

FRS 102 Adjustments in the Financial Statements for 2015/16 – Holiday Pay Accrual

1.0 Employee benefits were dealt with in FRS 12 and FRS 17 under old UK GAAP (generally accepted accounting principles), neither of which include explicit requirements for accounting for short-term employee benefits. These standards have been superseded by FRS 102.

2.0 Under FRS 102, short-term employee benefits are defined as employee benefits that are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service. They may include:

2.1 wages, salaries and social security contributions;

2.2 paid annual leave and paid sick leave;

2.3 bonuses and non-monetary benefits (such as medical care, housing, cars, and free or subsidised goods or services.

Of these, we are only concerned here with 2.2, because any requirement to recognise a liability for 2.1 and 2.3 (to the extent it applies) in accordance with the requirements of FRS 102 is already met under the current Payroll accounting system.

3.0 FRS 102 requires the employer to recognise as an amount falling due within one year of the reporting date, the expected cost of all compensated employee absences that have accumulated as at that date as a result of unused entitlement. The expected cost is to be measured as the undiscounted additional amount that the employer expects to pay as a result of the accumulated unused employee leave entitlement.

4.0 Accumulated unused employee leave entitlement arises in the Union primarily because the annual leave year, which ends on 31 January, is not coterminous with the financial reporting year, which ends on 31 July. If the two years were coterminous, then accumulated unused employee leave at the end of the reporting period could not exceed the maximum of five carry-over days per employee, per the Union's annual leave policy. However because they are not, then this natural

limit does not apply, and the popularity of August and Christmas as holiday periods, may add to this divergent effect.

5.0 At 31 July 2016, the average number of leave days per employee to be accrued across the Union was three days. Broadly in line with the guidance of the FRC (Financial Reporting Council), the Union calculated the expected cost of the liability as the accumulated unused annual leave per employee times their average salary per day, based on the July payroll.

6.0 The impact of FRS 102 is the creation of a new provision on the Union's balance sheet, with a corresponding adjustment to opening retained earnings for the similarly calculated liability at the end of the prior year, and the movement between opening and closing provisions being recognised as an adjustment to expenses in the Statement of Financial Activities (as part of Support Costs). In the Union's financial statements for 2015/16, the total expense for the year is £5,951.

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