

**FASB Emerging Issues Task Force  
Draft Abstract  
EITF Issue 06-2**

<b>Notice for Recipients of This Draft EITF Abstract</b>
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April 4, 2006

This draft abstract for EITF Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, "Accounting for Compensated Absences," addresses the following issue:

Whether an employee's right to a compensated absence under a sabbatical leave 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.

The attached draft abstract reflects the Task Force's tentative conclusions reached at the March 16, 2006 EITF meeting. The Task Force invites individuals and organizations to send written comments on all matters within this draft abstract. Comments are requested from those who agree with the provisions in this draft abstract as well as from those who do not. Comments are most helpful if they identify the issue and the specific paragraph or group of paragraphs to which they relate and clearly explain the issue or question. Those who disagree with the tentative conclusions presented in this draft abstract are asked to describe their suggested alternatives, supported by specific reasoning.

The Task Force specifically requests that constituents provide comments on whether the proposed effective date is appropriate.

Comments will be considered by the Task Force at the June 14–15, 2006 EITF meeting.

Responses from interested parties wishing to comment on the draft abstract must be received in writing by May 4, 2006. Interested parties should submit their comments by email to [director@fasb.org](mailto:director@fasb.org), File Reference No. EITF0602. Responses should not be sent by fax.

## EITF ABSTRACTS (DRAFT<sup>1</sup>)

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 14–15, 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 Concepts Statement No. 6, *Elements of Financial Statements*  
International Accounting Standard No. 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. 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

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<sup>1</sup> This draft abstract is being exposed for a 30-day public comment period.

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**

4. 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**

5. The Task Force reached a [consensus] that this Issue should be applied in financial reports for fiscal years beginning after the date the [consensus] is ratified by the Board. Entities should recognize the effects of applying the [consensus] on this Issue as a change in accounting principle through retrospective application to all prior periods unless it is impracticable to do so. This 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. An offsetting adjustment, if any, made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period
- c. Adjustments to financial statements for each individual prior period presented to reflect the period-specific effects of applying the new accounting principle.

6. If the cumulative effect of applying the change in accounting principle to all prior periods can be determined but it is impracticable to determine the period-specific effects of that change on all prior periods presented, the cumulative effect of the change should be applied to the carrying amounts of assets and liabilities as of the beginning of the earliest period to which the new accounting principle can be applied. An offsetting adjustment, if any, should be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period. If it is impracticable to determine the cumulative effect of applying a change in accounting principle to any prior period, the new accounting principle should be applied as if the change was made prospectively as of the earliest date practicable.

7. Upon application of this Issue, the following should be disclosed:

- a. A description of the prior-period information that has been retrospectively adjusted, if any

- 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 the current period and for any prior periods retrospectively adjusted
- c. The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented.

**Board Ratification**

- 8. At its [June 28, 2006] meeting, the Board ratified the [consensuses] reached by the Task Force in this Issue.

**STATUS**

- 9. No further EITF discussion is planned.