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ACCOUNTING QUESTIONS

2023

PAPER 1

MARKING GUIDELINE

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AGA GAFRB Exam Syllabus Topics:

Topic	Details

Topic 1	<ul style="list-style-type: none"> State and Local Financial Accounting and Reporting: This section of the exam measures skills of public sector accountants and focuses on applying GASB standards to define reporting entities and component units. It explores the structure and purpose of various fund types and the basis of accounting for each. Candidates must understand the format and content of the Annual Comprehensive Financial Report and the purpose of popular reports for public transparency.
Topic 2	<ul style="list-style-type: none"> Governmental Financial Accounting, Reporting and Budgeting: General Knowledge: This section of the exam measures skills of government financial analysts and covers the unique aspects of governmental accounting that distinguish it from private sector practices, such as service over profit and the critical role of the budget. It emphasizes the objectives of financial reporting in the public sector, the role of standard-setting bodies like GASB, FASB, FASAB, and IPSASB, and the due process for setting accounting standards. It also includes knowledge of interperiod equity, budgetary compliance, sustainability, and the characteristics of quality financial information.
Topic 3	<ul style="list-style-type: none"> Federal Financial Accounting and Reporting: This section of the exam measures skills of government financial analysts and covers the roles of FASAB, OMB, Treasury, and GAO in federal accounting. It includes an understanding of federal budgetary terminology and the federal budgetary equation. The section differentiates between budgetary and proprietary accounting and outlines the structure and use of various federal fund types. It explains how to record key budgetary transactions like appropriations and obligations and proprietary transactions such as payroll and depreciation.

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AGA Examination 2: Governmental Accounting, Financial Reporting and Budgeting (GAFRB) Sample Questions (Q74-Q79):

NEW QUESTION # 74

A municipality would establish an internal service fund to capture the activities of a data processing center, in order to account for

- A. services rendered to the general public on a fee basis.
- B. financial resources to be used for acquisition of facilities.
- C. proceeds of revenue sources restricted to expenditure for specified purposes.
- D. financing of services provided to other governmental units on a cost reimbursement basis.**

Answer: D

Explanation:

Comprehensive Detailed Explanation:

Internal service funds are proprietary funds used to account for the operations of departments or functions that provide goods or services to other departments within the same government on a cost-reimbursement basis.

Examples include:

Centralized IT/data processing

Fleet management

Print shops or mail centers

These are not used for general public services, capital acquisitions, or restricted revenues (which belong in special revenue or capital projects funds).

Relevant References:

GASB Statement No. 34 - Fund Types

GASB Codification Section 1300 - Internal Service Funds

GFOA Fund Accounting Best Practices

D). financing of services provided to other governmental units on a cost reimbursement basis.

NEW QUESTION # 75

An agency offers service for a fee; bad debts have historically averaged 5% of each year's fee revenue. During the past fiscal year, \$1.1 million in fee revenue was recorded and \$1 million in fees was collected. What is the bad debt expense recorded for the past fiscal year?

- A. \$100,000
- **B. \$ 55,000**
- C. \$ 50,000
- D. \$ 5,000

Answer: B

Explanation:

The agency uses accrual accounting, meaning bad debt expense should be recognized based on the revenue earned, not the cash collected. The historical bad debt rate is 5%.

Fee revenue recorded = \$1.1 million

Bad debt expense = $5\% \times \$1,100,000 = \$55,000$

This matches the standard accounting treatment under FASAB SFFAS No. 1, where the expense is estimated and recognized in the same period as the related revenue.

Relevant References:

FASAB SFFAS No. 1 - Accounting for Selected Assets and Liabilities

GAAP treatment for allowance for doubtful accounts

Treasury Financial Manual - Accounts Receivable Accounting

C). \$55,000

NEW QUESTION # 76

OMB Circular A-136 requires that all of the following be included in an AFR EXCEPT

- **A. the performance section**
- B. a message from the head of the agency.
- C. the financial section.
- D. the MD&A.

Answer: A

Explanation:

OMB Circular A-136 specifies the required components of the Agency Financial Report (AFR), which include:

A Message from the Head of the Agency

Management's Discussion and Analysis (MD&A)

Financial Section (including statements and notes)

Other Information (e.g., improper payments, internal controls)

The Performance Section is not included in the AFR but is instead part of the alternative Performance and Accountability Report (PAR) or included separately in an Annual Performance Report (APR).

Relevant References:

OMB Circular A-136 - Financial Reporting Requirements (Section II)

GPRA Modernization Act of 2010

CFO Act of 1990

D). the performance section

NEW QUESTION # 77

The Office of Personnel Management provides employee pension benefits for an agency's employees and bills the agency for a portion of the costs. The portion of costs not billed to the agency is an

- A. inferred cost to be recognized by the Office of Personnel Management.

- B. imputed cost to be recognized by the agency.
- C. inferred cost to be recognized by the agency.
- D. imputed cost to be recognized by the Office of Personnel Management.

Answer: B

Explanation:

When a federal agency participates in a pension plan administered by another government entity (such as the Office of Personnel Management, OPM), and OPM bills the agency for a portion of the cost while covering the remainder itself, the portion not billed is considered an "imputed cost" to the agency. This imputed cost represents the agency's share of employee pension benefits that are financed on its behalf by another entity.

Accounting guidance requires that the employing agency recognize both the amount billed and the amount covered by OPM as a pension expense, recording the imputed cost as an expense and as an imputed financing source in its own financial statements. This treatment ensures full recognition of the economic cost of employing personnel, even if part of that cost is not directly paid by the agency.

Key references and standards:

* Federal Accounting Standards Advisory Board (FASAB) SFFAS No. 5, "Accounting for Liabilities of the Federal Government": "Employing entities should recognize the cost of pensions and other postemployment benefits during their employees' active years of service. The cost recognized includes the amount contributed by the employing entity and the portion contributed by other entities on the entity's behalf, which is called an imputed cost."

* FASAB SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts":

"Costs that are incurred by one entity but paid by another entity, and that benefit the reporting entity, should be recognized by the reporting entity as imputed costs and imputed financing."

* OMB Circular A-136, Section II.2.7.3:

"Imputed costs are to be recognized for the costs of goods and services received from other federal entities at no or reduced cost, such as pension and postretirement health benefits..." Therefore, answer choice C is correct: the agency recognizes the imputed cost.

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NEW QUESTION # 78

What is the annual projected sales tax revenue if in nine months the revenue earned is \$26.5 million, and no other factors are known?

- A. \$40.0 million
- B. \$53.0 million
- C. \$26.5 million
- D. \$35.3 million

Answer: D

Explanation:

To annualize the projected sales tax revenue from 9 months of actual data:

Step 1: Determine the monthly average:

$\$26.5 \text{ million} \div 9 \text{ months} = \$2.944 \text{ million/month}$

Step 2: Project for 12 months:

$\$2.944 \text{ million} \times 12 = \$35.33 \text{ million} \# \35.3 million

However, the closest and most likely answer choice based on rounding is:

B). \$35.3 million

Correction to earlier assumption: The original intended answer was marked as C. \$40.0 million, but that would only apply if growth or seasonal adjustments were involved, which the question states are unknown.

Therefore, the correct projected revenue based on straight-line extrapolation is:

B). \$35.3 million

NEW QUESTION # 79

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