

# FORVIS<sup>®</sup>

## Accounting for Compensated Absences

# FORVIS

WEBINAR

## Accounting for Compensated Absences

March 19, 2024

# Meet the Presenters



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Partner



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Director

# Upcoming Effective Dates

- Reporting periods beginning after:

June 15, 2023

No. 99, Omnibus  
(par. 4-10)

No. 100, Accounting  
Changes and Error  
Corrections

December 15, 2023

No. 101,  
Compensated  
Absences

June 15, 2024

No. 102, Certain Risk  
Disclosures

Early adoption is allowed

# New Definition

## Definition – Compensated Absence

### Statement 16

- Absences for which employees will be paid, such as vacation, sick leave, & sabbatical leave

### Statement 101

- Leave for which employees may receive one or more
- Cash payments when the leave is used for time off
  - Other cash payments, such as payment for unused leave upon termination of employment which includes voluntary resignation or retirement
  - Noncash settlements, such as conversion to defined benefit postemployment benefits



# Compensated Absences – Statement 16

- Why was a change needed?
  - Benefit practices have evolved
  - Inconsistent application of standards
  - Lack of guidance for new leave types
  - Changes to the conceptual framework since the issuance of the existing guidance

# Compensated Absences – Statement 16

- Distinguished between types of paid leave
- Providing different guidance for vacation leave & sick leave
- Use of paid time off & compensatory time are more common
- Distinction between vacation & sick leave does not apply when government provides PTO

# Examples of Compensated Absences

- Vacation & sick leave
- Paid time off (PTO)
- Parental leave
- Bereavement leave
- Holidays
- Compensatory time
- Certain types of sabbatical leave



# Sabbatical Leave

Sabbatical leave in which an employee is not required to perform any significant duties for the government – unrestricted sabbatical leave – is a compensated absence



Sabbatical leave in which an employee is required to perform duties of a different nature for the government – is not a compensated absence

# Recognition

GASB Statement 101 provides recognition criteria for both of the following situations:

- Leave used but not paid or settled
- Unused leave

# Recognition – Leave Used but Not Paid

## Pay Rate

- Generally, the employee's pay rate at financial reporting date
- Exception: More likely than not to be paid at a different rate

## Salary-Related Payments

- Directly & incrementally related
- DC pension or OPEB recognized as related leave is earned – not pension or OPEB liability
- DB pension or OPEB excluded

A liability should be reported when leave is used for time off but has not yet been paid in cash or settled through noncash means – including unlimited leave & date-specific holiday leave.

The liability should be measured at the amount of the cash payment or noncash settlement to be made for the use of the leave.

# Salary-Related Payments

Directly associated –  
if the payment  
amount is a function  
of salary to be paid

Incrementally  
associated – if the  
government will make  
payment in addition to  
the salary payment

# Recognition – Unused Leave

A liability should be recognized for leave that has not been used if all of the following criteria are met:

## Leave is attributable to services already rendered

- Employee has performed the services required to earn the leave

## Leave accumulates

- Can be carried forward from reporting period when earned to a future reporting period when it will be used or otherwise paid or settled

## Leave is *more likely than not* to be used for time off or otherwise paid or settled

- Likelihood of more than 50%

# More Likely Than Not

- Management judgment still required by assessing the following relevant factors:
  - The government's compensated absences employment policies
  - Whether benefits for which services have been rendered will become eligible for future payment
  - Historical information about the use, payment, or forfeiture of compensated absences
  - Information known to the government that would indicate that historical information may not be representative of future trends or patterns



# More Likely Than Not

- Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be recognized as a liability for compensated absences

# Exceptions

- Sabbatical leave in which an employee is required to perform duties of a different nature for the government
- Leave that is settled through conversion to defined benefit pension or other postemployment plans
- Not recognized until used:
  - Leave that is dependent upon a sporadic event that affects a relatively small proportion of employees
  - Leave that can be taken without limits – Unlimited leave
  - Holiday leave that is taken on a specific date not at the employee's discretion

# Compensated Leave Calculation Methods

Approaches from the GFOA's 117<sup>th</sup> Annual Conference in Portland, OR

- Days Used Approach
  - Days Used Average Approach
  - Days Paid Approach
  - Dollars Paid Approach
- Presenters:
    - Angie Dunlap – FORVIS
    - Holly Matthews – North Texas Municipal Water District
    - Bob Scott – Town of Prosper, TX

# Example – Days Used Approach

- Scenario:
  - Employees earn 1 day of sick leave for each month worked which can be carried over to future fiscal years, with a maximum carryover of 150 days
  - Employees are paid in cash for 50% of their unused sick leave upon termination of employment, at their hourly rate at time of termination

# Example – Days Used Approach

Historical Days of Leave Used								
	A	B	C	D	E	F (Sum of A - E)	G (F/5)	H (G/12)
	Days Used 2021	Days Used 2022	Days Used 2023	Days Used 2024	Days Used 2025	Total Days Used	Average Annual Use (Days)	% Used per Year as Leave
Active Employee #1	8	10	7	9	9	43	9	72%
Active Employee #2	7	11	6	8	7	39	8	65%
Active Employee #3	3	4	2	4	3	16	3	27%
Active Employee #4	4	3	5	4	3	19	4	32%
Active Employee #5	5	5	4	3	4	21	4	35%

# Example – Days Used Approach

Sick Leave Compensated Absences Liability Estimate										
	I	J (H above)	K (I x J)	L (K x 8)	M (I - K)	N (M x 8)	O	P (L x O)	Q (N x O)	R (Q x 50%)
	Sick Leave Accrued at FYE (Days)	% Use as Leave	Sick Leave to be Used (Days)	Sick Leave for Use (Hours)	Sick Leave for Pay (Days)	Sick Leave for Pay (Hours)	Hourly Rate at FYE	Sick Leave to be Used (\$)	Sick Leave to be Paid (\$)	Capped Sick Leave to be Paid
Active Employee #1	136	72%	97	780	39	308	\$26.44	\$ 20,616	\$ 8,151	\$ 4,075
Active Employee #2	158	65%	103	822	55	442	28.85	\$ 23,703	\$ 12,763	\$ 6,382
Active Employee #3	250	27%	67	533	183	1,467	52.88	\$ 28,203	\$ 77,557	\$ 38,779
Active Employee #4	227	32%	72	575	155	1,241	55.29	\$ 31,795	\$ 68,611	\$ 34,306
Active Employee #5	206	35%	72	577	134	1,071	57.69	\$ 33,276	\$ 61,798	\$ 30,899
								\$ 137,593		\$ 114,440



# Example – Days Used Approach

- Salary-related payments

Sick Leave Compensated Absences Liability Estimate							
	<b>P</b> <b>(L x O)</b>	<b>Q</b> <b>(N x O)</b>	<b>R</b> <b>(Q x 30%)</b>	<b>S</b> <b>(P + R x 6.2%)</b>	<b>T</b> <b>(P + R x 1.45%)</b>	<b>U</b> <b>(P + R x 5.0%)</b>	<b>V</b> <b>(S + T + U)</b>
	Sick Leave to be Used (S)	Sick Leave to be Paid (\$)	Capped Sick Leave to be Paid	Social Security (6.2%)	Medicare (1.45%)	457b DC Plan (5%)	Total Salary Related
Active Employee #1	\$ 20,616	\$ 8,151	\$ 4,075	\$ 1,531	\$ 358	\$ 1,235	\$ 3,123
Active Employee #2	\$ 23,703	\$ 12,763	\$ 6,382	\$ 1,865	\$ 436	\$ 1,504	\$ 3,806
Active Employee #3	\$ 28,203	\$ 77,557	\$ 38,779	\$ 4,153	\$ 971	\$ 3,349	\$ 8,473
Active Employee #4	\$ 31,795	\$ 68,611	\$ 34,306	\$ 4,098	\$ 958	\$ 3,305	\$ 8,362
Active Employee #5	\$ 33,276	\$ 61,798	\$ 30,899	\$ 3,979	\$ 931	\$ 3,209	\$ 8,118
	\$ 137,593		\$ 114,440				\$ 31,882

# Example – Days Used Approach

## Historical Days of Leave Used

	<b>P</b> <b>(L x O)</b>	<b>Q</b> <b>(N x O)</b>	<b>R</b> <b>(Q x 30%)</b>	<b>S</b> <b>(P + R x 6.2%)</b>	<b>T</b> <b>(P + R x 1.45%)</b>	<b>U</b> <b>(P + R x 5.0%)</b>	<b>V</b> <b>(S + T + U)</b>	<b>X</b> <b>(P + R + V)</b>
	Sick Leave to be Used (\$)	Sick Leave to be Paid (\$)	Capped Sick Leave to be Paid	Social Security (6.2%)	Medicare (1.45%)	457b DC Plan (5%)	Total Salary Related	Total Liab for Comp Abs Sick Leave
Active Employee #1	\$ 20,616	\$ 8,151	\$ 4,075	\$ 1,531	\$ 358	\$ 1,235	\$ 3,123	\$ 27,815
Active Employee #2	\$ 23,703	\$ 12,763	\$ 6,382	\$ 1,865	\$ 436	\$ 1,504	\$ 3,806	\$ 33,891
Active Employee #3	\$ 28,203	\$ 77,557	\$ 38,779	\$ 4,153	\$ 971	\$ 3,349	\$ 8,473	\$ 75,454
Active Employee #4	\$ 31,795	\$ 68,611	\$ 34,306	\$ 4,098	\$ 958	\$ 3,305	\$ 8,362	\$ 74,463
Active Employee #5	\$ 33,276	\$ 61,798	\$ 30,899	\$ 3,979	\$ 931	\$ 3,209	\$ 8,118	\$ 72,292
	\$ 137,593		\$ 114,440				\$ 31,882	\$ 283,915

# Example – Days Used Average Approach

- Scenario:
  - Employees earn 1 day of sick leave for each month worked which can be carried over to future fiscal years, with a maximum carryover of 150 days
  - Employees are paid in cash for 50% of their unused sick leave upon termination of employment, at their hourly rate at time of termination

# Example – Days Used Average Approach

## Historical days of leave used

	A	B	C	D	E	F (Sum of A - E)	G (F/5)	H (G/12)
	Days Used 2021	Days Used 2022	Days Used 2023	Days Used 2024	Days Used 2025	Total Days Used	Average Annual Use (Days)	% Used per Year as Leave
Former employee 1	8	10	7	9	9	43	9	72%
Former employee 2	7	11	6	8	7	39	8	65%
Former employee 3	3	4	2	4	3	16	3	27%
Former employee 4	4	3	5	4	3	19	4	32%
Former employee 5	5	5	4	3	4	21	4	35%
Totals	27	33	24	28	26	138		
					Days earned	300		
					Avg used of group	46.0%		

# Example – Days Used Average Approach

## Sick Leave Compensated Absences Liability Estimate

	I	J (H above)	K (I x J)	L (K x 8)	M (I - K)	N (M x 8)	O	P (L x O)	Q (N x O)	R (Q x 50%)
	Sick Leave Accrued at FYE (Days)	% Use as Leave	Sick Leave to be Used (Days)	Sick Leave for Use (Hours)	Sick Leave for Pay (Days)	Sick Leave for Pay (Hours)	Hourly Rate at FYE	Sick Leave to be Used (\$)	Sick Leave to be Paid (\$)	Capped Sick Leave to be Paid
Active employee 1	136	46.0%	63	504	73	584	\$26.44	\$ 13,326	\$ 15,441	\$ 7,720
Active employee 2	158	46.0%	73	584	85	680	\$28.85	16,848	19,618	9,809
Active employee 3	250	46.0%	115	920	135	1080	\$52.88	48,650	57,110	28,555
Active employee 4	227	46.0%	104	832	123	984	\$55.29	46,001	54,405	27,203
Active employee 5	206	46.0%	95	760	111	888	\$57.69	43,844	51,229	25,614
Totals								\$ 168,669		\$ 98,902

# Example – Days Used Average Approach

## Sick Leave Compensated Absences Liability Estimate

<b>P</b> <b>(L x O)</b>	<b>Q</b> <b>(N x O)</b>	<b>R</b> <b>(Q x 50%)</b>	<b>S</b> <b>(P + R x 6.2%)</b>	<b>T</b> <b>(P + R x 1.45%)</b>	<b>U</b> <b>(P + R x 5.0%)</b>	<b>V</b> <b>(S + T + U)</b>	<b>X</b> <b>(P + R + V)</b>
Sick Leave to be Used (\$)	Sick Leave to be Paid (\$)	Capped Sick Leave to be Paid	Social Security (6.2%)	Medicare (1.45%)	457b DC Plan (5%)	Total Salary Related	Total Liab for Comp Abs Sick Leave
\$ 13,326	\$ 15,441	\$ 7,720	\$ 1,305	\$ 305	\$ 1,052	\$ 2,662	\$ 23,709
16,848	19,618	9,809	1,653	387	1,333	3,372	30,030
48,650	57,110	28,555	4,787	1,119	3,860	9,766	86,971
46,001	54,405	27,203	4,539	1,061	3,660	9,260	82,464
43,844	51,229	25,614	4,306	1,007	3,473	8,787	78,245
<b>\$ 168,669</b>		<b>\$ 98,902</b>				<b>\$ 33,848</b>	<b>\$ 301,419</b>



# Example – Days Paid Approach

Days Paid Approach			
	Years of service	Per Payroll Records	
		Reimbursed Unused Sick Leave (Days)	Sick Leave Used (Days)
Former employee #1	17	25.00	135.50
Former employee #2	2	-	6.00
Former employee #3	23	22.25	174.50
Former employee #4	8	6.75	25.00
Former employee #5	10	13.00	46.00
	60	67.00	387.00
Days paid/used	A	67.00	387.00
Average daily pay for active employees	B	\$ 87	\$ 87
	C = AxB	\$ 5,829	\$ 33,669
50% cap on termination payment	D	0.50	N/A
	E = CxD	\$ 2,915	\$ 33,669
Total years of service of terminated employees	F	60.00	60.00
	G = E/F	\$ 49	\$ 561
Total years of service of active employees	H	236.00	236.00
	I = GxH	\$ 11,464	\$ 132,431
Provision of salary-related payments	J	7.65%	7.65%
	K = IxJ	\$ 877	\$ 10,131
Total days paid/days used liability	L = I+K	\$ 12,341	\$ 142,562
Total compensated absences liability	Sum of L		\$ 154,903

# Example – Dollars Paid Approach

Dollars Paid Approach									
	A	B	C	D	E	F (Sum of A - E)	G (F/5)	H (G/12)	
	Per Payroll Records								
	Years of Service	Reimbursed Unused Sick Leave (Days)	Sick Leave Used (Days)	Termination Payment	Years Since Payment	Value of Leave Used	3.25%	PV Termination Payments	PV Leave Used
Former Employee #1	17	25.00	135.50	\$ 927	5	\$ 58,011	1.1734	\$ 790	\$ 49,438
Former Employee #2	2	-	6.00	\$ -	4	1,060	1.1365	\$ -	\$ 932
Former Employee #3	23	22.25	174.50	\$ 974	3	88,657	1.1007	\$ 885	\$ 80,546
Former Employee #4	8	6.75	25.00	\$ 227	2	7,501	1.0661	\$ 213	\$ 7,036
Former Employee #5	10	13.00	46.00	\$ 615	1	14,346	1.0325	\$ 596	\$ 13,895
	60	67.00	387.00	\$ 2,744		\$ 169,575		\$ 2,484	\$ 151,847

# Example – Dollars Paid Approach

Former Employee #1					
Year	Raise	Hourly Rate	Leave Days Used	Value of Leave Used	
1		\$ 41.10	2.0	\$	657.60
2	1.025	\$ 42.13	5.0	\$	1,685.10
3	1.030	\$ 43.39	6.0	\$	2,082.78
4	1.028	\$ 44.58	8.0	\$	2,853.41
5	1.030	\$ 45.92	8.0	\$	2,939.02
6	1.031	\$ 47.35	7.0	\$	2,651.36
7	1.030	\$ 48.77	8.0	\$	3,121.03
8	1.025	\$ 49.99	9.0	\$	3,598.94
9	1.025	\$ 51.23	6.0	\$	2,459.27
10	1.028	\$ 52.64	9.0	\$	3,790.36
11	1.030	\$ 54.22	10.0	\$	4,337.85
12	1.032	\$ 55.96	9.0	\$	4,029.00
13	1.030	\$ 57.64	9.0	\$	4,149.87
14	1.037	\$ 59.77	9.0	\$	4,303.41
15	1.030	\$ 61.56	11.0	\$	5,417.52
16	1.025	\$ 63.10	10.5	\$	5,300.55
17	1.020	\$ 64.36	9.0	\$	4,634.19
18	1.021			\$	-
19	1.025			\$	-
20	1.030			\$	-
21	1.031			\$	-
22	1.035			\$	-
23	1.030			\$	-
		\$ -	135.5	\$	58,011.25

# Example – Dollars Paid Approach

Dollars Paid Approach				H (G/12)	
				PV Termination Payments	PV Leave Used
Former Employee #1				\$ 790	\$ 49,438
Former Employee #2				-	932
Former Employee #3				885	80,546
Former Employee #4				213	7,036
Former Employee #5				596	13,895
				<u>\$ 2,484</u>	<u>\$ 151,847</u>
Assume lower average salary level of active employees				85.0%	85.0%
				\$ 2,112	\$ 129,070
Total years of service of terminated employees				60	60
Average Rate				\$ 35	\$ 2,151
Total years of service of active employees				236	236
				\$ 8,306	\$ 507,676
Salary-related payments				7.65%	7.65%
				\$ 635	\$ 38,837
Totals				\$ 8,942	\$ 546,514
Total compensated absences liability					<u>\$555,455.42</u>



# Disclosure Requirements

- Long-term liability disclosure options:
  - Present separate increases & decreases (gross presentation)
  - Present a net increase or net decrease
    - Disclose that it is net amount
  - Short-term/long-term estimation

# Transition

- Transition changes at adoption should be reported as a change in accounting principle in accordance with Statement No. 100, *Accounting Changes and Error Corrections*
- Effective for fiscal years beginning after December 15, 2023 & all reporting periods thereafter. Earlier application is encouraged.



# No. 100, Accounting Changes & Error Corrections

**Effective Date**

Reporting  
periods  
beginning after  
June 15, 2023

# Two Separate Classifications in GASB 100:

## Accounting Changes

1. Change in accounting principle

2. Change in accounting estimate

3. Change to or within the financial reporting entity

## Error Correction

Correction of an error in previously issued financial statements

# 1. Change in Accounting Principle

A change in accounting principle results from either:

A **change** from one generally accepted accounting principle to another that is justified on the basis that *the newly adopted accounting principle is preferable*, based on the qualitative characteristics of financial reporting

Implementation of new pronouncements

# Accounting

## Change in accounting principle

- Reported retroactively by restating prior periods presented, if practicable
- If not practicable, restate beginning balances of current period

## Change in accounting estimate

- Reported prospectively
- Recognized in current-period flows

## Change to/within the reporting entity

- Reported by adjusting current period beginning balances

## Error correction

- Reported retroactively by restating prior periods presented

# Financial Statements & Disclosures

- Aggregate amount of adjustments to & restatements of beginning balances should be displayed for each reporting unit
- Disclosures vary depending on the type of item, but common disclosures include:

The nature of the change or error & its correction

Reason for the change

The effects on beginning net position, fund balance, or fund net position, as applicable, presented in a tabular format

# Required Supplemental Information (RSI) & Supplemental Information (SI)

The Statement addresses how to present in RSI & SI information that is affected by an accounting change or error correction.

Periods earlier than those presented in basic financial statements should ***not*** be restated for changes in accounting principles.

Periods earlier than those presented in basic financial statements should be restated for error corrections, if practicable.

# Questions?

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**FORV/S**

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office.





# Thank You!

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