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Q&A

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Exam : **CGFM**

Title : CGFM Certified Government Financial Manager

Version : DEMO

1.Based on the data below, what can be concluded about outsourcing print job?

Print Job	Internal Print Shop	Ace Printing	ABC Printing	Printing, Inc.
Zone Map	$ 4.23	$ 4.40	$ 7.82	$ 4.00
Agenda Packet	$ 23.18	$ 30.14	$ 14.16	$ 22.00
Budget Cover	$840.00	$912.00	$624.30	$800.00
Employee Benefit Brochure	$ 6.14	$ 7.22	$ 4.90	$ 7.00

A. It is better to keep the printing in-house.
B. Outsourcing printing is feasible.
C. Outsourcing printing is necessary.
D. ABC Printing should be awarded the outsourcing contract.
Answer: B
Explanation:
Understanding the Scenario:
The table compares the costs of four printing jobs performed by an "Internal Print Shop" versus three external vendors (Ace Printing, ABC Printing, and Printing, Inc.). Each vendor's pricing varies by print job type. The task is to evaluate whether outsourcing (hiring external vendors) is a reasonable alternative to keeping the work in-house.
Key Considerations in Outsourcing:
According to governmental accounting principles and budgeting practices outlined by the Association of Government Accountants (AGA), the decision to outsource should consider: Cost-effectiveness: Does outsourcing reduce costs without compromising quality or service delivery?
Operational efficiency: Can outsourcing free up internal resources for other priorities?
Comparative pricing: How do external vendor rates compare to internal costs for identical services?
Analysis of the Print Jobs:
Let’s break down the cost comparison for each print job:
Zone Map:
Internal cost = $4.23.
Cheapest vendor = Printing, Inc., at $4.00.
Outsourcing is cheaper for this job.
Agenda Packet:
Internal cost = $23.18.
Cheapest vendor = Printing, Inc., at $22.00.
Outsourcing is cheaper for this job.
Budget Cover:
Internal cost = $840.00.
Cheapest vendor = ABC Printing, at $624.30.
Outsourcing is significantly cheaper for this job.

Employee Benefit Brochure:
Internal cost = $6.14.
Cheapest vendor = ABC Printing, at $4.90.
Outsourcing is cheaper for this job.
Conclusion Based on Analysis:
Across all four print jobs, the lowest-cost external vendor always beats the Internal Print Shop's costs.
From a budgetary perspective, outsourcing is feasible as it offers cost savings across all jobs.
Why Not A, C, or D?:
Option A (Keep printing in-house): Incorrect, as in-house costs are consistently higher than the cheapest external vendor.
Option C (Outsourcing is necessary): Incorrect, as feasibility doesn't mean necessity; internal printing is still an option if other factors (like quality or control) outweigh costs.
Option D (Award contract to ABC Printing): Incorrect, since the best vendor depends on the job (e.g., Printing, Inc. is cheaper for Zone Map and Agenda Packet).
Reference: Association of Government Accountants (AGA), Government Financial Manager Certification Study Guide: Budgeting, Cost Accounting, and Auditing Principles.
Government Finance Officers Association (GFOA), Best Practices in Outsourcing and Procurement.
Federal Accounting Standards Advisory Board (FASAB), Cost Accounting Standards for Governmental Operations.

2.The ratios used to determine an organization's ability to meet its creditor's demands are
A. budgetary cushion ratios.
B. liquidity ratios.
C. debt burden ratios.
D. turnover ratios.
Answer: B
Explanation:
What Are Liquidity Ratios?
Liquidity ratios are financial metrics used to measure an organization's ability to meet its short-term financial obligations as they come due. These ratios assess whether the organization has sufficient liquid assets (like cash, receivables, or short-term investments) to cover its current liabilities (debts or obligations due within a year).
Why Are They Relevant to Creditors?
Creditors care deeply about an entity's ability to repay its debts in a timely manner. Liquidity ratios provide a snapshot of the organization's financial health and give insight into its capacity to meet short-term demands. They are essential tools in evaluating whether a government entity (federal, state, or local) or any other organization can pay its creditors without needing to secure additional financing or liquidate long-term assets.
Common Liquidity Ratios:
The most commonly used liquidity ratios are:
Current Ratio: This measures the organization's ability to pay off its current liabilities with current assets.
Formula: Current Assets ÷ Current Liabilities
Quick Ratio (Acid-Test Ratio): A stricter version of the current ratio, it excludes less liquid assets (like inventory) to assess the organization's immediate ability to pay short-term debts. Formula: (Current

Assets - Inventory) ÷ Current Liabilities
Cash Ratio: Focuses only on the most liquid assets, such as cash and cash equivalents.
Formula: Cash + Cash Equivalents ÷ Current Liabilities
How Do Liquidity Ratios Apply to Governmental Accounting?
In governmental accounting, liquidity ratios are crucial for determining whether a governmental entity has the financial flexibility to manage short-term obligations like accounts payable, payroll, and other operating costs. For example:
State and local governments use liquidity ratios to show stakeholders their ability to sustain operations without financial strain.
Government-wide financial statements (under GASB standards) often emphasize liquidity to demonstrate fiscal health to bondholders and credit rating agencies.
Why Not Other Ratios?
A. Budgetary Cushion Ratios: These focus on the organization's ability to withstand revenue shortfalls and maintain budgetary reserves, not specifically on meeting creditor demands.
C. Debt Burden Ratios: These measure the overall burden of debt on the organization but don't directly address short-term liquidity or solvency.
D. Turnover Ratios: These evaluate operational efficiency (e.g., how quickly assets like inventory are converted into revenue), which doesn't directly relate to creditor demands. Reference and Documents:
Government Financial Manager (GFM) Competency Framework by the Association of Government Accountants (AGA): Section on "Financial Analysis" emphasizes the importance of liquidity ratios in assessing short-term solvency for government entities.
GASB Concepts Statement No. 1: Discusses the need for governmental financial reporting to provide information on financial condition, including short-term liquidity.
AGA Performance Management Framework Guide (2023): Highlights liquidity ratios as critical tools for demonstrating fiscal responsibility and transparency in public sector financial management.

3.Performance measurement assists management in
A. identifying weaknesses in disaster response preparedness.
B. tracking actual results against targets.
C. determining allocation of capital appropriations.
D. monitoring performance of certified professionals in regulatory fields.
Answer: B

4.The value, in current dollars, of a sum of money to be received in the future describes
A payback value.
B. present value.
C. annuity value.
D. future value.
Answer: B

5.A city decides to invest in a new piece of equipment and wants to know how long it will take to recover the amount invested by using the payback analysis technique.
The city uses the following assumptions in its analysis:
The cost of the equipment is $500,000.

The equipment will generate $200,000 in revenue per year.
The variable costs of operating the equipment will be $100,000 per year.
The depreciation on the equipment will be $20,000 per year.
How long will it take the city to recover the amount invested in the new equipment?
A. 2 years and 6 months
B. 2 years and 9 months
C. Syears
D. 6 years and 3 months
Answer: C