Test Bank for Accounting for Governmental & Nonprofit Entities - 2025 Release 1st Reck

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) General purpose governments generally provide a wider range of services to their residents than do special purpose governments.
   - ⊚ true
   - ⊚ false

2) Examples of general purpose governments include cities, towns, and independent public school districts.
   - ⊚ 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 governments nor not-for-profit entities have residual equity that can be distributed to owners.
   - ⊚ true
   - ⊚ false

7) A characteristic common to governments 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 all focus their standards on both internal and external financial reporting.

- ⊙ true
- ⊙ false

11) Interperiod equity refers to the concept that current-year revenues are sufficient to pay for the current year's services, 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. (1) management's discussion and analysis (MD&A),
2. (2) the basic financial statements, including the notes to the financial statements, and
3. (3) combining and individual fund financial statements.

- ⊙ true
- ⊙ false

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

- ⊙ true
- ⊙ false

14) In addition to financial statements and notes, the 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 governments and not-for-profit entities.

- ⊙ true
- ⊙ false

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

- ⊙ true
- ⊙ false

17) Since neither governments 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, temporarily restricted, and permanently restricted.
- ⊚ 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 provide information 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) A public college or university would be an example of a special purpose government.
- ⊚ true
- ⊚ false

26) A primary objective of financial reporting for governments and not-for-profit organizations is to provide information that can be used in assessing management performance and stewardship.
- ⊚ true
- ⊚ false

27) Operational accountability requires providing information that can be used to help assess whether resources are being used efficiently and effectively.
- ⊚ true
- ⊚ false

28) The federal government has an open data website called Open Government that provides access to state and local data websites.

- true
- false

29) Both the GASB and the FASAB require entities to include a management discussion and analysis in the financial reports.

- true
- false

30) Similar to for-profit entities, net income serves as a good measure of a government's performance.

- true
- false

31) All fund financial statements are prepared using the accrual basis of accounting.

- true
- false

32) A private not-for-profit hospital would follow FASB standards when preparing its financial reports.

- true
- false

33) Only FASAB standards focus on both internal and external user needs.

- true
- false

34) An objective of all three standard-setting bodies (FASB, FASAB, and GASB) is to provide information that can be used in assessing accountability.

- true
- false

35) The Office of Management and Budget (OMB) requires that financial statements be included as part of a federal department's annual performance and accountability report (PAR).

- true
- false

36) The federal government prepares a Citizen's Guide as part of its performance and accountability report (PAR).

- true
- false

37) Similar to publicly traded companies, governments are required to file XBRL financial reports with the Securities and Exchange Commission.

- true
- false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

38) The Governmental Accounting Standards Board is assigned responsibility for setting accounting and financial reporting standards for which of the following?

A) Governments such as federal agencies, states, cities, counties, villages, and townships.
B) State and local governments and government-related entities, such as utilities, hospitals, and colleges and universities.
C) Not-for-profit organizations.
D) State and local governments and all not-for-profit organizations.

39) Which of the following bodies has been established to recommend accounting and financial reporting standards for the federal government?

A) Federal Accounting Standards Advisory Board (FASAB).
B) Financial Accounting Standards Board (FASB).
C) Governmental Accounting Standards Board (GASB).
D) Federal Accounting Foundation (FAF).

40) The Financial Accounting Standards Board has the responsibility for setting accounting and financial reporting standards for which of the following?

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.

41) 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.

42) 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.

43) 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.

44) 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.

45) 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.

46) 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.

47) 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.

48) An annual comprehensive financial report (ACFR) prepared in conformity with the 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.

49) 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.

50) A statistical section should be included in

A) An annual comprehensive financial report (ACFR).
B) The basic financial statements.
C) The notes to the financial statements.
D) Required supplementary information, other than MD&A.

51) Which of the following would typically *not* be included in the introductory section of an annual comprehensive 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.

52) Which section of the annual comprehensive financial report presents tables and charts showing social and economic data in addition to financial trends, fiscal capacity, and operating information of the government?

A) Introductory section.
B) Management's discussion and analysis section.
C) Statistical section.
D) Financial section.

53) Which of the following should be included in the financial section of an annual comprehensive 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.

54) On what do the government-wide financial statements primarily report?

A) Operational accountability.
B) Fiscal accountability.
C) The cost of government services.
D) Budgetary compliance.

55) 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 GASB and FASAB.

56) 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.

57) 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.

58) Which of the following statements is prepared by all not-for-profit organizations?

A) Statement of financial position.
B) Statement of changes in net position.
C) Statement of revenues, expenses, and changes in net position.
D) Both statement of financial position and statement of changes in net position.

59) 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.

60) The FASB requires that not-for-profits show the relationship of functional expenses to natural classifications of expense in what format?

A) A separate statement of functional expenses.
B) As part of the statement of activities.
C) As a schedule in the notes to the financial statements.
D) Any of these formats is acceptable.

61) Which of the following is a net asset category reported by not-for-profit entities?

A) Unrestricted net assets.
B) Net assets with donor restrictions.
C) Temporarily restricted net assets.
D) Net investment in capital assets.

62) Which of the following is *not* classified as a support activity 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.

63) The FASAB's *Statement of Accounting and Reporting Concepts Statement No. 1* identifies four objectives of federal financial reporting. The requirement to be publicly accountable for laws and regulations related to spending tax revenues relates to which of the four objectives?

A) Stewardship.
B) Operating performance.
C) Budgetary integrity.
D) Accountability.

64) Which of the following best identifies the purpose of the government-wide financial statements?

A) To provide detailed financial information about different funds of government.
B) To provide an overview of the total government's financial information.
C) To provide an overview of how government would operate as a business-type entity.
D) To provide detailed financial information on how the government's financial performance compares to the prior reporting period.

65) Governments and not-for-profit organizations can exist in many of the same forms. Which of the following would most likely *not* be found in both a government and a not-for-profit form?

A) A college.
B) An art museum.
C) A mental health clinic.
D) A professional association.

66) Governments and not-for-profit organizations have several characteristics that distinguish them from business organizations. Which of the following is one of those characteristics?

A) Sources of revenue.
B) Operating purpose.
C) Ownership interest.
D) All of these characteristics.

67) The Financial Accounting Foundation (FAF) oversees and appoints board members to which of the following standard setting bodies?

A) Financial Accounting Standards Board (FASB).
B) Governmental Accounting Standards Board (GASB).
C) Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB).
D) Financial Accounting Standards Board (FASB), Governmental Accounting Standards Board (GASB), and the Federal Accounting Standards Advisory Board (FASAB).

68) The federal government prepares a performance and accountability report. The purpose(s) of the performance and accountability report include which of the following?

A) Help users assess financial performance.
B) Help users assess financial performance and management performance.
C) Help users assess financial performance, management performance, and budgetary performance.
D) Help users assess financial performance, and budgetary performance.

69) Which of the following is an objective of financial reporting by federal departments and agencies?

A) To assist users in assessing the adequacy of systems and controls.
B) To assist users in making resource allocation decisions.
C) To assist financial report users in comparing actual financial results with the legally adopted budget.
D) To assist users in making economic decisions.

70) The FASAB's *Statement of Federal Financial Accounting Concepts (SFFAC) Number 1* identifies four objectives of federal financial reporting. The requirement to provide information on the financial condition of the government relates to which of the four objectives?

A) Stewardship
B) Operating performance
C) Budgetary integrity
D) Accountability

71) A college that receives the majority of its revenues from student tuition and a state subsidy that is based on tax revenues would prepare its financial statements using which standards?

A) FASB
B) FASAB
C) GASB
D) PCAOB

72) Which of the following would be considered a not-for-profit organization?

A) Local Number 54 Fire District
B) Booker County Library
C) Munoz YMCA
D) Pasco County School District

73) You are reading the *Citizen's Guide* in a financial report. Most likely you are reading the financial report of

A) The University of Chicago.
B) The City and County of Denver.
C) The State of Hawaii.
D) The U. S. Government.

74) In the statement of activities you are reviewing, expenses have been separated into program and support expenses. Most likely you are reviewing the financial statements of which type of entity?

A) The federal government
B) A local government
C) A state government
D) A not-for-profit organization

75) Which of the following statements concerning a local government's MD&A is *false*?

A) It is Required Supplementary Information.
B) It provides information on Service Efforts and Accomplishments.
C) It provides information on the government's current financial position.
D) It is part of the general purpose external financial reports.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

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

77) Identify and explain the characteristics that distinguish governments and not-for-profit entities from business entities.

78) 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?

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

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

81) In your own words state the primary needs 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.

82) Describe the difference between an annual comprehensive financial report (ACFR) and GASB general purpose external financial reporting for state and local governments.

83) 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.

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

85) Describe the annual comprehensive financial report (ACFR). What are the sections of the report and what are the minimum financial reporting requirements? Is an ACFR required?

86) What is the Federal Data Transparency Act (FDTA) and how might it affect government financial reporting?

Answer Key

Test name: Chapter 01

1) TRUE
2) FALSE
3) TRUE
4) FALSE
5) FALSE
6) TRUE
7) TRUE
8) FALSE
9) TRUE
10) FALSE
11) TRUE
12) FALSE
13) TRUE
14) FALSE
15) FALSE
16) TRUE
17) FALSE
18) TRUE
19) TRUE
20) FALSE
21) TRUE
22) TRUE
23) FALSE
24) TRUE
25) TRUE
26) FALSE
27) TRUE
28) TRUE
29) TRUE
30) FALSE
31) FALSE
32) TRUE
33) TRUE
34) FALSE
35) TRUE
36) FALSE
37) FALSE
38) B
39) A
40) A
41) B
42) C
43) A
44) B
45) A
46) A
47) A
48) B
49) D
50) A
51) D
52) C
53) B
54) A
55) D
56) B
57) C
58) A
59) B
60) D
61) B
62) B
63) C
64) B
65) D
66) D
67) C
68) B
69) A
70) A
71) C
72) C
73) D
74) D
75) B
76) Essay
77) Essay

78) Essay
79) Essay
80) Essay
81) Essay
82) Essay
83) Essay
84) Essay
85) Essay
86) Essay

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

OUTLINE

Number	Topic	Type/Task	Status (re: 19/e)
Questions:			
1-1	Differences between types of organizations	Analyze	New
1-2	Distinguishing between general purpose and special purpose governments	Identify	Same
1-3	Standards-setting bodies	Understand	New
1-4	Objectives of financial reports	Analyze	New
1-5	Relationship of interperiod equity and fiscal accountability	Analyze	Same
1-6	Determining the purpose of the two types of accountability	Understand	Same
1-7	Financial reporting for governments	Understand	New
1-8	Objective of federal financial reports	Understand	New
1-9	Not-for-profit financial reporting	Evaluate	New
1-10	NFP reporting of expenses	Explain	Same
Cases:			
1-1	Research Case—Accountability Reporting	Report	Same
1-2	Research Case—GASB	Analyze	Same
1-3	Research Case—FASB	Understand	New
1-4	Research Case—FASB	Analyze	Same
1-5	Research Case—FASAB	Understand	Revised
1-6	Research Case—Federal Financial Reporting Objectives	Analyze	Same
Exercises/Problems:			
1-1	Examine the ACFR	Examine	Same
1-2	Financial statement differences	Differentiate	Same
1-3	Various	Multiple Choice	Same
1-4	Matching concepts and reporting characteristics or requirements for government and NFP organizations	Classify	Same
1-5	Matching standards governing organizations	Classify	Revised

Solutions to Questions

1-1 The student response should include consideration of the three differences the FASB has identified that distinguish governments and not-for-profits from business organizations. These are:

- Receiving significant amounts of resources from people and organizations that do not expect to receive repayment or goods and services that are proportionate to the resources they have provided.
- Operating for reasons other than to provide goods and/or services at a profit or a profit equivalent.
- An absence of defined ownership that can be sold, transferred, or redeemed.

Additional reflection by the student could relate to the GASB defining a government as one in which the power resides with the people through their elected officials.

General Problem Information: Differences between types of organizations
Learning Objective: 1-1
Topic: Differences Between Governmental and Not-for-Profit Organizations
Bloom's Taxonomy: Analyze
Accreditation Skills tag: AACSB: Communication, AICPA: BB Industry
Level of Difficulty: Medium

1-2 *a.* GP *c.* SP *e.* GP
b. SP *d.* GP *f.* SP

General Problem Information: Distinguishing between general purpose and special purpose governments
Learning Objective: 1-1
Topic: Differences Between Governmental and Not-for-Profit Organizations
Bloom's Taxonomy: Remember
Accreditation Skills tag: AACSB: Communication, AICPA: BB Industry
Level of Difficulty: Easy

1-3 The type of organization determines the standard-setting body. For business organizations and non-governmental not-for-profits the FASB sets GAAP. State and local governments, and governmental not-for-profits use the GAAP set by the GASB. The FASAB recommends GAAP for the federal government.

General Problem Information: Standards-setting bodies
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: Easy

1-4 Accountability is justifying the raising and use of resources by the government. Accountability is important in governments due to the nature of governments. Governments are funded in large part by the involuntary contributions of taxpayers, who have little choice in the level or type of service provided. Because there is no competitive market for government goods and services there are no external market forces helping to determine the efficiency and effectiveness of a government, or the level of goods and services needed by purchasers. Governments do not exist to generate a "net income," therefore, there is no "bottom line" performance measure that can be used to assess governments. For all of these reasons holding governments accountable to taxpayers and others is an important objective.

It could be argued that accountability is also important for not-for-profit organizations since they have many of the same characteristics as government. Not-for-profits do not exist to generate net income, many of them operate primarily on contributions from individuals who will not be receiving any goods or services in return, and there is frequently no competitive market for the not-for-profit's goods or services. You may also think of other reasons why accountability should be an important objective of not-for-profit financial reporting.

General Problem Information: Objectives of financial reporting
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

1-5 Interperiod equity is whether current period revenues are sufficient to pay for current period services, and it is considered 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. Interperiod equity is closely related to fiscal accountability in that fiscal accountability is intended to help ensure that the government is raising and spending resources in compliance with laws and regulations, which would include the legally approved budget. Providing information on whether the government is meeting budgetary requirements helps in assessing whether the government is "living within its means" (achieving interperiod equity) during the current reporting period.

General Problem Information: Relationship of interperiod equity and fiscal accountability
Learning Objective: 1-3
Learning Objective: 1-4
Topic: Objectives of Financial Reporting; Financial Reporting of State and Local Governments
Bloom's Taxonomy: Analyze
Accreditation Skills tag: AACSB: Analytical Thinking, AICPA: BB Critical Thinking
Level of Difficulty: Medium

1-6 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: 1-4
Topic: Financial Reporting of State and Local Governments
Bloom's Taxonomy: Understand
Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting
Level of Difficulty: Easy

1-7 Governments prepare two sets of financial statements to help ensure they are meeting the accountability objective of government financial reporting. The government-wide financial reports provide information on the accrual basis of accounting and can be used to help assess operational accountability. Operational accountability relates to the government using its resources efficiently and effectively. The fund financial reports provide information on a modified accrual basis of accounting and can be used to assist in assessing fiscal accountability. Fiscal accountability relates to whether the government is complying with decisions concerning the raising and spending of resources within a short-term period, which generally aligns with the budgetary period of one year.

General Problem Information: Financial reporting for governments
Learning Objective: 1-4
Topic: Financial Reporting of State and Local Governments
Bloom's Taxonomy: Understand
Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting
Level of Difficulty: Medium

1-8 The annual financial reports of federal departments and agencies are a component of the performance and accountability report (PAR) prepared by departments and agencies. The PAR has four components or sections; they are the MD&A, the annual performance report, the annual financial statements, and other accompanying information that is relevant.

General Problem Information: Objective of federal financial reports
Learning Objective: 1-5
Topic: Financial Reporting of the Federal Government
Bloom's Taxonomy: Understand
Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting
Level of Difficulty: Easy

1-9 There are at least two ways the financial statements of not-for-profits show accountability for the use of resources. They are the separation of the net assets into those with donor restrictions and those without donor restrictions, and the separation of expenses into those for program purposes and those for support purposes.

Separating the net assets into with and without donor restrictions helps the reader understand what resources have been received that are restricted for use based on donor requirements. From the statement of activities, the reader is also able to determine if the entity has met the purpose of the donor restrictions so the net assets can be released from restriction.

The separation of expenses into program and support allows the reader to determine what proportion of the costs of operating the not-for-profit are directly related to the not-for-profit's mission (program expenses) and what proportion is used for administration and fund-raising.

Other possible answers could include the statement of cash flows, which allows the reader to see how the cash of the organization has been spent over the past year, and whether the operations of the not-for-profit are in a net positive or negative cash position. The statement of net assets allows the reader to determine the level of debt and the level of liquidity of the not-for-profit, which can also be used to assess management accountability for resources.

General Problem Information: NFP financial reporting
Learning Objective: 1-6
Topic: Financial Reporting of Not-for-profit Organizations (NFPs)
Bloom's Taxonomy: Evaluate
Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting
Level of Difficulty: Hard

1-10 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: 1-6
Topic: Financial Reporting of Not-for-Profit Organizations (NFPs)
Bloom's Taxonomy: Understand
Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting
Level of Difficulty: Medium

Solutions to Cases

1-1. Instructors may want to note that answers for *a* and *b* are found under Open Government, and *c* will be determined by the student. As with all websites, the location of the answers may change. Accessing Open Government will provide students with insight into data sources that are becoming increasingly available to users of government data and information.

a. Data.gov increases the transparency of government, making government more open and accountable to citizens, allowing data to have a greater impact. By making data available, data.gov increases accessibility of government information, allowing for a more informed citizenry and increased public participation on government policy and issues.
b. Data are available from states, cities, counties, and foreign countries.
c. There is a wide variety of data available from the different sites, with the amount of data available varying considerably by government. Data can include information on finance, public safety, transportation, parks and recreation, health, demographics, economic development, enterprise activities (such as trash, recycling, etc.), among others.

General Problem Information: Research case—Accountability reporting
Learning Objective: 1-4
Topic: Financial Reporting of State and Local Governments
Bloom's Taxonomy: Understand
Accreditation Skills tag: AACSB: Technology, AICPA: BB Leveraging Technology
Level of Difficulty: Easy

1-2. Instructors may wish to provide specific instructions for how the students are to provide their discussion of differences. Only some of the topics covered in the White Paper have been identified for this assignment.

Major revenue sources: For-profits' major revenue is generated from the goods or services provided in exchange transactions. As a result, the principle for recognizing revenue under the FASB standard (Topic 606) is: "Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." This is unlike governments that depend heavily on taxes or nonexchange revenues.

Since property taxes are nonexchange transactions, the same rules as are used for recognition of revenue by for-profit organizations cannot apply, in that there is frequently no transfer of promised goods or services. For this reason, the government will recognize

and report tax revenue in the period the taxes are levied. This helps ensure that revenues can finance the costs of providing the services for which the taxes were levied Generally this is defined as the revenues being measurable and available to pay for current period costs.

Postemployment benefits: Although similar in several respects, postemployment benefit accounting and reporting for government differs from for-profits due to the longevity of governments, the importance of information to policymakers and others on the cost of providing the benefits, and the need to address interperiod equity.

As a result of these different information needs, accounting for postemployment benefits for governments differs from the FASB standards in two key areas:

- The discount rate used for determining the actuarial present value of postemployment benefits. The GASB allows the use of the expected rate of return as the discount rate, provided the postemployment plan is projected to have enough resources to cover all projected benefit payments for current employees and retirees. If all or a portion of the projected benefit payments will not be covered (i.e., projected payments are greater than projected resources), the discount rate is to be adjusted to a municipal bond index rate for that period and beyond in which the projected resources are less than the projected payments. This differs from the FASB, which requires a discount rate that reflects the rate at which the postemployment benefits could be settled.
- The effect of the benefit received by the employee for work provided is represented as a percentage of projected pay over the projected career of the employee. This differs from the FASB standard that bases the benefits formula on the assignment of benefits to units of service credits.

General Problem Information: Research case—GASB understanding why government reporting standards are different

Learning Objective: 1-2
Topic: Differences Between Governmental and Not-for-Profit Organizations
Bloom's Taxonomy: Analyze
Accreditation Skills tag: AACSB: Communication, AICPA: FN Research
Level of Difficulty: Hard

1-3. Instructors may wish to provide specific instructions for the format of the students' brief reports. The objective of this case is to familiarize students with the FASB website and allow them to see how standards are ever changing and can differ between for-profit entities and NFPs.

The ASU 2021-09 update relates to leases and addresses the discount rate that lessees who are not public business entities (such as not-for-profits) can use in determining the lease liability. As part of the post implementation review that the FASB conducts on all standards it issues, stakeholders indicated that applying the lease standard was costly and complex for entities such as not-for-profits. The FASB responded to these stakeholder concerns by amending the lease standard to allow not-for-profits more flexibility in determining the discount rate they would apply to determining the lease liability.

The update allows not-for-profits to elect to use the risk-free discount rate for certain classes of assets unless there is a readily determinable implicit rate in an individual lease. The implicit rate must be used if it is readily determinable; the not-for-profit cannot elect to use the risk-free rate for such a lease. This update differs in that prior to the update a not-for-profit entity that elected to use the risk-free rate was required to use the risk-free rate for all leases. Now the not-for-profit can elect to use a risk-free rate for certain classes of assets. This update clarifies when a risk-free rate can be elected, and when an implicit rate must be used.

General Problem Information: Research case—FASB NFP reporting standards changes
Learning Objective: 1-6
Topic: Financial Reporting of Not-for-profit Organizations
Bloom's Taxonomy: Understand
Accreditation Skills tag: AACSB: Communication, AICPA: FN Research
Level of Difficulty: Medium

1-4. Instructors may wish to provide specific instructions for their students' brief reports. The reports should include some of the ideas presented in the next paragraphs.

Unlike for-profit organizations, many not-for-profit organizations do not have defined ownership interests or a profit indicator such as net income to help users in determining how to allocate their scarce resources. Major sources of funds may come from members, donors, and grantors rather than through exchange transactions or from creditors.

For this reason, it is important that financial reports assist the users in determining not only that management has safeguarded the assets of the organization, but that it has also efficiently and effectively used the assets to meet and continue to support the organization's stated mission and objectives. In addition, effective stewardship means the management has complied with restrictions related to the resources provided, including legal and contractual responsibilities.

General Problem Information: Research case—FASB NFP reporting objectives
Learning Objective: 1-3
Topic: Objectives of Financial Reporting
Bloom's Taxonomy: Analyze
Accreditation Skills tag: AACSB: Communication, AICPA: FN Research
Level of Difficulty: Hard

1-5. Instructors may wish to provide specific instructions for their students' brief reports.

FASAB's website may change over time, but the website does provide extensive information about the board's mission, duties of the board, 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.

FASAB's mission is to improve federal financial reporting by issuing standards and providing guidance after considering the needs of internal and external stakeholders. In setting standards, the FASAB follows a six-step due process procedure, which includes: 1) identify issues, 2) preliminary deliberations, 3) preparation of issue papers and/or discussion memorandums, 4) release prepared documents for public input, 5) continue deliberation and issue an exposure draft considering the input received, and 6) submit a Board approved standard to the Comptroller General, Secretary of the Treasury, and the Director of OMB.

The AAPC is a permanent committee of the FASAB that provides guidance on a timely basis for accounting and auditing issues that have not yet been addressed by an existing or new standard. The AAPC does this through the issuance of Technical Releases.

All statements and other pronouncements of the FASAB are contained in a compendium of all original pronouncements called *FASAB Handbook of Accounting Standards and Other Pronouncements, as Amended* and are available for downloading from its website 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: Understand

Accreditation Skills tag: AACSB: Communication, AICPA: FN Research
Level of Difficulty: Medium

1-6. 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. Congress is concerned with how to finance and execute programs. It also assists 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

Solutions to Exercises and Problems

1-1. As students may have different ACFRs, 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 number 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 government units are located that are audited by each of the classes of auditors (or whatever other characteristic is being tabulated). Requiring that students download an ACFR is a good exercise in obtaining financial information. Allow students to share their experiences, as some governments make it easier to get ACFRs than others. Remind students that governments are not required to prepare a full ACFR, 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 ACFR
Learning Objective: 1-4
Topic: Financial Reporting of State and Local Governments
Bloom's Taxonomy: Remember
Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting
Level of Difficulty: Easy

1-2. Although the major similarities and differences have been provided below, students will undoubtedly also find additional items that you may wish to discuss.

a. The following represent some of the similarities and differences in Denver's Statement of Net Position and the Promote Health Association's (PHA) Statement of Financial Position.

Similarities:

- Both use accrual accounting.
- Both have Assets, Liabilities, and Net Assets/Net Position sections.
- Both list assets in order of liquidity.

Dissimilarities:

- Denver does not provide a comparative year, as the PHA does.

- 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 PHA has only one column for the year's activity.
- Denver has additional sections in its statement called Deferred Outflows of Resources (this appears below Total Assets) and Deferred Inflows of Resources (this appears below the Total Liabilities). The PHA has nothing similar to this.
- Denver uses *net position* rather than net assets and divides the net position into net investment in capital assets, restricted, and unrestricted. However, the PHA uses the term *net assets* and divides the net assets into net assets with donor restrictions and net assets without donor restrictions.

b. Other than the name, there are very few similarities between Denver's Statement of Activities and the PHA's Statement of Activities. Listed below are some similarities and differences.

Similarities:

- Both use accrual accounting.
- 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 PHA divides its revenues into contributions and grants, and fees from exchange transactions.

- The PHA divides its expenses into program activities and supporting services, 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 PHA 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.
- The PHA includes separate columns showing the activity in each of its net asset components – net assets with donor restrictions and net assets without donor restrictions. Denver does not show activity by net position component.

General Problem Information: Financial statement differences
Learning Objective: 1-4
Learning Objective: 1-6
Topic: Financial Reporting of State and Local Governments; Financial Reporting of Not-for-Profit Organizations (NFPs)

Bloom's Taxonomy: Analyze
Accreditation Skills tag: AACSB: Knowledge Application, AICPA: FN Reporting
Level of Difficulty: Hard

1-3.

1. *d.*	6. *b.*
2. *a.*	7. *c.*
3. *b.*	8. *d.*
4. *a.*	9. *c.*
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
Learning Objective: 1-6

Topic: Various chapter topics
Bloom's Taxonomy: Remember
Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting
Level of Difficulty: Easy

1-4. 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 the type of organization.

Characteristic, Concept, or Financial Reporting Requirement	State and Local Governments	Federal Government	Nongovernmental Not-for-profit Organizations
Accountability is the foundation of financial reporting	Y	Y	N
Management's discussion and analysis (MD&A) is required	Y	Y	N
Performance & accountability report is required	N	Y	N
Stewardship is identified as a financial statement purpose	N	Y	Y
Concern for budgetary compliance influences financial reporting	Y	Y	N
Absence of defined ownership interests	Y	Y	Y
Oversight by the Financial Accounting Foundation (FAF)	Y	N	Y
Required fund financial statements are presented as part of the financial report	Y	N	N
GAAP is set by private sector standard-setting boards	Y	N	Y
Standards focus on just the external users of financial information	Y	N	Y

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

1-5.
1. FB
2. F
3. FB
4. F
5. G
6. F
7. G
8. G
9. F
10. F or G (this will depend on whether the university is private or public)

General Problem Information: Sources of financial reporting standards for various organizations
Learning Objective: 1-2
Topic: Sources of Financial Reporting Standards
Bloom's Taxonomy: Apply
Accreditation Skills tag: AACSB: Communication, AICPA: FN Reporting
Level of Difficulty: Medium