**Chapter 01**

**Introduction to Accounting and Financial Reporting for**

**Governmental and Not-for-Profit Entities**

**True / False Questions**

1. Special purpose governments generally provide a wider range of services to their residents than do general purpose governments.

True False

2. Examples of general purpose governments include cities, towns, and public schools that receive tax revenue to finance the services they provide.

True False

3. The Governmental Accounting Standards Board (GASB) is the body authorized to establish accounting principles for all state and local governments, both general purpose and special purpose.

True False

4. The Governmental Accounting Standards Board (GASB) is the body authorized to establish accounting principles for all government entities.

True False

5. The Financial Accounting Standards Board (FASB) is the body authorized to establish accounting principles for all colleges and universities and health care entities.

True False

6. Neither governmental nor not-for-profit entities have residual equity that can be distributed to owners.

True False

7. A characteristic common to governmental and not-for-profit organizations is that they do *not* exist to provide goods or services at a profit or profit equivalent.

True False

8. The needs of users of government financial reports are the same as those of users of business entity financial reports.

True False

9. The Federal Accounting Standards Advisory Board (FASAB) recommends accounting principles and standards for the federal government and its agencies and departments.

True False

10. The FASB, GASB, and FASAB identify primarily external users as the focus of their financial reports.

True False

11. Interperiod equity refers to the concept that current-year revenues are sufficient to pay for services provided during the year, so that future taxpayers will not be required to assume the burden for services previously provided.

True False

12. The minimum requirements for general purpose external financial reporting are (1) management's discussion and analysis (MD&A), (2) the basic financial statements, including the notes to the financial statements, and (3) combining and individual fund financial statements.

True False

13. The Financial Accounting Foundation has oversight over both FASB and GASB.

True False

14. In addition to financial statements and notes, GASB requires governments to provide information on service efforts and accomplishments (SEA) in their reports to the public.

True False

15. Providing information on accountability is the primary financial reporting objective for both governmental and not-for-profit entities.

True False

16. A difference in the financial reporting objectives for governmental entities and not-for-profit entities is that governmental entities report on compliance with laws, regulations, and rules that impact financial reports.

True False

17. Since neither governmental nor not-for-profit entities have investors, the financial reporting objectives are the same for both types of entities.

True False

18. The GASB provides optional guidance for those entities providing service efforts and accomplishments (SEA) reports to the public.

True False

19. The Office of Management and Budget (OMB) requires major federal departments and agencies to prepare an annual performance report.

True False

20. The FASB standards require not-for-profit entities to report net assets in three categories: unrestricted, restricted, and net investment in capital assets.

True False

21. The FASB standards require not-for-profit entities to separately report program expenses and support expenses.

True False

22. The governmental fund financial statements are intended to report on fiscal accountability.

True False

23. The governmental fund financial statements are useful in assessing operational accountability.

True False

24. Government-wide financial statements are prepared using the accrual basis of accounting.

True False

25. Both the GASB and the FASB require entities to include a management discussion and analysis in the financial reports.

True False

**Multiple Choice Questions**

26. The Governmental Accounting Standards Board is assigned responsibility for setting accounting and financial reporting standards for

A. Governments such as federal agencies, states, cities, counties, villages, and townships.

B. State and local government entities and governmentally-related units and agencies, such as utilities, authorities, hospitals, and colleges and universities.

C. Not-for-profit organizations.

D. State and local governments and all not-for-profit organizations.

27. The body that has been established to recommend accounting and financial reporting standards for the federal government is the

A. Financial Accounting Standards Board (FASB).

B. Governmental Accounting Standards Board (GASB).

C. Federal Accounting Foundation (FAF).

D. Federal Accounting Standards Advisory Board (FASAB).

28. The Financial Accounting Standards Board has the responsibility for setting accounting and financial reporting standards for

A. All not-for-profit organizations that are nongovernmental and business entities.

B. All not-for-profit organizations and business entities.

C. All not-for-profit organizations.

D. Special purpose governments with a business purpose.

29. You are trying to decide if an entity you are reviewing is a government or a not-for-profit. Which of the following would indicate it is a government rather than a not-for-profit entity?

A. Absence of profit motive.

B. A primary source of revenues is taxes.

C. Resource providers do not expect benefits proportional to the resources provided.

D. Absence of a defined ownership interest that can be sold, transferred, or redeemed.

30. Which of the following is identified by the GASB as the "cornerstone" of all financial reporting in government?

A. Decision usefulness.

B. Stewardship.

C. Accountability.

D. Interperiod equity.

31. Which of the following organizations issue standards that focus on both internal and external financial reporting?

A. Federal Accounting Standards Advisory Board.

B. Governmental Accounting Standards Board.

C. Financial Accounting Standards Board.

D. American Institute of CPAs.

32. Which of the following is identified by the FASAB as the foundation for federal financial reporting?

A. Decision usefulness.

B. Accountability.

C. Understandability.

D. Budget integrity.

33. Which of the following is not an objective of financial reporting by state and local governments?

A. To assist users in assessing the adequacy of systems and controls.

B. To assist users in assessing financial condition and results of operations.

C. To assist financial report users in comparing actual financial results with the legally adopted budget.

D. To assist in determining compliance with finance-related laws, rules, and regulations.

34. Which of the following groups is considered a primary user of a state or local government's general-purpose external financial statements?

A. Citizens.

B. Managers and administrators.

C. Employees.

D. Special interest groups.

35. One of the minimum requirements for general purpose external financial reporting by governments is:

A. Management's discussion and analysis (MD&A).

B. Transmittal letter.

C. Combining and individual fund statements.

D. Statistical information.

36. A comprehensive annual financial report (CAFR) prepared in conformity with GASB recommendations should include which of the following sections?

A. Letter of transmittal, management's discussion and analysis (MD&A), and financial.

B. Introductory, financial, and statistical.

C. Introductory, MD&A, and financial.

D. Letter of transmittal, financial, and supplementary.

37. Which of the following would be included in a properly prepared comprehensive annual financial report (CAFR), but not in the minimum requirements for general purpose financial reporting specified by GASB standards?

A. Management's discussion and analysis (MD&A).

B. Government-wide financial statements.

C. Notes to the financial statements.

D. Combining and individual fund financial statements.

38. A statistical section should be included in

A. A comprehensive annual financial report (CAFR).

B. The basic financial statements.

C. The notes to the financial statements.

D. Required supplementary information, other than MD&A.

39. Which of the following would typically not be included in the introductory section of a comprehensive annual financial report?

A. Title and contents page.

B. Letter of transmittal.

C. A description of the government.

D. Summary of the government's current financial position and results of financial activities.

40. The section of the comprehensive annual financial report that presents tables and charts showing social and economic data in addition to financial trends, fiscal capacity, and operating information of the government is the:

A. Introductory section.

B. Management's discussion and analysis section.

C. Statistical section.

D. Financial section.

41. Which of the following should be included in the financial section of a comprehensive annual financial report?

A. Transmittal letter.

B. The basic financial statements, including notes thereto.

C. Tables and charts showing demographic and economic data.

D. A description of the government.

42. On what do the government-wide financial statements report?

A. Operational accountability.

B. Fiscal accountability.

C. The cost of government services.

D. Budgetary compliance.

43. Which of the following standard-setting bodies requires a management’s discussion and analysis as a part of the financial report?

A. GASB.

B. FASB.

C. FASAB.

D. Both A and C.

44. On what should the governmental fund financial statements report?

A. Net position and results of financial operations of the government as a whole.

B. Fiscal accountability.

C. Operational accountability.

D. Cost of government services.

45. Which of the following sections is not considered a part of a federal agency’s performance and accountability report?

A. Basic financial statements.

B. Annual performance report.

C. Statistical section.

D. Management's discussion and analysis.

46. Which of the following statements is prepared by all not-for-profit organizations?

A. Statement of financial position.

B. Statement of functional expenses.

C. Statement of revenues, expenses, and changes in net position.

D. Both A and B.

47. Recognizing revenues when measurable and available for paying current obligations and expenditures when incurred describes which basis of accounting?

A. Accrual.

B. Modified accrual.

C. Modified cash.

D. Budgetary.

48. The FASB requires that a statement of functional expenses be prepared by which of the following entities?

A. Colleges and universities.

B. Health care entities.

C. Voluntary health and welfare entities.

D. Religious entities.

49. Which of the following is *not* a net asset category reported by not-for-profit entities?

A. Unrestricted net assets.

B. Temporarily restricted net assets.

C. Restricted net assets.

D. Permanently restricted net assets.

50. Which of the following is *not* an example of a support expense reported by not-for-profit entities?

A. Fund-raising expenses.

B. Program expenses.

C. Management expenses.

D. General expenses of operating the not-for-profit entity.

**Essay Questions**

51. Explain the essential differences between general purpose and special purpose governments and give several examples of each.

52. Identify and explain the characteristics that distinguish government and not-for-profit entities from business entities.

53. GASB and FASB standards are concerned only with external financial reporting; whereas, FASAB standards are concerned with both internal and external financial reporting. Do you agree with this statement? Why or why not?

54. Why should persons interested in reading financial reports of government and not-for-profit entities be familiar with standards set by the GASB and FASB?

55. Explain in your own words why accountability is the cornerstone of all financial reporting in government.

56. In your own words state the primary uses the GASB believes external users have for financial reports of state and local governments. For contrast, state the uses the FASB believes external users have for the financial reports of not-for-profit organizations.

57. Describe the difference between a comprehensive annual financial report (CAFR) and GASB general purpose external financial reporting for state and local governments.

58. Identify and briefly explain the four sections of the performance and accountability report (PAR) that the Office of Management and Budget requires major federal departments and agencies to prepare.

59. Explain the concepts fiscal and operational accountability and the basis of accounting used to capture each concept.

60. Describe the comprehensive annual financial report (CAFR). What are the sections of the report and which components of the organization should it include? Is a CAFR required?

**Chapter 01**

**Introduction to Accounting and Financial Reporting for**

**Governmental and Not-for-Profit Entities**

**Answer Key**

**True / False Questions**

1. Special purpose governments generally provide a wider range of services to their residents than do general purpose governments.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1Easy  
Learning Objective: 1-1   
Topic: Special purpose government*

2. Examples of general purpose governments include cities, towns, and public schools that receive tax revenue to finance the services they provide.

**TRUE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1Easy  
Learning Objective: 1-1   
Topic: General purpose government*

3. The Governmental Accounting Standards Board (GASB) is the body authorized to establish accounting principles for all state and local governments, both general purpose and special purpose.

**TRUE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

4. The Governmental Accounting Standards Board (GASB) is the body authorized to establish accounting principles for all government entities.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

5. The Financial Accounting Standards Board (FASB) is the body authorized to establish accounting principles for all colleges and universities and health care entities.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

6. Neither governmental nor not-for-profit entities have residual equity that can be distributed to owners.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

7. A characteristic common to governmental and not-for-profit organizations is that they do *not* exist to provide goods or services at a profit or profit equivalent.

**TRUE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-1   
Topic: Differences between governmental and not-for-profit organization*

8. The needs of users of government financial reports are the same as those of users of business entity financial reports.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-1   
Topic: Differences between governmental and for-profit organization*

9. The Federal Accounting Standards Advisory Board (FASAB) recommends accounting principles and standards for the federal government and its agencies and departments.

**TRUE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

10. The FASB, GASB, and FASAB all focus their standards on both internal and external financial reporting.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

11. Interperiod equity refers to the concept that current-year revenues are sufficient to pay for services provided that year, so that future taxpayers will not be required to assume the burden for services previously provided.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Interperiod equity*

12. The minimum requirements for general purpose external financial reporting are (1) management's discussion and analysis (MD&A), (2) the basic financial statements, including the notes to the financial statements, and (3) combining and individual fund financial statements.

**FALSE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: General purpose external financial reports*

13. The Financial Accounting Foundation has oversight over both FASB and GASB.

**TRUE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

14. In addition to financial statements and notes, GASB requires governments to provide information on service efforts and accomplishments (SEA) in their reports to the public.

**FALSE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: General purpose external financial reports*

15. Providing information on accountability is the primary financial reporting objective for both governmental and not-for-profit entities.

**FALSE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Accountability*

16. A difference in the financial reporting objectives for governmental entities and not-for-profit entities is that governmental entities report on compliance with laws, regulations, and rules that impact financial reports.

**TRUE**

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Differences between governmental and not-for-profit organizations*

17. Since neither governmental nor not-for-profit entities have investors, the financial reporting objectives are the same for both types of entities.

**FALSE**

*AACSB: Knowledge application  
AICPA: FN Financial reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Differences between governmental and not-for-profit organizations*

18. The GASB provides optional guidance for those entities providing service efforts and accomplishments (SEA) reports to the public.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: General purpose external financial reports*

19. The Office of Management and Budget (OMB) requires major federal departments and agencies to prepare an annual performance report.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-5   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

20. The FASB standards require not-for-profit entities to report net assets in three categories: unrestricted, restricted, and net investment in capital assets.

**FALSE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

21. The FASB standards require not-for-profit entities to separately report program expenses and support expenses.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Reporting of expenses*

22. The governmental fund financial statements are intended to report on fiscal accountability.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: General purpose external financial reports*

23. The governmental fund financial statements are useful in assessing operational accountability.

**FALSE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4  
Topic: General purpose external financial reports*

24. Government-wide financial statements are prepared using the accrual basis of accounting.

**TRUE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4  
Topic: General purpose external financial reports*

25. Both the GASB and the FASB require entities to include a management discussion and analysis in the financial reports.

**FALSE**

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

**Multiple Choice Questions**

26. The Governmental Accounting Standards Board is assigned responsibility for setting accounting and financial reporting standards for

A. Governments such as federal agencies, states, cities, counties, villages, and townships.

**B.** State and local government entities and governmentally-related units and agencies, such as utilities, authorities, hospitals, and colleges and universities.

C. Not-for-profit organizations.

D. State and local governments and all not-for-profit organizations.

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

27. The body that has been established to recommend accounting and financial reporting standards for the federal government is the

A. Financial Accounting Standards Board (FASB).

B. Governmental Accounting Standards Board (GASB).

C. Federal Accounting Foundation (FAF).

**D.** Federal Accounting Standards Advisory Board (FASAB).

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

28. The Financial Accounting Standards Board has the responsibility for setting accounting and financial reporting standards for

**A**. All not-for-profit organizations that are nongovernmental and business entities.

B. All not-for-profit organizations and business entities.

C. All not-for-profit organizations.

D. Special purpose governments with a business purpose.

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-2   
Topic: Primary source of reporting standards*

29. You are trying to decide if an entity you are reviewing is a government or a not-for-profit. Which of the following would indicate it is a government rather than a not-for-profit entity?

A. Absence of profit motive.

**B.** A primary source of revenues is taxes.

C. Resource providers do not expect benefits proportional to the resources provided.

D. Absence of a defined ownership interest that can be sold, transferred, or redeemed.

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-1   
Topic: Differences between governmental and not-for-profit organization*

30. Which of the following is identified by the GASB as the "cornerstone" of all financial reporting in government?

A. Decision usefulness.

B. Stewardship.

**C.** Accountability.

D. Interperiod equity.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Accountability*

31. Which of the following organizations issue standards that focus on both internal and external financial reporting?

**A.** Federal Accounting Standards Advisory Board.

B. Governmental Accounting Standards Board.

C. Financial Accounting Standards Board.

D. American Institute of CPAs.

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

32. Which of the following is identified by the FASAB as the foundation for federal financial reporting?

A. Decision usefulness.

**B.** Accountability.

C. Understandability.

D. Budget integrity.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

33. Which of the following is not an objective of financial reporting by state and local governments?

**A.** To assist users in assessing the adequacy of systems and controls.

B. To assist users in assessing financial condition and results of operations.

C. To assist financial report users in comparing actual financial results with the legally adopted budget.

D. To assist in determining compliance with finance-related laws, rules, and regulations.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

34. Which of the following groups is considered a primary user of a state or local government's general-purpose external financial statements?

**A.** Citizens.

B. Managers and administrators.

C. Employees.

D. Special interest groups.

*AACSB: Knowledge application  
AICPA: BB Industry  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

35. One of the minimum requirements for general purpose external financial reporting by governments is:

**A.** Management's discussion and analysis (MD&A).

B. Transmittal letter.

C. Combining and individual fund statements.

D. Statistical information.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: General purpose external financial reporting*

36. A comprehensive annual financial report (CAFR) prepared in conformity with GASB recommendations should include which of the following sections?

A. Letter of transmittal, management's discussion and analysis (MD&A), and financial.

**B.** Introductory, financial, and statistical.

C. Introductory, MD&A, and financial.

D. Letter of transmittal, financial, and supplementary.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

37. Which of the following would be included in a properly prepared comprehensive annual financial report (CAFR), but not in the minimum requirements for general purpose financial reporting specified by GASB standards?

A. Management's discussion and analysis (MD&A).

B. Government-wide financial statements.

C. Notes to the financial statements.

**D.**  Combining and individual fund financial statements.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: General purpose external financial reporting*

38. A statistical section should be included in

**A.** A comprehensive annual financial report (CAFR).

B. The basic financial statements.

C. The notes to the financial statements.

D. Required supplementary information, other than MD&A.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

39. Which of the following would typically not be included in the introductory section of a comprehensive annual financial report?

A. Title and contents page.

B. Letter of transmittal.

C. A description of the government.

**D.** Summary of the government's current financial position and results of financial activities.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

40. The section of the comprehensive annual financial report that presents tables and charts showing social and economic data in addition to financial trends, fiscal capacity, and operating information of the government is the:

A. Introductory section.

B. Management's discussion and analysis section.

**C.** Statistical section.

D. Financial section.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

41. Which of the following should be included in the financial section of a comprehensive annual financial report?

A. Transmittal letter.

**B.** The basic financial statements, including notes thereto.

C. Tables and charts showing demographic and economic data.

D. A description of the government.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

42. On what do the government-wide financial statements report?

**A**. Operational accountability.

B. Fiscal accountability.

C. The cost of government services.

D. Budgetary compliance.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Operational accountability*

43. Which of the following standard-setting bodies requires a management’s discussion and analysis as a part of the financial report?

A. GASB.

B. FASB.

C. FASAB.

**D.** Both A and C.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

44. On what should the governmental fund financial statements report?

A. Net position and results of financial operations of the government as a whole.

**B.** Fiscal accountability.

C. Operational accountability.

D. Cost of government services.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-4   
Topic: Accountability*

45. Which of the following sections is not considered a part of a federal agency’s performance and accountability report?

A. Basic financial statements.

B. Annual performance report.

**C**. Statistical section.

D. Management's discussion and analysis.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-5   
Topic: Required sections of PAR*

46. Which of the following statements is prepared by all not-for-profit organizations?

**A.** Statement of financial position.

B. Statement of functional expenses.

C. Statement of revenues, expenses, and changes in net position.

D. Both A and B.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-5   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

47. Recognizing revenues when measurable and available for paying current obligations and expenditures when incurred describes which basis of accounting?

A. Accrual.

**B.** Modified accrual.

C. Modified cash.

D. Budgetary.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

48. The FASB requires that a statement of functional expenses be prepared by which of the following entities?

A. Colleges and universities.

B. Health care entities.

**C.** Voluntary health and welfare entities.

D. Religious entities.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-5   
Topic: Reporting of expenses*

49. Which of the following is *not* a net asset category reported by not-for-profit entities?

A. Unrestricted net assets.

B. Temporarily restricted net assets.

**C.** Restricted net assets.

D. Permanently restricted net assets.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3  
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

50. Which of the following is *not* an example of a support expense reported by not-for-profit entities?

A. Fund-raising expenses.

**B.** Program expenses.

C. Management expenses.

D. General expenses of operating the not-for-profit entity.

*AACSB: Knowledge application  
AICPA: FN Reporting  
Bloom's: Remember  
Difficulty: 1 Easy  
Learning Objective: 1-3   
Topic: Reporting of expenses*

**Essay Questions**

51. Explain the essential differences between general purpose and special purpose governments and give several examples of each.

**General purpose governments are those that provide many categories of services to residents. These include states, counties, municipalities, and townships. Special purpose governments provide only a single or, at most, a few functions. Examples of special purpose governments are special political subdivisions or districts that provide education, drainage and flood control, irrigation, soil and water conservation, fire protection, and water supply. Public colleges and universities are another example.**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

52. Identify and explain the characteristics that distinguish government and not-for-profit entities from business entities.

**Governmental and not-for-profit entities (nonbusiness entities) do not have owners who expect a return on their investment. Resource providers to these entities do not expect to be repaid or to receive economic benefits in proportion to the resources provided. Government and not-for-profit entities do not operate to make a profit on goods or services provided. On the other hand, business entities do have owners whose interests can be transferred to others and who expect a share of the profits from operating the business and a residual distribution of the net assets in the case of liquidation of the organization (see FASB Concepts Statements).**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-1   
Topic: Differences between governmental and for-profit organization*

53. GASB and FASB standards are concerned only with external financial reporting; whereas, FASAB standards are concerned with both internal and external financial reporting. Do you agree with this statement? Why or why not?

**Agree. Both the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) issue standards for external users of financial information—those who lack the authority to prescribe information they want and who must rely on the information management communicates to them. By contrast, the Federal Accounting Standards Advisory Board (FASAB) has identified users who are both internal and external to the government: citizens, the Congress, executives, and program managers. Not surprisingly, then, its standards address both internal and external financial information needs.**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3  
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

54. Why should persons interested in reading financial reports of government and not-for-profit entities be familiar with standards set by the GASB and FASB?

**Financial reports can be read intelligently only by persons who understand the real meaning of the terms used in the reports, and who understand the standards that guide the presentation of financial information.**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

55. Explain in your own words why accountability is the cornerstone of all financial reporting in government.

**Accountability is based on the belief that the citizenry has a "right to know" about public resources raised during a fiscal period and the purposes for which the resources were used. In a democratic society, public officials have an obligation to be accountable to the public.**

*AACSB: Communication  
AICPA: FN Reporting*

*Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Accountability*

56. In your own words state the primary uses the GASB believes external users have for financial reports of state and local governments. For contrast, state the uses the FASB believes external users have for the financial reports of not-for-profit organizations.

**External users of government financial reports, GASB believes, need to (1) compare actual financial results with the legally adopted budget; (2) assess financial condition and results of financial operations; (3) assist in determining compliance with finance-related laws, rules, and regulations; and (4) assist in evaluating efficiency and effectiveness. FASB believes that financial reports of not-for-profit organizations should provide information (1) useful in making resource allocation decisions, (2) useful in assessing services and ability to provide services, (3) useful in assessing management stewardship and performance, and (4) about economic resources, obligations, net resources, and changes in them.**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

57. Describe the difference between a comprehensive annual financial report (CAFR) and GASB general purpose external financial reporting for state and local governments.

**By definition, the comprehensive annual financial report (CAFR) is more inclusive than the general purpose external financial information described in GASB standards. The CAFR presents three types of information: (1) introductory material from the entity's management, such as transmittal letters, organizational charts, and awards; (2) financial statements (including the financial information required by GASB); and (3) statistical information, such as demographic information about the entity and summaries of tax rates and property assessed values over time. By contrast, GASB standards require (1) management discussion & analysis (MD&A), (2) government-wide financial statements, (3) fund financial statements, (4) notes to those statements, and (5) other required supplementary information (RSI).**

*AACSB: Communication  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: General purpose external financial report*

58. Identify and briefly explain the four sections of the performance and accountability report (PAR) that the Office of Management and Budget requires major federal departments and agencies to prepare.

**The four parts and an explanation of their content are:**

**1. The management’s discussion and analysis – it serves as a brief overview of the entire PAR and clearly describes the department or agency’s mission and organizational structure; its performance goals, objectives, and results; analysis of its financial statements; and analysis of information about internal controls and legal compliance.**

**2. The annual performance report (APR) (or performance section) – it provides information about the agency’s performance and progress in achieving its performance goals.**

**3. Basic financial statements – these include a balance sheet, statement of net cost (essentially an operating statement format that places expenses over revenues—program costs minus earned revenues = net cost), statement of changes in net position (similar to changes in owners’ equity in business accounting), statement of budgetary resources, statement of custodial activity, and statement of social insurance.**

**4. Other accompanying information – this includes information such as perspectives on the tax burden, size of the tax gap, challenges facing management, and revenue forgone.**

*AACSB: Communication  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-5   
Topic: Required sections of a PAR*

59. Explain the concepts fiscal and operational accountability and the basis of accounting used to capture each concept.

**Fiscal accountability focuses on the short-term flow of resources, or how government has used its resources in the short-term; whereas, operational accountability focuses on the efficient and effective use of resources by the government. To help capture these different types of accountability different bases of accounting are used. Fiscal accountability is captured using the modified accrual basis of accounting where revenues are recognized in the period they are measurable and available for spending and expenditures (not expenses) are recognized when they create an obligation to be paid from current financial resources. Operational accountability is captured using accrual accounting. Under accrual accounting the focus is on the flow of economic resources allowing revenues and expense to be recognized when an exchange of economic resources occurs.**

*AACSB: Communication  
AICPA: FN Reporting  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-3   
Topic: Accountability*

60. Describe the comprehensive annual financial report (CAFR). What are the sections of the report and which components of the organization should it include? Is a CAFR required?

**The CAFR is recommended, but not required. The CAFR is comprised of three sections: (1) introductory section, (2) financial section, and (3) statistical section. All activities of the primary government and its component units should be included in the reporting entity covered by the CAFR. The minimum financial reporting requirements include (1) MD&A, (2) basic financial statements, and (3) required supplementary information other than the MD&A.**

*AACSB: Communication  
AICPA: BB Industry  
Bloom's: Understand  
Difficulty: 2 Medium  
Learning Objective: 1-4   
Topic: Overview of financial reporting for state and local governments, the federal government, and not-for-profit organizations*

CHAPTER 1: INTRODUCTION TO ACCOUNTING AND FINANCIAL REPORTING FOR GOVERNMENTAL AND NOT-FOR-PROFIT ENTITIES

**OUTLINE**

|  |  |  |  |
| --- | --- | --- | --- |
| **Number** | **Topic** | **Type/Task** | **Status**  **(re: 17/e)** |
| **Questions:** |  |  |  |
| 1-1 | Differences between types of organizations | Identify | New |
| 1-2 | Distinguishing between general purpose and special purpose governments | Identify | Revised |
| 1-3 | Standards-setting bodies | Identify | Same |
| 1-4 | Determining which standard-setting body sets standards for a nongovernmental NFP | Categorize | New |
| 1-5 | Nature and significance of *interperiod equity* | Explain | Same |
| 1-6 | Determining the purpose of the two types of accountability | Determine | Revised |
| 1-7 | Primary reporting objectives for NFPs and governments | Compare | New |
| 1-8 | Comprehensive annual financial report | Recognize | Same |
| 1-9 | Federal government performance and accountability report | Identify/Describe | Same |
| 1-10 | NFP reporting of expenses | Explain | New |
| **Cases:** |  |  |  |
| 1-11 | Research Case—GASB | Written report | Same |
| 1-12 | Research Case—FASB | Written report | New |
| 1-13 | Research Case—FASAB | Written report | Same |
| 1-14 | Research Case—Comparing Financial Reporting Objectives | Analyze | New |
| 1-15 | Research Case—Federal Financial Reporting Objectives | Analyze | New |
| **Exercises/Problems:** | | |  |
| 1-16 | Examine the CAFR | Examine | Revised |
| 1-17 | Financial Statement Differences | Differentiate | New |
| 1-18 | Various | Multiple Choice | Items 1, 2, and 4 are new; other items are the same or revised |
| 1-19 | Concepts and reporting characteristics or requirements for governmental and NFP organizations | Matching | Same |

**CHAPTER 1: INTRODUCTION TO ACCOUNTING AND FINANCIAL REPORTING FOR GOVERNMENTAL AND NOT-FOR-PROFIT ENTITIES**

Answers to Questions

1-1. Following is a list of some of the differences between business organizations and government/not-for-profit organizations.

|  |  |
| --- | --- |
| **Business Organizations** | **Government/Not-for-for profit Organizations** |
| Providers of resources expect either repayment or economic benefits proportionate to the resources provided. | Many providers of resources do not expect repayment or economic benefits proportionate to the resources provided. |
| Primary operations are undertaken to provide goods or services at a profit. | Primary operations are not undertaken to provide goods or services at a profit or profit equivalent. |
| There are defined ownership interests that can be sold, transferred or redeemed or entitle the owner to a share of remaining resources at liquidation. | There are no defined ownership interests. |

**General Problem Information:** Differences between types of organizations

**Learning Objective:** 1-1

**Topic:** Distinguishing Characteristics of Governmental and Not-for-Profit Entities

**Bloom’s Taxonomy:** Remember

**Accreditation Skills tag:** AACSB: Communication,AICPA: BB Industry

**Level of Difficulty:** Easy

1-2. *a*. GP *c*. SP *e*. SP

*b*. SP *d*. GP *f*. GP

**General Problem Information:** Distinguishing between general purpose and special purpose governments

**Learning Objective:** 1-1

**Topic:** What are Governmental and Not-for-profit Organizations?

**Bloom’s Taxonomy:** Remember

**Accreditation Skills tag:** AACSB: Communication,AICPA: BB Industry

**Level of Difficulty:** Easy

Ch. 1, Answers (Cont’d)

1-3. Illustration 1-1 depicts the standard-setting jurisdiction of the FASB, GASB and FASAB. As shown, the FASB has responsibility for setting accounting and financial reporting standards for business enterprises and *nongovernmental* not-for-profit organizations. The GASB has responsibility for setting standards for state and local governments and *governmental* not-for-profit organizations. The FASAB has responsibility for setting accounting and reporting standards for the federal government and its agencies and departments.

**General Problem Information:** Standards-setting bodies

**Learning Objective:** 1-2

**Topic:** Sources of Financial Reporting Standards

**Bloom’s Taxonomy:** Remember

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Easy

1-4. No, I do not agree with this board member’s statement. Since Beth House Museum is a nongovernmental not-for-profit organization, it is required to follow the standards issued by FASB. Since its purpose is not the same as a business organization, FASB has developed reporting standards for organizations such as Beth House Museum that reflect its unique purpose and users. Governmental not-for-profit organizations must follow GASB financial reporting standards. (See illustration 1-1.)

**General Problem Information:** Determining which standard-setting body sets standards for a nongovernmental NFP

**Learning Objective:** 1-2

**Topic:** Sources of Financial Reporting Standards

**Bloom’s Taxonomy:** Understand

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Medium

1-5. Interperiod equity, whether current period revenues are sufficient to pay for current period services, is an important component of accountability. Failure to pay for current period services means that the financial burden is being passed to future year taxpayers who may not receive any benefit from the past services.

**General Problem Information:** Nature and significance of *interperiod equity*

**Learning Objective:** 1-3

**Topic:** Objectives of Financial Reporting

**Bloom’s Taxonomy:** Understand

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Medium

Ch. 1, Answers (Cont’d)

* 1. The purpose of *operational accountability* is to assess whether the government has used its resources efficiently and effectively in meeting its operating objectives. The purpose of *fiscal accountability* is to assess the short-term flow of current financial resources. Government–wide financial statements are primarily focused on providing information to assess operational accountability, while fund financial statements are focused on providing information to assess fiscal accountability.

**General Problem Information:** Determining the purpose of the two types of accountability

**Learning Objective:** 1-3

**Topic:** Overview of Financial Reporting for State and Local Governments, the Federal Government, and Not-for-profit Organizations

**Bloom’s Taxonomy:** Understand

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Medium

* 1. The primary financial reporting objective for not-for-profit organizations is to provide decision-useful financial information to resource providers, such as donors, members, and creditors. The primary financial reporting objective for a government organization is accountability, but other objectives include providing useful information for economic, social and political decisions. Thus, the reporting focus for the two types of organizations differs in that the not-for-profit organization financial reports are to focus on providing information that is useful in making decisions; while the government organization is to focus primarily on providing information that can be used to assess whether public resources were raised and used for their intended purposes.

**General Problem Information:** Primary reporting objectives for NFPs and governments

**Learning Objective:** 3-3

**Topic:** Objectives of Financial Reporting

**Bloom’s Taxonomy:** Understand

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Medium

* 1. A CAFR should have an introductory section, financial section, and statistical section. The contents of each section are described briefly in the section headed **Comprehensive Annual Financial Report**. Minimum requirements for general external financial reports are but a portion of the content of the CAFR. The minimum requirements of the general external financial report include the basic financial statements (government-wide and fund), management’s discussion & analysis (MD&A), and other required supplementary information (RSI). As can be seen, the minimum requirements for the general external financial report do not include an introductory section, other supplementary financial information, or a statistical section.

Ch. 1, Answers, Question 1-8 (Cont’d)

**General Problem Information:** Comprehensive annual financial report

**Learning Objective:** 1-4

**Topic:** Overview of Financial Reporting for State and Local Governments, the Federal Government, and Not-for-profit Organizations

**Bloom’s Taxonomy:** Remember

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Easy

* 1. The four sections of a federal agency’s *performance and accountability report* (PAR) are (1) an MD&A, which provides a brief overview of the entire PAR and describes the agency’s mission and performance goals, among other items; (2) the performance section, essentially consisting of the agency’s annual performance report (APR); (3) the basic financial statements, which are listed in this chapter; and (4) other accompanying information, such as information about the nation’s tax burden, the tax gap, challenges facing the agency’s management, and revenue forgone.

**General Problem Information:** Federal government performance and accountability report

**Learning Objective:** 1-5

**Topic:** Overview of Financial Reporting for State and Local Governments, the Federal Government, and Not-for-profit Organizations

**Bloom’s Taxonomy:** Remember

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Easy

* 1. Reporting program expenses separately from management and general expenses and fund-raising costs provides information to donors, members and oversight bodies to assess the effectiveness of the organization in accomplishing its purpose. Most donors and members wish to have the funds they contribute used for the organizational purpose rather than supporting management costs or fund-raising expenses. This reporting is also necessary for oversight bodies, such as the Internal Revenue Service, to permit the continued existence of the organization as a not-for-profit.

**General Problem Information:** NFP reporting of expenses

**Learning Objective:** 1-5

**Topic:** Overview of Financial Reporting for State and Local Governments, the Federal Government, and Not-for-profit Organizations

**Bloom’s Taxonomy:** Understand

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Medium

Ch. 1, Solutions (Cont’d)

Solutions to Cases

* 1. Instructors may wish to provide specific instructions for the format of the students' brief reports. The GASB’s Web site ([www.gasb.org](http://www.gasb.org)) provides extensive information about the Board’s mission, structure, the due-process it follows in setting standards, and the role of its advisory council, the Governmental Accounting Standards Advisory Council (GASAC). Significant information about the GASB’s strategic plan is also provided at the Web site.

The GASB *Codification of Governmental Accounting and Financial Reporting Standards* is available for purchase from its Web site in either hardcopy or as a searchable online system called GARS, the Governmental Accounting Research System. Those colleges and universities with an access code for the online FASB Accounting Standards Codification will also be able to access GARS. At time of this edition’s publication, the GASB also sells an annually updated compendium of its official pronouncements—*Original Pronouncements* and an annually updated *Comprehensive Implementation Guide*. The GASB’s Web site provides full information on how to order all publications and their cost, as well as information about becoming an annual subscriber to GASB pronouncements and due process documents.

**General Problem Information:** Research Case—Understanding GASB

**Learning Objective:** 1-2

**Topic:** Sources of Financial Reporting Standards

**Bloom’s Taxonomy:** Remember

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Research

**Level of Difficulty:** Easy

* 1. Instructors may wish to provide specific instructions for the format of the students' brief reports. The objective of this project is to reexamine existing standards for financial statement presentation by not-for-profit entities, focusing on improving:

1. Net asset classification requirements
2. Information provided in financial statements and notes about liquidity, financial performance, and cash flows

The Not-for-profit Advisory Committee (NAC) presented suggestions for improving the financial reporting of not-for-profit organizations at the Committee’s September 2011 meeting. The NAC continues to be an integral part of this project.

**General Problem Information:** Research Case—FASB NFP Project

**Learning Objective:** 1-2

**Topic:** Sources of Financial Reporting Standards

**Bloom’s Taxonomy:** Understand

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Research

**Level of Difficulty:** Medium

Ch. 1, Solutions (Cont’d)

* 1. Instructors may wish to provide specific instructions for their students' brief reports. FASAB’s Web site may change over time, but the Web site does provide extensive information about the board’s mission, structure, and due-process. A good source of information is the Memorandum of Understanding between the Comptroller General, Director of OMB, and the Secretary of the Treasury that created the FASAB, which currently is a 9-member board. Because FASAB’s technical projects and members of the Accounting and Auditing Policy Committee will change over time, students should describe the projects and committee representation that currently exist.

All statements and other pronouncements of the FASAB are contained in a compendium of all original pronouncements called *Pronouncements as Amended* and are available for downloading from its Web site at no charge. All due process documents are available at that site as well.

**General Problem Information:** Research Case—Understanding FASAB

**Learning Objective:** 1-2

**Topic:** Sources of Financial Reporting Standards

**Bloom’s Taxonomy:** Remember

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Research

**Level of Difficulty:** Easy

* 1. Government and not-for-profit financial reports are used by a variety of individuals for a variety of purposes. However, a major group of users are the resource providers (or their representatives) who generally do not expect to receive a direct or economic benefit from the resources they provide. Since these organizations do not exist to return a direct or economic benefit (i.e., there is not profit motive) to the resource providers, information that helps the providers determine whether the organization can continue to provide services and meet its obligations becomes important. Additionally, the resource providers of both organizations are interested in ensuring that management is using the resources they have provided efficiently and effectively and in accordance with the purpose for which the resources were provided.

The use of financial reports by the resource providers of government and not-for-profit organizations differs from the resource providers of for-profit reports. For-profit resource providers are interested in the economic benefit they can receive. Therefore, they want information that helps them make decisions about the potential return on their investment, whether it is an equity or debt investment. These differing purposes result in financial reports that have different structures.

**General Problem Information:** Research Case—Comparing Financial Reporting Objectives

**Learning Objective:** 1-3

**Topic:** Objectives Financial Reporting

**Bloom’s Taxonomy:** Analyze

**Accreditation Skills tag:** AACSB: Critical Thinking,AICPA: FN Research

**Level of Difficulty:** Difficult

Ch. 1, Solutions (Cont’d)

* 1. Instructors may wish to provide specific instructions for the format of the students’ brief reports. The four major groups of users identified by the board are citizens, Congress, executives, and program managers.

Citizens – Citizens pay for and receive government services. Therefore, they are interested in individual government programs, candidates for office, and the fiscal and operational accountability of their elected officials. They want to know what services are provided, and what the outputs or outcomes of the services are, as well as the efficiency and effectiveness with which they are provided.

Congress – Congress is concerned with broad policies, priorities and the programs that implement the priorities. It is responsible for imposing taxes, and determining the amount of funds that should be spent and the purposes of the expenditures. They are concerned with how to finance and execute programs. They also assist in monitoring and assessing the effectiveness and efficiency of programs, as well as evaluating the management performance of the executive branch.

Executives – Executives focus on strategic plans and programs to accomplish specific goals and implement policies. One primary focus is on budgets, which are used to provide funding for these plans and programs. They propose funding amounts to Congress and develop plans for financing and generating revenues to provide the funding. They are also concerned with the efficiency and effectiveness of plans and programs.

Program Managers – Program managers assist in the design and delivery of program objectives, and provide input into funding requirements. They must manage their programs within the budget approved by Congress.

The four objectives identified are budgetary integrity, operating performance, stewardship and systems and controls. Students should be able to make connections between the needs of the user groups and the objectives identified.

**General Problem Information:** Research Case—Federal Financial Reporting Objectives

**Learning Objective:** 1-3

**Topic:** Objectives of Financial Reporting

**Bloom’s Taxonomy:** Analyze

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Hard

Ch. 1, Solutions (Cont’d)

Solutions to Exercises and Problems

* 1. As students may have different CAFRs, there is no single solution to this exercise. It works well to devote class time to asking students some of the questions listed in the exercise, and perhaps tabulating the numbers of reports containing statements that are audited (1) by CPAs, (2) by state auditors, and (3) by employees of the reporting government. If such a tabulation is made, students may be interested in knowing in which states the local governmental units are located that are audited by each of the classes of auditors (or whatever other characteristic is being tabulated). Requiring that students download a CAFR is a good exercise in obtaining financial information. Allow students to share their experiences, as some organizations make it easier to get CAFRs than others. Remind students that governments are not required to prepare a full CAFR, so some governments may simply refer to their report as the “audited annual financial statement,” or even the “audit report.”

**General Problem Information:** Examine the CAFR

**Learning Objective:** 1-4

**Topic:** Overview of Financial Reporting for State and Local Governments, the Federal Government, and Not-for-profit Organizations

**Bloom’s Taxonomy:** Remember

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Easy

1-17. Although the major similarities and differences have been provided, students will undoubtedly also find additional items which you may wish to discuss.

1. The following represent some of the similarities and differences in Denver’s Statement of Net Position and the American Diabetes Association’s (ADA) Balance Sheet.

Similarities

* Both have the same three sections in the statement – Assets, Liabilities and Net Assets/Net Position
* Both list assets in the order of liquidity
* Both list current liabilities prior to noncurrent liabilities (although the American Diabetes Association only has current liabilities)

Dissimilarities

* Denver does not provide a comparative year as does the ADA
* Denver lists a primary government and divides it into two columns – governmental activities and business-type activities. It then also includes a component units column. The ADA has only one column for the year’s activity.
* Denver has an additional section in its statement called Deferred Outflows of Resources (this appears below Total Assets). The ADA has nothing similar to this.

Ch. 1, Solutions, Exercise 1-17 (Cont’d)

* Denver uses net position rather than net assets and divides the net position into net investment in capital assets, restricted, and unrestricted. However, the ADA uses the term net assets and divides the net assets into unrestricted, temporarily restricted, and permanently restricted.

1. Other than the name there are very few similarities between Denver’s Statement of Activities and the ADA’s Statement of Activities. Listed below are some similarities and differences.

Similarities

* Both use the terms revenues and expenses
* Both list revenues by sources and expenses by function
* Both add beginning net assets/position to the change in net assets/position to arrive at the ending net assets/position.

Dissimilarities

* Denver divides its revenues into program revenues (charges for services, operating grants and contributions, and capital grants and contributions) and general revenues; whereas, the ADA divides its revenues into contributions and grants, and fees from exchange transactions.
* The ADA divides its expenses into program activities and support activities; whereas, Denver does not make this distinction.
* The general format of the statements is different with Denver starting the statement by listing expenses from which it deducts program revenues and general revenues. The ADA uses the traditional format, starting with revenues and deducting expenses.
* As with the statement of net position, Denver includes separate sections for governmental activities, business-type activities, and component units on its statement.
* The ADA includes separate columns showing the activity in each of its net asset components – unrestricted, temporarily restricted, and permanently restricted. Denver does not show activity by net position component.

**General Problem Information:** Financial Statement Differences

**Learning Objective:** 1-4

**Learning Objective:** 1-5

**Topic:** Overview of Financial Reporting for State and Local Governments, the Federal Government, and Not-for-profit Organizations

**Bloom’s Taxonomy:** Analyze

**Accreditation Skills tag:** AACSB: Knowledge Application,AICPA: FN Reporting

**Level of Difficulty:** Hard

Ch. 1, Solutions (Cont’d)

1-18. 1. *c.* 6. *d*.

2. *b.* 7. *a*.

3. *b*. 8. *b.*

4. *d*. 9. *d*.

5. *c*. 10. *d*.

**General Problem Information:** Various

**Learning Objective:** 1-1

**Learning Objective:** 1-2

**Learning Objective:** 1-3

**Learning Objective:** 1-4

**Learning Objective:** 1-5

**Topic:** Various chapter topics

**Bloom’s Taxonomy:** Remember

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Easy

* 1. This is an exercise that may generate considerable discussion in class, as some of the answers will be absolutely true and others partially true, depending on individual judgments and interpretations. Keeping this in mind, you may wish to provide some leeway in grading this exercise, depending on how literally you interpret the particular item’s relationship to type of organization.

|  |  |  |  |
| --- | --- | --- | --- |
| **Characteristic, Concept, or Financial Reporting Requirement** | **State and Local Governments** | **Federal Government** | **Nongovernmental Not-for-profit Organizations** |
| Organization-wide financial  statements | Y | Y | Y |
| Management’s discussion and  analysis (MD&A) | Y | Y | N |
| Annual performance report | N | Y | N\* |
| Modified accrual | Y | N | N |
| Reporting of program expenses  separate from supporting expenses | N\*\* | N | Y |
| Absence of defined ownership  interests | Y | Y | Y |
| Standards set by GASB | Y | N | N |
| Standards set by FASB | N | N | Y |
| Standards set by FASAB | N | Y | N |
| Standards focused on both internal and external users of financial information | N | Y | N |

Ch. 1, Solutions, Exercise 1-19 (Cont’d)

\*  Technically, the answer here is “no.” However, as discussed in Chapter 16, NFP health care entities are required to provide limited financial performance information as part of a “performance indicator.” So, it is possible that an exceptionally bright student might reasonably answer this item as “yes” rather than “no.”

\*\* Referring to the statement of activities illustrated in Appendix A to Chapter 2, it might appear that program expenses are reported separate from supporting expenses. To some extent, that is true. But, in most cases, the expenses for state and local governments are reported by function rather than program and may include some supporting rather program expenses within those functions. Either way, partial credit might be warranted here.

**General Problem Information:** Concepts and reporting characteristics or requirements for governmental and NFP organizations

**Learning Objective:** 1-1

**Learning Objective:** 1-2

**Learning Objective:** 1-4

**Learning Objective:** 1-5

**Topic:** Various chapter topics

**Bloom’s Taxonomy:** Understand

**Accreditation Skills tag:** AACSB: Communication,AICPA: FN Reporting

**Level of Difficulty:** Medium