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FOUNDATIONS OF GOVERNMENTAL
ACCOUNTING – PART 2
GOVERNMENT FINANCE OFFICERS
ASSOCIATION - PENNSYLVANIA

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Sources

- ❑ GFOA, Governmental Accounting, Auditing, and Financial Reporting, 2024 edition
- ❑ PPC, Guide to Preparing Governmental Financial Statements
- ❑ GASB Standards, Interpretations, and Implementation Guides

Primary Adjustments

- Capital assets
- Unavailable/unearned revenue
- Debt
- Leases
- Compensated absences
- Net pension and OPEB liabilities



Example of Capital Assets

❑ Example of Entry in Governmental Fund:
 \$5,000 Truck purchased for Highway Department

- Debit Expenditure - Highways \$5,000
- Credit Cash \$5,000

❑ Example of Entry in Accrual Fund:

- Debit Capital Assets \$5,000
- Credit Expenditure – Highway \$5,000

Example of Capital Assets (Cont'd)

- Accrual Fund

- Life of Truck is determined to be 5 years

- Debit Expenses – Various Depts. \$1,000
- Credit Accumulated Depreciation \$1,000

Example of Capital Assets (Cont'd)

- **Difference in Basis of Accounting**
 - Modified Accrual Basis – Expenditures \$5,000
 - Accrual Basis – Expenses \$1,000
 - Cash Basis – Disbursements \$5,000
- **Modify that the Truck was received in December but payment was made in January**
 - Modified Accrual Basis – Expenditures \$5,000
 - Accrual Basis – Expenses \$1,000
 - Cash Basis – Disbursements \$0

Example of Capital Assets (Cont'd)

- **At the end of year 2, you decide to sell the truck through the COG auction. Proceeds of the sale are \$250.**

– Debit Cash	\$250
– Credit Sale of General Capital Asset	\$250

- **Example of Entry in Accrual Fund:**

– Debit Sale of General Capital Asset	\$250
– Credit Capital Asset	\$5,000
– Debit Accumulated Depreciation (\$1,000 * 2)	\$2,000
– Debit Loss on Disposal of Capital Asset	\$2,750

Example of Capital Assets (Cont'd)

- **Difference in Basis of Accounting**
 - Modified Accrual Basis – Other Financing Source \$250
 - Accrual Basis – Depreciation Expense \$1,000; Loss on Sale \$2,750
 - Cash Basis – Receipts \$250

Example of Capital Assets (Cont'd)

□ Reminders

- Interest incurred on debt financed capital projects is no longer treated as part of the capital asset under GASB No. 89 (effective with reporting periods beginning after December 31, 2020)
- Retainage payable on ongoing capital projects should be included in construction in progress.
- Land, construction in progress, easements are not depreciated.

Unavailable Revenue

- Exchange Transactions

- Nonexchange Transactions
 - Derived Tax Transactions
 - Result from assessments made by government on exchange transactions

 - Imposed Nonexchange Transactions
 - Result from assessments made by governmental entities on nongovernmental entities

Unavailable Revenue

- Nonexchange Transactions (Cont'd)
 - Government-Mandated Nonexchange Transactions
 - Result from a government requiring another government to perform a particular program and providing the funding for the program
 - Voluntary Nonexchange Transactions
 - Result from legislative or contractual agreements entered into willingly between governmental or nongovernmental entities

Unavailable Revenue

Class	Recognition
<p>Derived tax revenues</p> <p>Examples: sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption</p>	<p>Assets ^a</p> <p>Period when <i>underlying exchange has occurred</i> or when resources are received, whichever is first.</p> <p>Revenues</p> <p>Period when <i>underlying exchange has occurred</i>. (Report advance receipts as liabilities.) When modified accrual accounting is used, resources also should be available. Deferred inflows of resources are reported for resources that do not meet the availability criterion.</p>

Example of Derived Tax Revenue

- ❑ The asset is recognized when the underlying exchange takes place or the resources are received, whichever is first.

- ❑ Example of Entry in Governmental Fund: Joe Smith earned \$5,000 during the year ended December 31, 2022. Tax rate is 1%.
 - Debit Asset - Taxes Receivable - EIT \$50



Example of Derived Tax Revenue (Cont'd)

- ❑ The revenue must be recognized when the underlying exchange has occurred for accrual purposes. When modified accrual accounting is used, resources also should be “available”.

- ❑ Definition of “available” for modified accrual – collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period
 - Property taxes – defined as 60 days

 - All other revenue – defined by the government

Example of Derived Tax Revenue (Cont'd)

- Example of Entry in Governmental Fund: Available defined as 60 days. \$50 is received on February 15.

- Credit Earned Income Tax Revenue \$50

- Example of Entry in Governmental Fund: Available defined as 60 days. \$20 is received on February 15, \$30 is received on March 15

- Credit Deferred Inflow - Unavailable Revenue – EIT \$30
- Credit Earned Income Tax Revenue \$20

Example of Derived Tax Revenue (Cont'd)

- ❑ Summary of Entry in Governmental Fund
 - Debit Asset - Taxes Receivable – EIT Estimate
 - Credit Earned Income Tax Revenue Estimate “Available”
 - Credit Deferred Inflow - Unavailable Revenue - EIT Plug



Example of Derived Tax Revenue (Cont'd)

- ❑ Revenue must be recognized when the underlying exchange has occurred for accrual purposes.

- ❑ Example of Entry in Accrual Fund: \$20 is received on February 15, \$30 is received on March 15
 - Debit Deferred Inflow - Unavailable Revenue - EIT \$30

 - Credit Earned Income Tax Revenue \$30

Example of Derived Tax Revenue (Cont'd)

☐ Governmental Fund

• Debit	Asset - Taxes Receivable - EIT	\$50
• Credit	Deferred Inflow - Unavailable Revenue - EIT	\$30
• Credit	Earned Income Tax Revenue	\$20

☐ Accrual Fund

• Debit	Deferred Inflow - Unavailable Revenue - EIT	\$30
• Credit	Earned Income Tax Revenue	\$30

Example of Derived Tax Revenue (Cont'd)

- **Difference in Basis of Accounting**
 - Modified Accrual Basis – Revenue \$20
 - Accrual Basis – Revenue \$50
 - Cash Basis – Receipts \$0



Example of Imposed Nonexchange Transactions

Imposed nonexchange revenues

Examples: property taxes, most fines and forfeitures

Assets ^a

Period when an *enforceable legal claim has arisen* or when resources are received, whichever is first.

Revenues

Period when *resources are required to be used* or first period that use is permitted (for example, for property taxes, the *period for which levied*). Report deferred inflows of resources for resources received or reported as a receivable before such period. When modified accrual accounting is used, resources *also* should be available. Deferred inflows of resources are reported for resources that do not meet the availability criterion.

Example of Imposed Nonexchange Transactions

- The asset is recognized when an enforceable legal claim has arisen or when resources are received, whichever is first.

Debit

Taxes Receivable – Property

Entire
Assessment

Example of Imposed Nonexchange Transactions (Cont'd)

- ❑ The revenue is to be reported in the period when resources are required to be used or the first period that is permitted (for example, property taxes, the period for which levied).

- ❑ Example:
 - Full 2022 levy was \$2,000,000.

 - At December 31, 2022, \$20,000 delinquent.

 - Between January 1, 2023 and February 28, 2023, collected and remitted \$5,000

Example of Imposed Nonexchange Transactions (Cont'd)

- ❑ Example of Entry in Governmental Fund: assuming taxes recorded cash basis throughout the year

 - Debit Cash \$1,980,000
 - Credit Property Tax Revenue \$1,980,000

- ❑ Example of Entry in Governmental Fund: at December 31

 - Debit Asset - Taxes Receivable – Property \$20,000
 - Credit Property Tax Revenue \$5,000
 - Credit Deferred Inflow - Unavailable Revenue – Property \$15,000

Example of Imposed Nonexchange Transactions (Cont'd)

- ❑ Example of Entry in Accrual Fund: at December 31
 - Debit Deferred Inflow - Unavailable Revenue – Property \$15,000
 - Credit Property Tax Revenue \$15,000



Imposed Nonexchange Transactions (Cont'd)

□ Governmental Fund

- Debit Asset - Taxes Receivable – Property \$20,000
- Credit Property Tax Revenue \$5,000
- Credit Deferred Inflow - Unavailable Revenue – Property \$15,000

□ Accrual Fund

- Debit Deferred Inflow - Unavailable Revenue – Property \$15,000
- Credit Property Tax Revenue \$15,000

Imposed Nonexchange Transactions (Cont'd)

- **Difference in Basis of Accounting**
 - Modified Accrual Basis – Revenue \$1.985 million
 - Accrual Basis – Revenue \$2 million
 - Cash Basis – Receipts \$1.980 million



Example of Government Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions

<p>Government-mandated nonexchange transactions</p> <p>Examples: federal government mandates on state and local governments, shared revenues</p> <p>Voluntary nonexchange transactions</p> <p>Examples: shared revenues, certain grants and entitlements, most donations</p>	<p>Assets^a and liabilities</p> <p><i>Period when all eligibility requirements except time requirements have been met or (for asset recognition) when resources are received, whichever is first.</i></p> <p>Revenues and expenses or expenditures</p> <p><i>Period when all eligibility requirements have been met. Report deferred inflows of resources for resources received or reported as a receivable before time requirements are met but after all other eligibility requirements have been met. (In this instance, the grantor/donor government would report deferred outflows of resources.) [When a provider precludes the sale, disbursement, or consumption of resources for a specified number of years, until a specified event has occurred, or permanently (for example, permanent and term endowments), report revenues and expenses or expenditures when the resources are, respectively, received or paid and report resulting net position or fund balance as restricted.] When modified accrual accounting is used for revenue recognition, resources also should be available. Deferred inflows of resources are reported for resources that do not meet the availability criterion.</i></p>
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Example of Government Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions

- Assets and liabilities, should be recognized in the period when all eligibility requirements have been met or when resources are received, whichever is first.



Example of Government Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions

(Cont'd)

- ❑ Example: Reimbursement grant to fund new police officer's salary

- ❑ Entry In Governmental Fund: after incurring December's salary
 - Debit Asset - Grant Receivable \$500

Example of Government Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions

(Cont'd)

- ❑ The revenue is recognized when all eligibility requirements have been met. When modified accrual accounting is used for revenue recognition, resources also should be “available”.

- ❑ Example of Entry in Governmental Fund: Available defined as 60 days. \$500 received in April
 - Credit Deferred Inflow - Unavailable Revenue \$500

- ❑ Example of Entry in Governmental Fund: Available defined as 60 days. \$500 received in January
 - Credit Intergovernmental Revenue \$500

Example of Government Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions

(Cont'd)

- Example of Entry in Accrual Fund: \$500 received in April
 - Debit Deferred Inflow - Unavailable Revenue \$500
 - Credit Intergovernmental Revenue \$500

Example of Government Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions (Cont'd)

☐ Governmental Fund

- Debit Asset - Grant Receivable \$500
- Credit Deferred Inflow - Unavailable Revenue \$500

☐ Accrual Fund

- Debit Deferred Inflow - Unavailable Revenue \$500
- Credit Intergovernmental Revenue \$500

Example of Government Mandated Nonexchange Transactions and Voluntary Nonexchange Transactions (Cont'd)

- **Difference in Basis of Accounting – April receipt**
 - Modified Accrual Basis – Revenue \$0
 - Accrual Basis – Revenue \$500
 - Cash Basis – Receipts \$0
- **Difference in Basis of Accounting – January receipt**
 - Modified Accrual Basis – Revenue \$500
 - Accrual Basis – Revenue \$500
 - Cash Basis – Receipts \$0

Example of Debt

-
- Example of Entry in Governmental Fund:
 \$5,000 in General Obligation Bonds Issued
 - Debit Cash \$5,000
 - Credit Other financing source –
 Proceeds from the issuance of debt \$5,000

 - Example of Entry in Governmental Fund:
 \$5,000 in General Obligation Bonds Issued, \$4,500 received
 - Debit Cash \$4,500
 - Debit Expenditure - Interest and fiscal charges \$500
 - Credit Other financing source –
 Proceeds from the issuance of debt \$5,000

Example of Debt (Cont'd)

- Example of Entry in Accrual Fund:
 \$5,000 in General Obligation Bonds Issued, \$4,500 received
 - Debit Other financing source –
 Proceeds from the issuance of debt \$5,000
 - Credit Liability - Debt \$5,000

Example of Debt (Cont'd)

□ Governmental Fund

• Debit Cash	\$4,500
• Debit Expenditure - Interest and fiscal charges	\$500
• Credit Other financing source – Proceeds from the issuance of debt	\$5,000

□ Accrual Fund

• Debit Other financing source – Proceeds from the issuance of debt	\$5,000
• Credit Liability - Debt	\$5,000

Example of Debt (Cont'd)

- **Difference in Basis of Accounting**
 - Modified Accrual Basis – Other Financing Source \$5,000, Expenditures \$500
 - Accrual Basis – None
 - Cash Basis – Receipts \$4,500



Example of Debt (Cont'd)

□ Example of Entry in Governmental Fund: Annual debt payment

- Debit Expenditure – Debt Service – Principal \$300
- Debit Expenditure – Debt Service – Interest \$100
- Credit Cash \$400

□ Example of Entry in Accrual Fund: Annual debt payment

- Debit Liability – Debt \$300
- Credit Expenditure – Debt Service – Principal \$300

Example of Debt (Cont'd)

- **Difference in Basis of Accounting**
 - Modified Accrual Basis – Expenditures \$400
 - Accrual Basis – Expenses \$100
 - Cash Basis – Disbursements \$400

- **Reminder:**
 - Interest on long-term debt is required to be accrued in the government-wide statements (for governmental activities)

Lessee Reporting under GASB 87

INITIAL

- ❑ Record an **intangible lease asset** for the value of lease liability plus prepayments and initial direct costs incurred to place asset in use
- ❑ Record a **liability** equal to the present value of future lease payments

SUBSEQUENT

- ❑ **Amortize** the intangible lease asset for the useful life or lease term, whichever is shorter
- ❑ **Reduce** the liability by lease principal payments

Lessor Reporting under GASB 87

INITIAL

- ❑ Record a **lease receivable** which generally includes same items as lessee's liability
- ❑ Record a **deferred inflow** equal to the lease receivable plus any cash received up front that relates to future period

SUBSEQUENT

- ❑ **Depreciate** leased asset unless indefinite life or asset is required to be returned in its original or enhanced condition
- ❑ **Recognize revenue** over the lease term in a systematic and rational manner

Example of Leases - Lessee

- ❑ Present value of future lease payments
- ❑ Example:
 - Street Sweeper 5 years of payments \$1m
 - Annually pay \$200,000
 - Present Value \$800,000
- ❑ Example of Entry in Governmental Fund: upon issuance of lease

• Debit Expenditure – Highways – Capital Outlay	\$800,000
• Credit Other Financing Sources – Leases Issued	\$800,000

Example of Leases - Lessee (Cont'd)

□ Example of Entry in Accrual Fund

- Debit Other Financing Sources –
Leases Issued \$800,000
- Credit Liability – Lease Liability \$800,000
- Debit Capital Assets – Right-to-use asset \$800,000
- Credit Expenditure – Highways –
Capital Outlay \$800,000

Example of Leases – Lessee (Cont'd)

<ul style="list-style-type: none"> ❑ Governmental Fund <ul style="list-style-type: none"> <ul style="list-style-type: none"> • Debit Expenditure – Highways – Capital Outlay \$800,000 • Credit Other Financing Sources – Leases Issued \$800,000
<ul style="list-style-type: none"> ❑ Accrual Fund <ul style="list-style-type: none"> <ul style="list-style-type: none"> • Debit Other Financing Sources – Leases Issued \$800,000 • Credit Liability – Lease Liability \$800,000 • Debit Asset - Right-to-use asset \$800,000 • Credit Expenditure – Highways – Capital Outlay \$800,000

Example of Leases – Lessee (Cont'd)

- **Difference in Basis of Accounting**
 - Modified Accrual Basis – Other Financing Source \$800,000, Expenditures \$800,000
 - Accrual Basis – None



Example of Leases - Lessor

- ❑ Present value of future lease receipts
- ❑ Example:
 - Office space 4 years of receipts totaling \$480,000
 - Annually receipts \$120,000
 - Present Value \$460,900
- ❑ Example of Entry General Fund (same for accrual and modified accrual basis): upon issuance of lease

• Debit Lease Receivable	\$460,900
• Credit Deferred Inflows of Resources	\$460,900

Example of Leases - Lessor (Cont'd)

- Example of Entry to record 12 monthly payments (General Fund)
 - Debit Cash \$120,000
 - Credit Lease Receivable \$111,800
 - Credit Interest Revenue \$8,200

Example of Leases - Lessor (Cont'd)

- Example of Entry to recognize 12 months of lease revenue received (General Fund)
 - Debit Deferred Inflows of Resources \$115,225
 - Credit Lease Revenue \$115,225

Example of Leases – Lessor (Cont'd)

❑ Debit Lease Receivable	\$460,900
❑ Credit Deferred Inflows of Resource	\$460,900
❑ Debit Cash	\$120,000
❑ Credit Lease Receivable	\$111,800
❑ Credit Interest Revenue	\$8,200
❑ Debit Deferred Inflows of Resources	\$115,225
❑ Credit Lease Revenue	\$115,225

Example of Leases – Lessor (Cont'd)

- **Difference in Basis of Accounting**
 - Modified Accrual Basis – None
 - Accrual Basis – None



Example of Compensated Absences (Pre-GASB 101)

□ Definition

GASB 16 defines compensated absences as:

“Absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave.”



Example of Compensated Absences (Pre-GASB 101)

- ❑ Three Specific Measurements
 - Vacation Leave
 - Sick Leave
 - Sabbatical Leave



Example of Compensated Absences (Pre-GASB 101)

□ Vacation Leave

- Accrue as a liability as the benefits are earned and the following conditions are met:
 - a. Rights to receive compensation are attributable to services already rendered
 - b. It is probable that benefits will be paid through paid time off or some other means, such as cash payments at termination or retirement

Example of Compensated Absences (Pre-GASB 101)

❑ Vacation Leave, cont.

- Benefits earned but not yet available i.e. minimum service period for new employees, should be accrued to the extent it is probable that conditions for compensation will be met in the future
- Benefits earned but expected to lapse should not be accrued as a liability



Example of Compensated Absences (Pre-GASB 101)

□ Example 1

- Benefit Provisions
 - a. All employees receive 12 vacation days a year
 - b. Six month employment requirement before leave is taken
 - c. Paid at current salary rates to all terminating employees, including those with < 6 months service

Example of Compensated Absences (Pre-GASB 101)

□ Example 1, Leave Records

<u>Employee</u>	<u>LOS</u>	<u>VB</u>	<u>Daily Pay</u>
1	5 yrs.	20	\$70
2	7 yrs.	22	\$60
3	6 mths	6	\$50

Example of Compensated Absences (Pre-GASB 101)

□ Example 1, Calculation

<u>Employee</u>	<u>VB</u>	<u>Daily Pay</u>	<u>Liability</u>
1	20	\$70	\$1,400
2	22	\$60	1,320
3	6	\$50	<u>300</u>
Vacation Liability			3,020
Medicare/SS			<u>231</u>
Total Liability			<u>\$3,251</u>

Example of Compensated Absences (Pre-GASB 101)

- Example 1

- Governmental Fund

- None

- Accrual Fund

- Debit Expense – Various Departments \$3,251
- Credit Liability – Compensated Absences \$3,251

Example of Compensated Absences (Pre-GASB 101)

□ Example 2

- All benefit provisions are the same as example 1 except there is a limit of 12 vacation days that can be carried at year-end.
- If employee terminates prior to year-end, termination payments will be for all accumulated vacation.



Example of Compensated Absences (Pre-GASB 101)

□ Example 2, Leave Records – December 31st

<u>Employee</u>	<u>LOS</u>	<u>VB</u>	<u>Daily Pay</u>
1	5.50yrs	15	\$75
2	8.67yrs	16	\$65
3	1.83yrs	12	\$55

Example of Compensated Absences (Pre-GASB 101)

□ Example 2, Assumptions

- Employee 1 terminates before year-end

Example of Compensated Absences (Pre-GASB 101)

□ Example 2, Calculation

<u>Emp.</u>	<u>VB</u>	<u>Fft.</u>	<u>Exp.</u>	<u>Pay</u>	<u>Daily Liab.</u>
1	15	0	15	\$75	\$1,125
2	16	4	12	\$65	780
3	12	0	12	\$55	<u>660</u>
Vacation Liability					2,565
Medicare/SS					<u>196</u>
Total Liability					<u>\$2,761</u>

Example of Compensated Absences (Pre-GASB 101)

- Example 2, cont.
 - Because employee 1 terminates before year-end, the total accumulated balance of vacation is eligible for payment.

Example of Compensated Absences (Pre-GASB 101)

- ❑ Example 2 Journal Entry

- ❑ Governmental Fund

- Debit Expenditures – Various Depts \$1,211
- Credit Liability – Compensated Absences \$1,211

- ❑ Accrual Fund

- Debit Expense – Various Departments \$1,550
- Credit Liability – Compensated Absences \$1,550

Example of Compensated Absences (Pre-GASB 101)

- **Difference in Basis of Accounting**
 - Modified Accrual Basis – Example 1 none, Example 2 expenditure \$1,211
 - Accrual Basis – Example 1 expenses \$3,251, Example 2 expenses \$2,761
 - Cash Basis – Example 1 and 2 none



Example of Compensated Absences (Pre-GASB 101)

□ Sick Leave

- Liability should be accrued as the benefits are earned and it is probable that the benefits will be paid through cash payments conditioned on termination or retirement

Example – Retirement payment – Accrue

Example – Absence due to illness - Do not accrue

Example of Compensated Absences (Pre-GASB 101)

- ❑ Sick leave estimates should be based on sick leave accumulated at the balance sheet date for employees eligible and expected to become eligible to receive termination and retirement payments
- ❑ Calculate sick leave payments based on historical payout experience adjusted for effects of changes in termination and retirement policies

Example of Compensated Absences (Pre-GASB 101)

- Sick Leave, cont.
 - Two types of payout methods
 - a. Termination Payment Method
 - b. Vesting Method

Example of Compensated Absences (Pre-GASB 101)

- Termination Payout Method Example
 - Benefit Provisions
 - a. All employees receive one day sick leave per month
 - b. Sick leave can only be used for illness of employee or a dependent
 - c. No limit on accumulation of balances
 - d. Termination provision – 10 years service, paid for up to 30 days at one-half pay rate

Example of Compensated Absences (Pre-GASB 101)

- Termination Payout Method, cont.
 - Three Step approach
 - a. Obtain information about termination payments and LOS for employees who have terminated service during the past five years
 - b. Determine the sick leave termination cost for each year worked
 - c. Determine the year-end sick leave liability

Example of Compensated Absences (Pre-GASB 101)

- ❑ Termination Payout Method
- ❑ Assume the following information

<u>Emp.</u>	<u>Year</u> <u>Term.</u>	<u>Sick</u> <u>Paid</u>	<u>or</u>	<u>Sick</u> <u>Settle</u>	<u>LOS</u>
1	2020	10		\$ 400	25
2	2021	0		0	5
3	2022	30		1,350	30
4	2023	5		250	25
5	2024	5		250	15
<i>Totals</i>		<i>50</i>			<i>100</i>

Example of Compensated Absences (Pre-GASB 101)

- When determining sick leave termination cost there are two options
 - a. Sick days paid
 - b. Sick leave termination payment

Example of Compensated Absences (Pre-GASB 101)

❑ Termination Payout Method, cont.

- Sick days paid - Make sure to convert to termination payment per year worked

Sick days paid (50)

X Current average daily pay rate for active employees (\$72)

X Sick leave termination payment rate (50%)= **\$1,800**

Convert to average per years worked

$\$1,800/100 \text{ years} = \mathbf{\$18 \text{ per year worked}}$

Example of Compensated Absences (Pre-GASB 101)

□ Termination Payout Method, cont.

- Year-end liability calculation

Assumption: 10 employees, 5 employed 10 years, 5 employed 6 years

	Total years for active employees	80
X	Sick leave per year worked	<u>\$18</u>
=	Sick leave termination liability	1,440
+	Medicare/SS	<u>110</u>
=	Total Liability	<u>\$1,550</u>

Example of Compensated Absences (Pre-GASB 101)

□ Termination Payout Method Journal Entry

- Governmental Fund
 - None
- Accrual Fund
 - Debit Expense – Various Departments \$1,550
 - Credit Liability – Compensated Absences \$1,550

Example of Compensated Absences (Pre-GASB 101)

❑ Vesting Method

- Similar to the Termination Payout Method
- Preparer should determine whether it is probable that employees with less than ten years of service will meet the conditions to receive cash payment at termination for their sick leave balances
- Group averages or patterns of attaining the condition would be basis for making the determination

Example of Compensated Absences (Pre-GASB 101)

❑ Vesting Method, Leave records

<u>Emp.</u>	<u>LOS</u>	<u>Sick Leave Balance</u>	<u>Daily Pay</u>
1	4yrs, 11mths	42	\$70
2	7yrs, 2 mths	53	60
3	0yrs, 2 mths	2	50

Example of Compensated Absences (Pre-GASB 101)

- Vesting Method, Preparer's judgment
 - a. Probable that admin employees who attain 7 yrs of service will attain 10 yrs of service
 - b. All police officers attain ten years of service

Example of Compensated Absences (Pre-GASB 101)

- Vesting Method, Assumptions
 - a. Employees 2 and 3 are admin employees
 - b. Only employee 2 has obtained 7 years of service
 - c. Employee 1 is a police officer
 - d. 30 day maximum on benefit payments
 - e. Leave balances are calculated on one-half final pay rate

Example of Compensated Absences (Pre-GASB 101)

□ Vesting Method, Calculation

<u>Emp.</u>	<u>Sick Leave Days</u>		<u>Pay</u>	<u>Pay Rate</u>	
	<u>Accum./Accrued</u>			<u>Red.</u>	<u>Liability</u>
1	42/30	\$70/day	50%	\$1,050	
2	53/30	\$60/day	50%	<u>900</u>	
Sick leave vesting liability				1,950	
Medicare/SS				<u>149</u>	
Total Liability				<u>\$2,099</u>	

Example of Compensated Absences (Pre-GASB 101)

- Termination Payout Method Journal Entry
 - Governmental Fund
 - None
 - Accrual Fund
 - Debit Expense – Various Departments
\$2,099
 - Credit Liability – Compensated Absences
\$2,099

Example of Compensated Absences (Pre-GASB 101)

❑ Criteria to Remember

- Calculation should be based on the pay or salary rates in effect at the balance sheet date
- Additional amounts directly and incrementally associated with payments made for compensated absences on termination or retirement should be accrued for.
- Examples – Social Security withholdings, Medicare withholdings and pension plan contributions.

Example of Compensated Absences (Pre-GASB 101)

- **Difference in Basis of Accounting**
 - Same as vacation examples
 - Modified Accrual Basis – expenditure to extent due and payable
 - Accrual Basis – expense full amount
 - Cash Basis – disbursements to the extent paid



Compensated Absences under GASB 101

- ❑ Effective for 12/31/24
- ❑ Updated definition of compensated absences. Recognize when:
 - Leave is attributable to services already rendered
 - Leave accumulates
 - Is more likely than not to be used for time off or otherwise paid or settled
- ❑ More likely than not = likelihood greater than 50%

Compensated Absences under GASB 101

- ❑ Previously only accrued for time paid at termination
- ❑ Now must perform analysis to determine how much leave balances at year end are more likely than not to be used as time off in future reporting periods.
- ❑ If have “use it or lose it” policies, you will need to perform analysis and estimate liability for 2024!

Example of Net Pension Liability

- ❑ Simplified definition: Difference between fair value of pension assets and actuarially accrued liability
- ❑ Example is plain vanilla single-employer defined benefit plan with the plan's measurement date the same as the employer's fiscal year end
- ❑ Example:
 - Prior Year Net Pension Liability was \$100,000
 - Current Year fair value of pension assets is \$120,000
 - Current Year actuarially accrued liability is \$170,000
 - Current Year MMO and payment \$30,000

Example of Net Pension Liability

□ Example Entry in Governmental Fund: Nothing but your normal cash outlay

- Current Year
 - Debit Pension Expense \$30,000
 - Credit Cash \$30,000



Example of Net Pension Liability

- Example Entry in the Accrual Fund:
 - Current Year
 - Debit Pension Expense \$50,000
 - Credit Liability - Net Pension Liability \$50,000

Oversimplified:

Would report deferred inflows and/or deferred outflows for:

Difference between estimated and actual investment earnings

Difference in assumptions

Difference between expected and actual experience

Example of Net Pension Liability

- **Difference in Basis of Accounting**
 - Modified Accrual Basis – expenditure \$30,000
 - Accrual Basis – expense \$50,000
 - Cash Basis – disbursement \$30,000



What is the maximum availability period allowed for property taxes? (GAAFR Chapter 9 question)

- A. 30 days
- B. 45 days
- C. 60 days
- D. 90 days



When should a receivable for property taxes be recognized? (GAAFR Chapter 9 question)

- A. When legally enforceable
- B. At the start of the period the tax is intended to finance
- C. Either A or B, whichever is earlier
- D. Either A or B, whichever is later

When is an expense recognized under accrual basis of accounting? (GAAFR Chapter 10 question)

- A. When a liability is incurred
- B. Either when a liability is incurred or when a liability is incurred and liquidation normally is expected to be made using current financial resources
- C. When payment is due
- D. When payment is made

When should an expenditure normally be recognized in connection with the interest on long-term debt? (GAAFR Chapter 10 question)

- A. When incurred
- B. When due and payable
- C. When paid

Questions? Contact Me!



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