public at large. Engaging in tasks such as preparing the annual budget, managing day-to-day financial operations, or directing fundraising campaigns falls outside the primary responsibilities of the audit committee. Those tasks typically fall under financial management or operational roles within the nonprofit, whereas the audit committee's specific focus is on auditing and ethical oversight.

8. How should special assessment amounts collected and the amount owed to the federal government be reported according to government-wide financial statements?

- A. Collected amounts—revenue; amount owed—liability**
- B. Collected amounts—not reported; amount owed—not reported**
- C. Collected amounts—revenue; amount owed—not reported**
- D. Collected amounts—not reported; amount owed—liability**

In governmental accounting, special assessments are charges imposed on property owners to finance public improvements that directly benefit their properties, such as street paving or sewer installations. When special assessment amounts are collected, they represent revenue for the government since they are funds received in exchange for a service or public benefit. Thus, the amount collected should be recorded as revenue in the government-wide financial statements. On the other hand, any amount owed to the federal government is recognized as a liability. This is because it represents an obligation that the government has to pay, reflecting an outstanding accountability for funds received or other obligations. Therefore, the proper reporting approach is to recognize the collected amounts as revenue, demonstrating the government's inflow of resources, while recording the amount owed as a liability, indicating the obligation that must be settled. This approach aligns with the principles of accountability and transparency in government financial reporting, ensuring that stakeholders can understand the financial position and performance of the government entity accurately.

9. City A owns 20% of a public transportation system operated jointly with City B. How should City A report this interest?

- A. As a joint venture**
- B. As a component unit**
- C. As a nonmajor fund**
- D. As a proprietary fund**

City A should report its 20% interest in the public transportation system as a joint venture because it has an ownership interest in an entity that is jointly operated with another government entity, City B. In accounting for government entities, a joint venture typically involves a situation where two or more parties engage in a specific business activity while sharing profits, costs, and control. In this context, reporting the interest as a joint venture allows City A to recognize its share of the assets, liabilities, revenues, and expenses of the joint venture in its financial statements. This method provides a clearer picture of the financial impact of the joint venture on City A's overall financial position and is consistent with accounting standards that govern how governments report their interests in jointly controlled entities. Other reporting options, such as classifying the interest as a component unit or a proprietary fund, do not accurately reflect the nature of the participation and financial relationship that exists due to the joint operation with City B. Therefore, reporting as a joint venture is the most appropriate and relevant choice for City A in this scenario.

10. When a city issues bonds at par to fund a capital improvement, how much interest expense should be reported for the year ended December 31, 20X1?

- A. \$0**
- B. \$50,000**
- C. \$100,000**
- D. \$75,000**

When a city issues bonds at par to fund a capital improvement, the interest expense to be reported is based on the stated interest rate of the bonds and the amount of the bonds issued. In this scenario, if the city issued bonds at par and there is a stated interest rate of 7.5% on a principal amount of \$1 million, the calculation of interest expense for the year would be straightforward. To determine the interest expense, you multiply the principal amount of the bonds by the interest rate. Using a bond principal of \$1 million and an interest rate of 7.5%, the annual interest expense would be calculated as follows: Interest Expense = Principal Amount x Interest Rate Interest Expense = \$1,000,000 x 0.075 = \$75,000 Therefore, the city would report an interest expense of \$75,000 for the year ended December 31, 20X1. This aligns with the accounting principles for governmental entities, where any required payments of interest for the period must be recognized as an expense in that period.

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://wgu-acct5201-d250.examzify.com>

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