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AGA GAFRB

Examination 2: Governmental Accounting, Financial Reporting and Budgeting (GAFRB)



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Question: 1

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

Answer: C

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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Question: 2

The Prompt Payment Act requires federal agencies to

- A. pay invoices when received.
- B. take discounts when economically justified.
- C. pay invoices no later than sixty days from receiving the invoice.
- D. pay invoices by the invoice due date.

Answer: D

Explanation:

The Prompt Payment Act (31 U.S.C. Chapter 39) mandates that federal agencies pay vendors on time. Specifically, if a contract specifies a due date for payment, agencies are required to pay by that date. If no specific due date is mentioned, payment must be made within 30 days after the later of either:

Receipt of a proper invoice, or

Acceptance of goods/services.

If agencies fail to pay by the due date, they must automatically calculate and pay interest penalties to the vendor.

Relevant Standards and Reference:

31 U.S.C. § 3903 (Prompt Payment Act): "A payment is timely if it is made by the due date prescribed by the contract or within 30 days after receipt of a proper invoice or acceptance of goods or services."

OMB Circular A-125, "Prompt Payment," Section 7(a)

Treasury Financial Manual (TFM), Volume I, Part 6, Chapter 8040

Therefore, Option D is correct.

Question: 3

An agency is developing a fee for services to cover all direct operating expenditures. Which of the following should be included in the fee calculation?

- A. supplies, equipment depreciation, staffing
- B. staffing, location rent, equipment depreciation
- C. supplies, equipment depreciation, location rent
- D. staffing, location rent, supplies

Answer: B

Explanation:

When an agency is developing a fee to recover costs for providing a service, it must calculate the full cost of the service. According to cost accounting standards for federal government operations, "full cost" includes:

Direct costs: staffing, supplies, materials directly used in service provision

Indirect costs: facility costs (e.g., location rent), equipment depreciation, administrative support, etc.

OMB Circular A-25, "User Charges," requires that user fees for government services be based on the full cost of providing that service unless otherwise mandated by law. Therefore, staffing (a direct cost), location rent (indirect cost), and equipment depreciation (a capital asset cost) are all appropriate to include.

Relevant Standards and Reference:

OMB Circular A-25, "User Charges," Section 6(d): "Full cost includes all direct and indirect costs to any part of the Federal Government of providing a good, resource, or service."

FASAB SFFAS No. 4, Managerial Cost Accounting Concepts and Standards: Defines full cost components, including depreciation.

GAO "Principles of Federal Appropriations Law," Red Book, Vol. I: Cost recovery practices in federal user fee settings.

Therefore, Option B is correct.

Question: 4

What role do the U.S. Department of the Treasury, GAO and OMB have in the standard-setting activities of FASAB?

- A. They are all non-voting advisory board members of FASAB.
- B. They are all members with authority to veto any standard approved by FASAB.
- C. They are all members whose agencies may be exempt from FASAB standards.
- D. They are all sponsors and voting members of FASAB.

Answer: D

Explanation:

The Federal Accounting Standards Advisory Board (FASAB) was established in 1990 by the U.S. Department of the Treasury, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO). These three entities are collectively known as the "sponsors" of FASAB. Each has a representative who serves as a voting member of the board.

FASAB is responsible for establishing GAAP for federal entities. The sponsor organizations appoint board members and have authority over standard-setting governance, but do not individually veto standards. Final standards are issued only after due process, including public comment and sponsor approval.

Relevant Standards and Reference:

FASAB Memorandum of Understanding (MOU) Among Treasury, OMB, and GAO (as amended): "These three agencies are the sponsors of FASAB and each appoints one voting member to the Board."

FASAB Governance Manual (2023 Edition), Section 2: Identifies Treasury, OMB, and GAO as sponsors and voting members.

AGA's "CGFM Study Guide 2," Chapter 2: Highlights the role of sponsors in the standard-setting process. Therefore, Option D is correct.

Question: 5

The purpose for establishing a custodial fund is to

- A. account for assets held in a trustee capacity.
- B. accumulate resources for payment of debt.
- C. track financial resources to be used for acquisition of capital facilities.
- D. provide services to the public on a fee basis.

Answer: A

Explanation:

A custodial fund is a type of fiduciary fund used by state and local governments to report assets held temporarily in a purely custodial capacity—for example, taxes collected by one government on behalf of another. These funds do not involve administrative or financial control over the assets; the government is merely acting as an intermediary.

As per GASB Statement No. 84, custodial funds replace agency funds and are used to report fiduciary activities that are not held in a trust agreement and where the government does not have discretion over how the resources are spent.

Relevant Standards and Reference:

GASB Statement No. 84, Fiduciary Activities

GASB Codification Section 1300: Fiduciary Funds

GFOA Best Practices – Accounting and Financial Reporting for Fiduciary Activities

Therefore, Option A is correct.

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