

## SELECTED AREAS OF COST

### Chapter 5 – Banked Vacations

#### Authoritative Sources

[48 CFR 9904.408](#) (CAS 408)  
Accounting for Costs of  
Compensated Personal  
Absence

[48 CFR 9904.415](#) (CAS 415)  
Accounting for the Cost of  
Deferred Compensation

This chapter addresses the following topics:

5-1 General

5-2 Audit Considerations

#### 5-1 General

The term "banked vacations" refers to a situation where contractors have policies that allow employees to carry

forward and accumulate (bank) all or a portion of vacation time not taken within the year in which entitlement is earned. The banked vacation can be taken at a later date or not taken at all, in which case payment for the amount of banked vacation time is usually made when the employee terminates employment. Sometimes contractors write up the vacation liability on the books to reflect employees' pay raises received subsequent to the periods in which vacation was earned.

CAS 408 does not address the practice of banking vacations, nor does CAS 415 specifically apply to compensated absences. Therefore, auditors should not issue CAS 408 or CAS 415 noncompliances because of problems with the contractors' policies/practices regarding banked vacations.

#### 5-2 Audit Considerations

Many contractors have ceased the practice of banking vacations, (i.e., have adopted a use-or-lose policy), or now allow deferral for only one accounting period following the year in which the vacation was earned. Nevertheless, if the situation of banked vacations exists, the auditor must first determine if the contractor's method of accounting for banked vacation accruals is proper, and then look at the

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reasonableness of the vacation policy and costs as a component of total compensation.

A contractor normally accrues vacation liability as each employee earns vacation. It is appropriate for a contractor's books to reflect the liability that will have to eventually be paid. Therefore the contractor, for financial accounting purposes, may decide to write up the vacation accruals; otherwise the accruals on the books may be understated. If banked vacation deferrals extend beyond one year and related write-ups are significant, the auditor should recommend that the ACO seek an advance agreement with the contractor establishing mutually agreeable criteria for calculating banked vacation accruals including consideration of present value methodology.