

University System of Maryland Accounting Practice

Calculation of current / non-current portion of accrued leave liability

Governmental Accounting Standards Board Statement #34 requires that the Balance Sheet present assets and liabilities defined into current and non-current classifications. Many items expected to be reported on the Balance Sheet are susceptible to direct and definitive calculation of the current and non-current portions, by examining the terms of the underlying transactions. For instance, the current portion of notes receivable can be directly calculated by summing the principal amounts due on notes receivable to be collected over the coming 12 month period.

The State of Maryland currently provides an actuarially-based estimate of the current and non-current portions of Accrued Workers Compensation, a liability that does not fit into the category of Balance Sheet items for which the current and non-current portions can be directly and definitively calculated without estimate.

The current and non-current portions of the liability for accrued annual leave does not fit into the category of Balance Sheet items that can be directly calculated. Instead, an estimate of the amount of annual leave to be taken by employees must be used, as usage of leave is dependent on a host of variables, most of which are determined by employees and their behavior.

Information is required for the notes to financial statements disclosing the changes in the liability for annual leave each year. A part of one of the schedules required for the annual financial statement preparation process is:

	<u>ANNUAL LEAVE</u>
Liability balance, current and non-current, beginning of year	\$98,514,157
Increases in the liability during the year (new charges)	73,552,489
Payments of the liability (use of annual leave)	<u>(58,373,537)</u>
Liability balance, current and non-current, end of year	<u><u>\$113,693,109</u></u>

The current portion of accrued annual leave should be estimated by applying the historical average of annual usage of annual leave during the year as a percentage of the beginning of the year annual leave liability over the past five year period (or as many years as available until fiscal year 2007).

For example, using the above data as an example, and assuming that the calculation is being done for the first year of implementation (fiscal year 2002), the current portion of the liability for annual leave would be calculated as:

(1) Payments of the liability for the year	\$58,373,537
(2) Liability at the beginning of the year	\$98,514,157
(3) Proportion of beginning balance paid out during the fiscal year (1) / (2)	59.254%
(4) Liability at the end of the year	\$113,693,109
Current portion of liability at the end of the year (3) x (4)	\$67,367,667

In this example, the liability for accrued annual leave at the end of fiscal year 2002 would be reported as follows on the institution's Balance Sheet:

Accrued vacation costs, current portion	\$67,367,667
Accrued vacation costs, non-current portion	\$46,325,442

Assuming the changes in the accrued leave liability for the second year of implementation (fiscal year 2003):

	ANNUAL LEAVE
Liability balance, current and non-current, beginning of year	\$113,693,109
Increases in the liability during the year (new charges)	59,169,152
Payments of the liability (use of annual leave)	<u>(55,223,652)</u>
Liability balance, current and non-current, end of year	<u><u>\$117,638,609</u></u>

The calculation of the current portion of accrued annual leave liability at the end of the second year would be calculated as:

	<u>FY 2002</u>	<u>FY 2003</u>	<u>Average</u>
(1) Payments of the liability for the year	\$58,373,537	\$55,223,652	\$56,798,595
(2) Liability at the beginning of the year	\$98,514,157	\$113,693,109	\$106,105,133
(3) Proportion of beginning balance paid out during the fiscal year (1) / (2)	59.254%	48.573%	53.530%
(4) Liability at the end of the year	\$113,693,109	\$117,638,609	\$117,638,609
Current portion of liability at the end of the year (3) x (4 average)	\$67,367,667		\$62,972,520

In this example, the liability for accrued annual leave at the end of fiscal year 2003 would be reported as follows on the institution's Balance Sheet:

Accrued vacation costs, current portion	\$62,972,520
Accrued vacation costs, non-current portion	\$54,666,089

And to take the example one step further (this process would be continued until a running five year history is the basis for the percentage used to calculate the current portion), assuming the following for the third year of implementation (fiscal year 2004):

	<u>ANNUAL LEAVE</u>
Liability balance, current and non-current, beginning of year	\$117,638,609
Increases in the liability during the year (new charges)	63,425,245
Payments of the liability (use of annual leave, or payments of workers compensation premiums)	<u>(61,107,842)</u>
Liability balance, current and non-current, end of year	<u>\$119,956,012</u>

The calculation of the current portion of accrued annual leave liability at the end of the third year would be calculated as:

	FY 2002	FY 2003	FY 2004	Average
(1) Payments of the liability for the year	\$58,373,537	\$55,223,652	\$61,107,842	\$58,235,010
(2) Liability at the beginning of the year	\$98,514,157	\$113,693,109	\$117,638,609	\$109,948,625
(3) Proportion of beginning balance paid out during the fiscal year (1) / (2)	59.254%	48.573%	51.945%	52.966%
(4) Liability at the end of the year	\$113,693,109	\$117,638,609	\$119,956,012	\$119,956,012
Current portion of liability at the end of the year (3) x (4 average)	\$67,367,667			\$63,535,488

In this example, the liability for accrued annual leave at the end of fiscal year 2002 would be reported as follows on the institution's Balance Sheet:

Accrued vacation costs, current portion	\$63,535,488
Accrued vacation costs, non-current portion	\$56,420,524