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

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JENNIFER L. CRUVERKIBI, CPA, CGFM

PARTNER, MAHER DUESSEL

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## Sources

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

# Primary Adjustments

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



# Example of Capital Assets

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□ 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)

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- 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)

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- **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)

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- **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)

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## □ 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.
- Donations from developers

# Unavailable Revenue

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- 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

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- 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><b>Derived tax revenues</b></p> <p>Examples: sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption</p>	<p><b>Assets <sup>a</sup></b></p> <p>Period when <i>underlying exchange has occurred</i> or when resources are received, whichever is first.</p> <p><b>Revenues</b></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, 2024. Tax rate is 1%.
  - Debit Asset - Taxes Receivable - EIT \$50



# Example of Derived Tax Revenue (Cont'd)

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- 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)

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- 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)

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- ❑ 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)

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☐ 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 <sup>a</sup>

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

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- 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)

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- ❑ 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 2024 levy was \$2,000,000.
  - At December 31, 2024, \$20,000 delinquent.
  - Between January 1, 2025 and February 28, 2025, collected and remitted \$5,000

# Example of Imposed Nonexchange Transactions (Cont'd)

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- ❑ 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)

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- 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)

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## □ 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><b>Government-mandated nonexchange transactions</b></p> <p>Examples: federal government mandates on state and local governments, shared revenues</p> <p><b>Voluntary nonexchange transactions</b></p> <p>Examples: shared revenues, certain grants and entitlements, most donations</p>	<p><b>Assets<sup>a</sup> and liabilities</b></p> <p>Period when <i>all eligibility requirements except time requirements have been met</i> or (for asset recognition) when resources are received, whichever is first.</p> <p><b>Revenues and expenses or expenditures</b></p> <p>Period when <i>all eligibility requirements have been met</i>. 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.</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)

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- **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

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- ❑ 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)

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## □ 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)

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□ 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)

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- **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

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## 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

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## 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

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- ❑ 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)

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## □ 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)

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

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- ❑ 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)

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- 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)

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- 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)

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❑ 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



# Compensated Absences: Updated Terminology

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## ❑ Under Old (GASB 16)

- Absences where employees will be paid in cash upon employment termination (i.e. sick)
- Vacation leave used as PTO or some other means (such as payment for unused vacation time upon employment termination)

## ❑ Under New (GASB 101)

- Leave where employees receive one or more:
  - Cash payments when leave used for time off
  - Other payments (such as payment for unused leave)
  - Noncash settlements (such as conversion to DC OPEB/time credit)

# Compensated Absences under GASB 101

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- ❑ 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%

# GASB 101: Exceptions from General Rule

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- ❑ Leave dependent upon the occurrence of a sporadic event that affects a small proportion of employees in a particular reporting period: **recognize when leave commences**
- ❑ Unlimited leave and holiday leave taken on a specific date: **recognize when leave is taken**
- ❑ Leave more likely than not to be settled through conversion to *defined benefit* pension or other postemployment benefits: **Not recognized**

# Developing Estimates under GASB 101

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- ❑ Employment polices and contracts may differ by employee class
- ❑ Verify if leave is eligible to be used or paid in the future (does it rollover?)
- ❑ What are the historical leave patterns
  - Average days used for leave
  - Average days paid out on termination
  - History of forfeitures

# Simple Example of Compensated Absences for Sick Leave

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- ❑ Employee earns 10 sick leave days per year
- ❑ Days rollover each year but are not paid out at termination
- ❑ Ending balance of Employee's sick days is 10 on year 1
- ❑ It is estimated that the employee will more likely than not take 5 sick days in year 2
- ❑ Liability = 5 sick days X Pay Rate + Salary Related Items

# Complex Example of Compensated Absences for Sick Leave

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- ❑ Sick leave is paid at 50% after 5 years of service at retirement/termination
- ❑ Employees over 5 years of service have a total unused sick leave balance valued at \$2,000 and includes salary related items (Vested)
- ❑ Employees less than 5 years of service have a total unused sick leave balance valued at \$1,000 and includes salary related items (Unvested)
- ❑ Vested
  - Estimate of 80% of balance will be paid out at retirement/termination
  - Estimate of 20% of will be used for leave prior to retirement/termination
- ❑ Unvested
  - Estimate of 30% of balance will vest and be paid out at retirement/termination
  - 40% of the balance will be used as sick leave
  - 30% of balance will be forfeited

# Complex Example of Compensated Absences for Sick Leave

- Vested Employees:
  - Payout at termination/retirement portion
    - 80% likelihood X 50% payrate X \$2,000 balance = \$800
  - Leave to be used portion
    - 20% likelihood X 100% payrate X \$2,000 balance = \$400
  
- Unvested Employees:
  - Payout at termination/retirement portion
    - 30% likelihood X 50% payrate X \$1,000 balance = \$150
  - Leave to be used portion
    - 40% likelihood X 100% payrate X \$1,000 balance = \$400
  
- Total Compensated Liability:
  - \$800+\$400+\$150+\$400 = \$1,750
  - Plus \$134 for Medicare/SS

# Entry for Compensated Absences – Sick Leave

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## Governmental Fund

- None

## Accrual Fund

- Debit      Expense – Various Departments      \$1,884
- Credit      Liability – Compensated Absences      \$1,884

# Example of Compensated Absences - Vacation

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- ❑ Assumptions: Vacation accumulates (no limits) and Employee 1 terminates before year end
- ❑ Leave Records – December 31<sup>st</sup>

<u>Employee</u>	<u>VB</u>	<u>Daily Pay</u>
1	15	\$75
2	16	\$65
3	12	\$55



# Example of Compensated Absences - Vacation

## ☐ Calculation

<u>Emp.</u>	<u>VB</u>	Daily <u>Pay</u>	<u>Liab.</u>
1	15	\$75	\$1,125
2	16	\$65	1,040
3	12	\$55	<u>660</u>
Vacation Liability			2,825
Medicare/SS			<u>216</u>
Total Liability			<u>\$3,041</u>

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

# Example of Compensated Absences - Vacation

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- **Governmental Fund**
    - Debit Expenditures – Various Depts           \$1,211
    - Credit Liability – Compensated Absences   \$1,211
  
  - **Accrual Fund**
    - Debit Expense – Various Departments       \$1,830
    - Credit Liability – Compensated Absences   \$1,830

# Example of Compensated Absences

- **Difference in Basis of Accounting**
  - Modified Accrual Basis – Sick leave example none, Vacation leave example expenditure \$1,211
  - Accrual Basis – Sick leave example expenses \$1,884, Vacation leave example expenses \$1,830
  - Cash Basis – Sick leave example and Vacation leave example none



# Example of Compensated Absences

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



# Example of Net Pension Liability

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- ❑ 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

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

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- 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)

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- 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)

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- 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!



Jennifer CruverKibi, CPA, CGFM  
Partner

717.622.2338

[jcruverkibi@md-cpas.com](mailto:jcruverkibi@md-cpas.com)