

GASB STATEMENT AT A GLANCE

GASB STATEMENT NO. 101, *COMPENSATED ABSENCES*

(Statement Issued: June 2022)

SUMMARY

The objective of GASB Statement No. 101, *Compensated Absences*, (the Statement) is to improve the recognition and measurement guidance for compensated absences by establishing a unified recognition and measurement model which 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. Because this model can be applied to any type of compensated absences, the model will eliminate comparability issues between governments that offer different types of leave.



WHY WAS THIS STATEMENT NEEDED?

Many governments allow employees to carry over some or all their accrued leave balance at the end of a fiscal year. Some governments have different policies for different types of leave, such as paying out accrued vacation leave but not accrued sick leave at termination of employment. Some governments have different policies for different classes of employees, such as general employees and uniformed employees. Additionally, the increasing use of paid time off (PTO) to cover both types of leave complicated the accounting. GASB identified a lack of guidance for certain types of leave, inconsistent application of those standards, inconsistent disclosure requirements, and changes in the conceptual framework since the issuance of those standards.

GASB 16, *Accounting for Compensated Absences*, distinguished between different types of paid leave, providing different guidance for vacation leave and sick leave. Although many governments continue to provide those benefits separately, the use of PTO has become more common since GASB 16 was issued. With PTO, employees may use their

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accrued hours of paid leave for either vacation or sick time. Therefore, the distinction between vacation and sick leave in GASB 16 does not apply when governments provide PTO. In addition, there was inconsistent application of the guidance in GASB 16 and GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, for compensated absences, specifically in the areas of sick leave accrual methods and disclosures of changes in long-term liabilities and the amount due within one year.

GASB 34 requires compensated absences to be included in the disclosures of long-term liabilities. Those disclosures include increases and decreases during the year (separately presented) and the portion that is due within one year. Governments showing only a net increase or decrease in the compensated absences liability instead of gross increases and decreases as required was recently identified by Government Finance Officers Association (GFOA) as one of the top 50 deficiencies in financial statements submitted to its Certificate of Achievement for Excellence in Financial Reporting (Certificate) program. The GFOA previously identified incorrectly classifying the entire balance as a current liability as a common deficiency found through its Certificate program.

KEY PROVISIONS

Key provisions of the Statement, and related references, include:

REFERENCE	PROVISION
Para. 3	<p>Compensated Absences</p> <p>Definition: GASB 101 defines a compensated absence as leave for which employees may receive one or more of the following:</p> <ul style="list-style-type: none"> ▶ Cash payments when the leave is used for time off ▶ Other cash payments, such as payment for unused leave upon termination of employment ▶ Noncash settlements, such as conversion to defined benefit postemployment benefits. <p>Payment or settlement may occur during employment or upon termination from employment.</p> <p>Examples include vacation (or annual) leave, sick leave, PTO, holidays, parental leave, bereavement leave, and some types of sabbatical leave.</p>
Paras. 9-12	<p>Liability Recognition For Leave That Has Not Been Used: Recognize a liability for leave that has not been used if the leave meets all the following criteria:</p> <ul style="list-style-type: none"> ▶ It is attributable to services already rendered (an employee has performed the services required to earn the leave. ▶ It accumulates (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). ▶ It is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. When evaluating this criterion, consider: <ul style="list-style-type: none"> • The government's employment policies • Whether leave that has been earned is, or will become, eligible for use or payment in the future • Historical information about the use, payment or forfeiture of compensated absences • Information that would indicate historical information may not be representative of future trends or patterns. <p>Note: More likely than not is defined in GASB 100 as a likelihood of more than 50 percent.</p>

REFERENCE	PROVISION
Para. 14	Leave Not Recognized Until the Leave Commences: A liability must not be recognized until the leave commences for some types of compensated absences, including parental leave, military leave, and jury duty leave.
Para. 15	Leave Not Recognized Until the Leave is Used: A liability must not be recognized until the leave is used for specific types of compensated absences, including leave that employees are able to take as needed without specific limits (unlimited leave) and holiday leave that is taken on a specific date not at the discretion of employees.
Paras. 8, 16-19, 29	<p>Financial Reporting: Recognize liabilities for compensated absences in financial statements prepared using the economic resources measurement focus equal to the amount of leave that has not yet been used and leave that has been used but not yet paid or settled. Applicable salary related payments must be included in the measurement of those liabilities.</p> <p>The leave liability must be computed using an employee's pay rate as of the date of the financial statements, unless some or all of the leave is more likely than not to be paid at a different rate, the leave is not attributable to a specific employee (such as donated leave in a PTO pool), or some or all of the leave is more likely than not to be settled through noncash means other than conversion to defined benefit postemployment benefits.</p> <p>GASB 101 did not change how governments report compensated absences in financial statements prepared using the current financial resources measurement focus (i.e., the governmental funds).</p>
Para. 21	Leave That Has Been Used: For leave that has been used for time off but has not yet been paid in cash or settled through non-cash means, a related liability must be measured at the amount of the cash payment or non-cash settlement to be made for the use of the leave.
Paras. 22-26	Salary-Related Payments: Salary-related payments are obligations related to providing leave in exchange for services rendered. The compensated absences liability must include salary-related payments directly and incrementally associated with the leave. A payment is directly associated if the amount depends on the amount of salary to be paid. A payment is incrementally associated if the payment is in addition to the payment for the salary. Liabilities associated with salary-related payments are to be measured using the rates in effect as of the date of the financial statements.
Paras. 27-28	Relationship to Postemployment Benefits: Leave that has not been used and that is more likely than not to be paid to an employee by distribution to an individual postemployment benefits account must be included in the compensated absences liability if it meets the compensated absences recognition criteria. The projected effects on a government's defined benefit postemployment benefits liability resulting from payment of compensated absences is not to be included in the compensated absences liability.

REFERENCE	PROVISION
Paras. 30-31	<p>Required Disclosures: GASB 101 amends previous disclosure requirements of gross increases and decreases in compensated absences along with other long-term liabilities. Now, governments can present either separate increases and decreases or a net increase or a net decrease in compensated absences, but must indicate that it is a net amount.</p> <p>Additionally, a government is no longer required to present which governmental fund typically liquidates compensated absences.</p>

RECOGNITION FOR COMMON TYPES OF COMPENSATED ABSENCES

The following table displays common types of compensated absences for leave that has not been used and when (or whether) to recognize a liability for the compensated absences:

TYPE OF COMPENSATED ABSENCE	WHEN TO RECOGNIZE LIABILITY FOR COMPENSATED ABSENCE
Leave more likely than not to be settled through conversion to defined benefit postemployment benefits	Do not recognize
Leave dependent upon the occurrence of a sporadic event affecting a relatively small proportion of employees (e.g., parental leave, military leave, jury duty)	When leave commences
Leave able to be taken as needed without specific limits (unlimited leave), Non-discretionary holiday leave	When leave is used
Sick leave, Unrestricted sabbatical leave	When earned by and available to the employee

EXAMPLES

The following examples illustrate how a government would recognize a compensated absence for different types of leave that have not been used:

EXAMPLE	RECOGNITION
Example 1 - A June 30 fiscal year-end government has an employee who has begun a four-month paid parental leave of absence. The employee went on leave effective May 15, with a return date of September 16.	The government recognizes a liability as of June 30 for the remaining paid leave (2.5 months).
Example 2 - A government recently enacted an unlimited leave policy for all employees with over three years of service.	The government does not recognize a liability until the leave has been used, at which point the government has an obligation to pay or to settle through non-cash means (see section for “leave that has been used.”)
Example 3 - A December 31 year-end government recognizes New Year’s Day (January 1) as a paid holiday.	The government does not recognize a liability as of December 31 since the leave has not yet been used.
Example 4 - A September 30 year-end government offers all employees eight hours of paid time off per bi-weekly pay	If the government has determined the probability that the leave is more likely than not to be used for time

EXAMPLE	RECOGNITION
period worked. Unused leave accrues and can be used in future periods at the employee’s discretion.	off, a government will recognize a liability as of September 30 for all unused leave attributable to services already rendered, since it also accumulates.



HOW THE CHANGES WILL IMPROVE FINANCIAL REPORTING

- ▶ The unified recognition and measurement model will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation.
- ▶ 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 will result in a more robust estimate of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information for compensated absences liabilities.

TRANSITION

The following table summarizes transition provisions for the Statement:

STATE AND LOCAL GOVERNMENTS	
EFFECTIVE DATE	The requirements of the Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.
EARLY ADOPTION	Earlier application is encouraged.
TRANSITION	Retrospective
SPECIAL INSTRUCTIONS	Changes adopted at transition to conform to provisions of this Statement must be reported as a change in accounting principle in accordance with GASB 100, <i>Accounting Changes and Error Corrections</i> , including the related display and disclosure requirements. The provisions of this Statement need not be applied to immaterial items.

BDO INSIGHTS - IMPLEMENTATION CONSIDERATIONS

- ▶ Consider the types of leave offered by the government and the accounting for each type.
- ▶ Review and update internal processes, procedures, and controls to track each type of leave and make estimates regarding probability of use, where applicable.
- ▶ Evaluate the effect to the financial statements and disclosures.

For a full copy of the Statement on the GASB website, click [here](#).

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The experienced professionals in BDO's [State and Local Government](#) practice can help navigate the accelerated pace of change that governments face.

Contact Us to Learn How BDO Can Help