

GASB Statement 101 – Compensated Absences



Considerations:

- Liability is recognized for two scenarios:
 - Unused Leave
 - Leave that has been used but not yet paid
- For unused leave, three criteria must be met:
 - Leave is attributable to services already rendered
 - The leave accumulates and carries forward to a future year
 - It is more likely than not that the leave will be used for time off
- Key information needed include:
 - Empl. Policies
 - Historical information re: use, pymt and forfeiture
- Measurement should be based on the employee's rate as of the end of the fiscal year
- The most significant divergence from GASB 16 is how to account for sick leave

The objective of this GASB Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

Recognition And Measurement

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.



This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

Notes To Financial Statements

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (if they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

Effective Date

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023 (Fiscal Year 24-25 for Colorado school districts and charter schools), and all reporting periods thereafter. Earlier application is encouraged.

How This Statement Will Improve Financial Reporting

The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences.

How The Board Considered Costs and Benefits in The Development of This Statement

One of the principles guiding the Board’s setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.



Certain decisions made by the Board were intended to mitigate the costs associated with this Statement, such as (1) providing exceptions for certain types of compensated absences to the general recognition approach, (2) using a current value measurement rather than requiring complex calculations that may necessitate the use of an actuary, and (3) not requiring the disclosure of specific information for which the expected benefits do not justify the perceived costs.

The Board believes that the expected benefits that will result from the implementation of this Statement—more relevant, reliable, consistent, and comparable information about compensated absences—are significant and justify the perceived costs of implementation and ongoing compliance.

Exceptions to GASB 101 Leaves

Military leave, jury duty, and parental leave

The standard excludes these three types of absences from the compensated absences estimate. They're excluded due to the sporadic nature of these leave types and the applicability to a relatively small portion of employees. However, the standard directs entities to book a liability related to these leave types when the leave commences for an employee.

Floating holidays

GASB 101 directs entities to record the liability for unlimited leave and standard holidays when the leave is taken. This exception to the rule does not apply to floating holidays.

Sabbaticals

Leave associated with sabbaticals depends on the nature of the sabbatical. Specifically, sabbaticals where an employee is not required to perform significant duties (i.e., unrestricted sabbatical) should be recorded in accordance with the general rule. GASB says in instances when a sabbatical requires an employee to perform significant duties, the employee is not paid for leave but rather paid for the duties performed during that period, and thus the sabbatical does not qualify as a compensated absence.

Defined benefit postemployment benefits

Leave that is more likely than not to be settled through conversion to defined benefit post-employment benefits should be excluded from the compensated absences liability, as it's already included in the pension and or other post-employment benefits liability.



Disclosure Requirements

Once the amount of time related to compensated absences has been estimated, the entity must calculate the total cost of the compensated absences liability as of the fiscal year end date. GASB 101 directs entities to measure liability by multiplying the time estimated by the associated employee's pay rate at the measurement date and any applicable salary-related payments, such as Social Security and Medicare taxes.

To qualify as a salary-related payment, the payment must be directly and incrementally associated with the calculated liability. If some or all the leave is more likely than not to be paid at a different rate than the employee's pay rate at the time of payment, the entity should adjust the liability accordingly.

While GASB considered expanded disclosures beyond those required in the superseded GASB 16 standard, GASB 101 doesn't require additional disclosures. The entity is required to present either the individual increase and decrease or the net increase/decrease of the liability for each fiscal year presented. However, if the entity elects to present on a net basis, this election must be disclosed.

GASB 101 doesn't require an entity to separately identify leave that has been used but not yet paid. It's expected this leave would be included in the accrued payroll liability, and the cost to bifurcate this portion of the liability wouldn't outweigh any measurable benefits.

An entity is required to separate the current and long-term portion of the compensated liability.

How to Implement the new GASB Compensated Absences Rule

CDE highly recommends that you consult with your district/school auditor regarding how GASB 101 will affect your general ledger and financial statements.

Calculating the initial compensated absences liability for implementing GASB 101 may take a significant time and resources. Start with identifying resources to compile historical data for analysis. Once the data is compiled, it will need to be analyzed and a methodology for measurement will need to be determined.

Entities should document their methodology so it can be audited. Entities also should consider if the internal control environment needs to be updated to calculate the compensated absences liability.

Please note that in most cases the only entry in your general ledger on a modified accrual basis is the liability for leave payments that are certain to be made shortly after year-end. Most compensated absence liability will be long-term liability that is recorded on your full-accrual government wide financial statements. Long-term liability will most like be vacation, sick and personal time off (PTO) that is more likely than not to be used by the employee in future years. Many auditors may be comfortable pro-rating sick leave liability is your entity has good documentation on historical usage and amounts that remain unused at termination.



Sample Accounting for Compensated Absences

CDE Specific Account Codes:

Balance Sheet (Liability) – 7472 Compensated Absences – Current Portion
Expenditure – 01XX Salaries (comp Absences)

Sample Journal Entry

This journal entry below illustrate how an accrued compensated absence for a certain payment subsequent to year-end may be recorded at the Governmental Fund level:

Governmental Fund - Annual Journal Entry		Debit	Credit
10-XXX-XX-XXXX-01XX-XXX-0000	Salaries (Comp Absences)	\$X,XXX.00	
10-000-00-0000-7472-000-0000	Accrued Compensated Absences – Current Portion		\$X,XXX.00
	<To accrue compensated absences at year-end in accordance with GASB 101>		

Note: Any long-term portion of the liability should be demonstrated in the Governmentwide Full Accrual Statement of Net Position.

Where can I learn more?

- Visit the School Finance website at <https://www.cde.state.co.us/cdefinance>
- Contact your District/School auditor
- Contact Glenn Gustafson, School Finance Manager at gustafson_g@cde.state.co.us
- GASB Statement No. 101 (Full Text): <https://gasb.org/page/ShowPdf?path=GASBS%20101.pdf&title=GASB%20Statement%20No.%20101,%20Compensated%20Absences>