

EITF ABSTRACTS

Issue No. 06-2

Title: Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43

Dates Discussed: March 16, 2006; June 15, 2006

References: FASB Statement No. 43, *Accounting for Compensated Absences*
FASB Statement No. 87, *Employers' Accounting for Pensions*
FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*
FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*
FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*
FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*
FASB Statement No. 154, *Accounting Changes and Error Corrections*
FASB Concepts Statement No. 6, *Elements of Financial Statements*
International Accounting Standard 19, *Employee Benefits*

ISSUE

1. An entity may provide its employees with a benefit in the form of a compensated absence known as a sabbatical leave (sabbatical) whereby the employee is entitled to paid time off after working for an entity for a specified period of time. During the sabbatical, the individual continues to be a compensated employee and is not required to perform any duties for the entity.
2. In determining whether and, if so, when the cost of a sabbatical or other similar benefit arrangement should be accrued, entities have historically applied the guidance in paragraph 6 of Statement 43. Paragraph 6 of Statement 43 states in part that "an employer shall accrue a liability for employees' compensation for future absences if . . . (b) the obligation relates to rights that vest or accumulate" (footnote references omitted).

In practice, questions have been raised with respect to the interpretation of paragraph 6(b) of Statement 43 as to whether, in the absence of a vesting condition, a sabbatical **accumulates**.

3. The issue is whether an employee's right to a compensated absence under a sabbatical or other similar benefit arrangement (a) that requires the completion of a minimum service period and (b) in which the benefit does not increase with additional years of service accumulates pursuant to paragraph 6(b) of Statement 43.

Scope

4. The scope of this Issue is limited to those arrangements under which the sabbatical or other similar benefit arrangement is unrestricted (that is, the employee is not required to perform any direct or indirect services for or on behalf of the entity during the absence). Arrangements in which employees are required to engage in research or public service to enhance the reputation of or otherwise benefit the employer are not within the scope of this Issue.

EITF DISCUSSION

5. The Task Force reached a consensus that an employee's right to a compensated absence under a sabbatical or other similar benefit arrangement (a) that requires the completion of a minimum service period and (b) in which the benefit does not increase with additional years of service accumulates pursuant to paragraph 6(b) of Statement 43 for arrangements in which the individual continues to be a compensated employee and is not required to perform duties for the entity during the absence. Therefore, assuming all of the other conditions of paragraph 6 of Statement 43 are met, the compensation cost

associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period.

Transition

6. The Task Force reached a consensus that this Issue should be effective for fiscal years beginning after December 15, 2006. An entity should apply the consensus reached in this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position at the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. Earlier adoption of this guidance is permitted as of the beginning of an entity's fiscal year provided that the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year.

7. If an entity chooses to apply the consensus as a change in accounting principle through a cumulative-effect adjustment to retained earnings, an entity should disclose the cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position.

8. If an entity chooses to apply the consensus as a change in accounting principle through retrospective application to all prior periods, an entity should include the recognition of:

- a. The cumulative effect of the change to the new accounting principle on periods prior to those presented reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented
- b. The cumulative effect of the change on retained earnings or on other components of equity or net assets in the statement of financial position

- c. Adjustments to financial statements for each individual prior period presented to reflect the period-specific effects of applying the new accounting principle.
9. If an entity chooses to apply the consensus reached in this Issue as a change in accounting principle through retrospective application to all prior periods, the following should be disclosed:
- a. A description of the prior-period information that has been retrospectively adjusted
 - b. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for any prior periods retrospectively adjusted
 - c. The cumulative effect of the change on retained earnings or on other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented.

Board Ratification

10. At its June 28, 2006 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

STATUS

11. No further EITF discussion is planned.