

VACATION LIABILITY

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Does your vacation policy create a liability?

A Company is required to accrue a liability for employees' compensation related to future absences if all of the following conditions are met:

1. The Company's obligation relating to employees' rights to receive compensation for future absences is attributable to services already rendered by employees.
2. The obligation relates to rights that vest or accumulate. This means the rights are not contingent on an employee's future service and the earned but unused rights to compensated absences may be carried forward.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

The requirement to record a liability for accrued vacation depends on whether the rights to unused vacation expire at the end of the year in which they are earned or accumulate and are carried forward to future years. If the rights to vacation expire, a liability should not be accrued, because any compensation in the future would not relate to past services. If unused vacation accumulates and is carried forward, a liability should be accrued to the extent it is probable that compensation will be paid in subsequent years and the amount can be reasonably estimated.

Similarly, an employee's right to a sabbatical must also be recognized as a liability if 1) a minimum service period is required; and 2) the benefit does not increase with additional years of service.

A Company is not required to accrue a liability for sick-pay, however, a liability may be accrued if all other conditions for accrual are met. Some companies customarily pay for sick days even though the absences are not due to sickness. Companies may allow employees to take vacation days immediately preceding retirement, for any unused sick days. In these cases, the Company's practice prevails, even if in contradiction with policy, and sick days should be accrued.



If you have any questions about this or any other business or tax issue, please contact your Account Manager or [Andrea Schaefer, CPA](#), at (314) 205-2510 or via email at aschaefer@connerash.com.