



# The Leave Liability Playbook

for Australian Xero users



# Leave management and leave liabilities

How important are they to your business?

Are they something you need to look at or worry about?

Are they a problem in your business?


When using Xero (assuming you have set up your employees and leave types correctly), leave entitlements for employees will be calculated as part of running payroll. This is great for both you and your employees.

If an employee was to resign, do you have enough cash put aside to pay them out without negatively impacting your cash flow?

However, you may not be aware that the associated liability is not automatically posted to the balance sheet. So if you are not specifically looking at it, you may not know how big your liability is.

Our data has shown that an average 17-person company in Australia has around **6 months of annual leave owed to employees**. And that doesn't include long service leave. While 6 months of leave across a whole company might not seem like a large amount initially, could your business operations continue if you needed to take a full-time headcount out for 6 months?





**Our goal with this  
playbook is to simply give  
you ways to:**

**1. Identify the size and value of  
your leave liability**

**2. Look at ways for your  
business to minimise your  
exposure**

# Identifying Your Leave Liability

Like all things in business, being able to have a clear picture and getting the right information to the right people at the right time will help you make better decisions.

The same can be said for your leave liability. Understanding the current leave entitlements is something that needs to be understood by the CEO, CFO, HR, and individual team leads. Each one of them will have a different motivation, so they need to understand the liability differently.

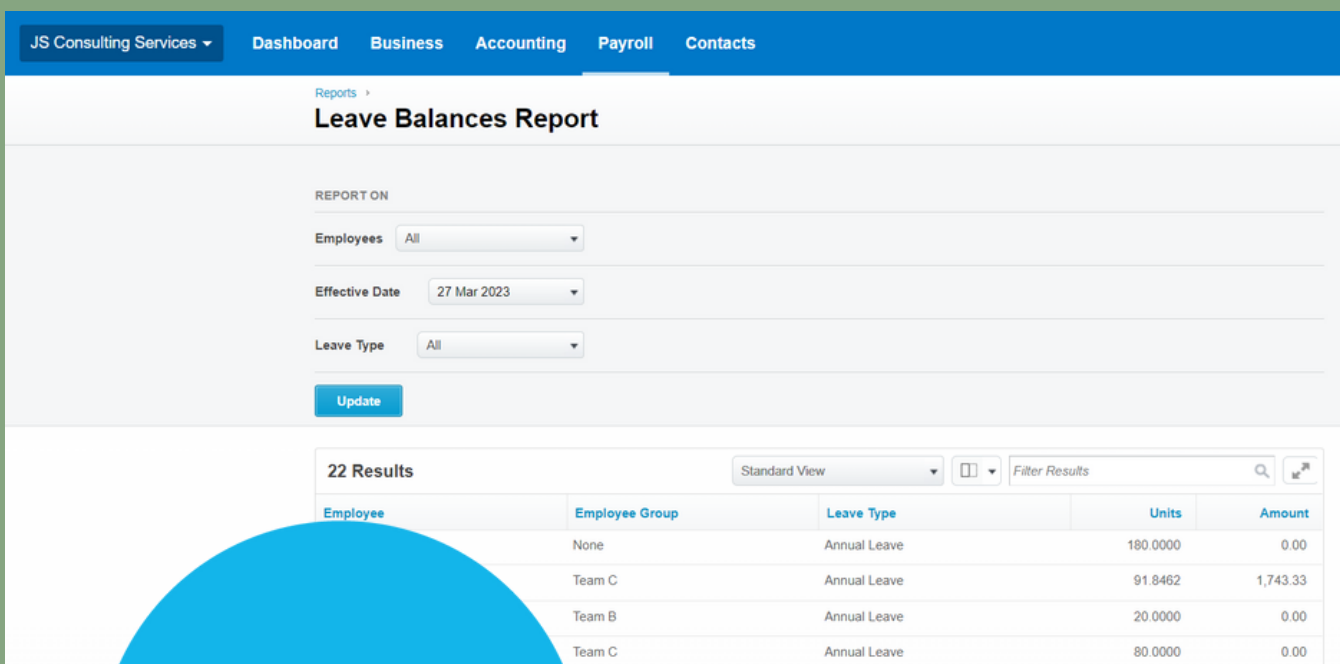


As there is sensitive information attached to leave, here are 2 ways you can use to ensure that the liability can be recognized by different people in the organisation without compromising an individual's privacy.

# Seeing detailed financial information

If you have access to payroll in Xero, there is an excellent Leave balance report. This is a great report. It will allow you to look at the breakdown of hours leave and the value associated with each employee.

To access it, simply go to Accounting > Reports > Payroll > Leave balance Report.



The screenshot displays the Xero 'Leave Balances Report' interface. At the top, there is a navigation bar with 'JS Consulting Services' and tabs for 'Dashboard', 'Business', 'Accounting', 'Payroll', and 'Contacts'. Below this, the report title 'Leave Balances Report' is shown. The 'REPORT ON' section includes filters for 'Employees' (All), 'Effective Date' (27 Mar 2023), and 'Leave Type' (All), with an 'Update' button. The results section shows '22 Results' in 'Standard View' with a search and refresh icon. The table below lists the data:

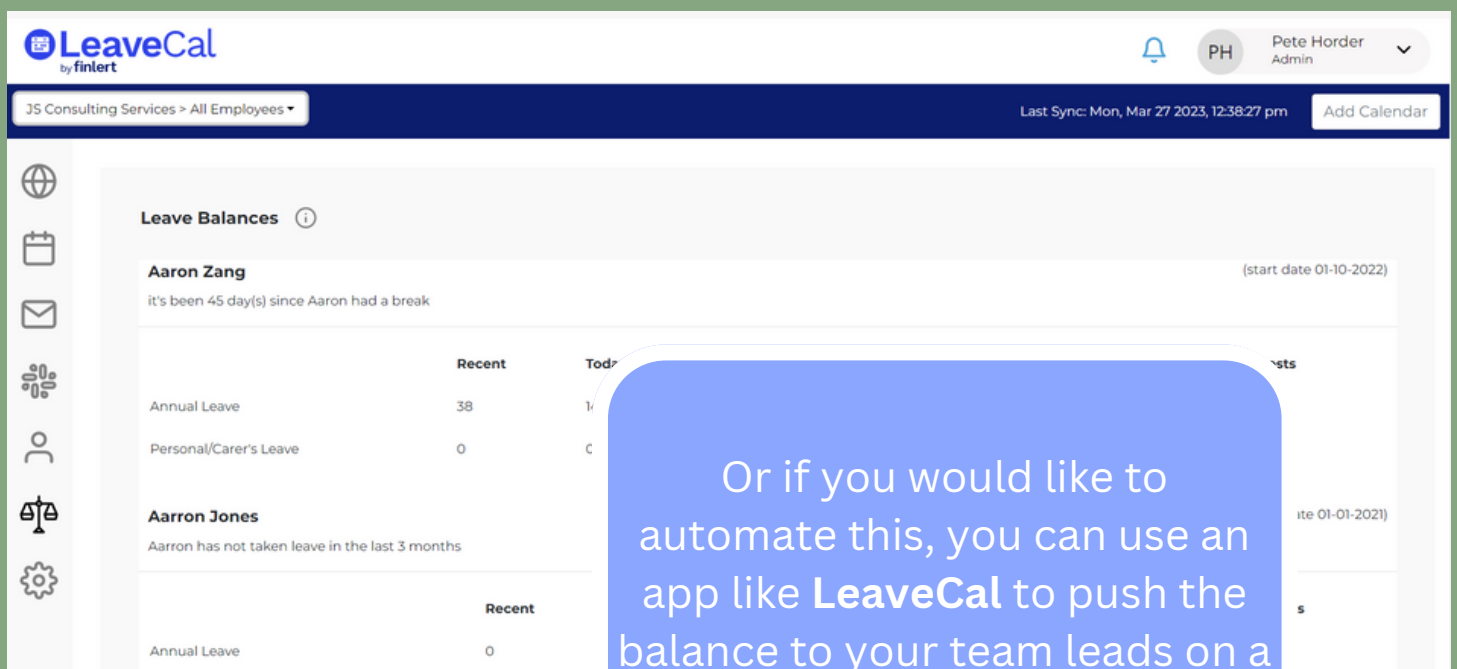
Employee	Employee Group	Leave Type	Units	Amount
	None	Annual Leave	180.0000	0.00
	Team C	Annual Leave	91.8462	1,743.33
	Team B	Annual Leave	20.0000	0.00
	Team C	Annual Leave	80.0000	0.00



# Understanding the hours

A non-financial view For Team leads and managers without payroll access, simply understanding the number of hours owed to an employee is normally enough.

By leveraging the standard Xero reporting, you can export the data and then remove the 'Amount' values associated with each employee.



The screenshot displays the LeaveCal interface. At the top, the logo 'LeaveCal by finlert' is visible on the left, and user information 'PH Pete Horder Admin' is on the right. Below the header, a navigation bar shows 'JS Consulting Services > All Employees' and 'Last Sync: Mon, Mar 27 2023, 12:38:27 pm' with an 'Add Calendar' button. The main content area is titled 'Leave Balances' and shows two employee profiles:

- Aaron Zang** (start date 01-10-2022): A note states 'it's been 45 day(s) since Aaron had a break'. Below this is a table with columns 'Recent' and 'Today'. The table shows 'Annual Leave' with a value of 38 and 'Personal/Carer's Leave' with a value of 0.
- Aarron Jones** (start date 01-01-2021): A note states 'Aarron has not taken leave in the last 3 months'. Below this is a table with columns 'Recent' and 'Today'. The table shows 'Annual Leave' with a value of 0.

Or if you would like to automate this, you can use an app like **LeaveCal** to push the balance to your team leads on a regular basis. You can see how that is done [here](#).

# How can you minimise your exposure?

During surveys that we conducted, over **43% of respondents said they never post Leave Liability to the Balance Sheet in Xero.**

This was supported with statements like:

“It isn't required by ASIC or the ATO, so we don't do it.”

“Only relevant if you are a Not For Profit or a large organisation.”



“Inclusion of annual leave/long service can make liabilities look terrible when going for finance.”

“It is seen as an administrative burden.”

Most of the above statements have merit, but the fact remains, even if you don't post the liability to the Balance Sheet, it is still the responsibility of the business to honour the employee entitlement.

Now if you have looked at your liability and are confident that you hold the cash to pay this out, then you need to do nothing... Congratulations, you are running a great business.

However, if like most small businesses, you don't hold the cash, you need to start looking at how you minimise your exposure.

**So, what are our favourite ways to minimise the risk to your business?**



## Save for it

Now, that might sound a bit old school, but it has merit. In the past, many businesses would have separate savings accounts for Leave, tax, and staff bonuses. These types of things are not as common these days, but we're fans of this approach.

Banks also offer high-interest rates for these types of accounts.

If you are going to do this, we also suggest you place the liability on your balance sheet.

But before throwing this \$ value into your balance sheet, we suggest consulting with your accountant to make sure it is done correctly.



## Stop it building up

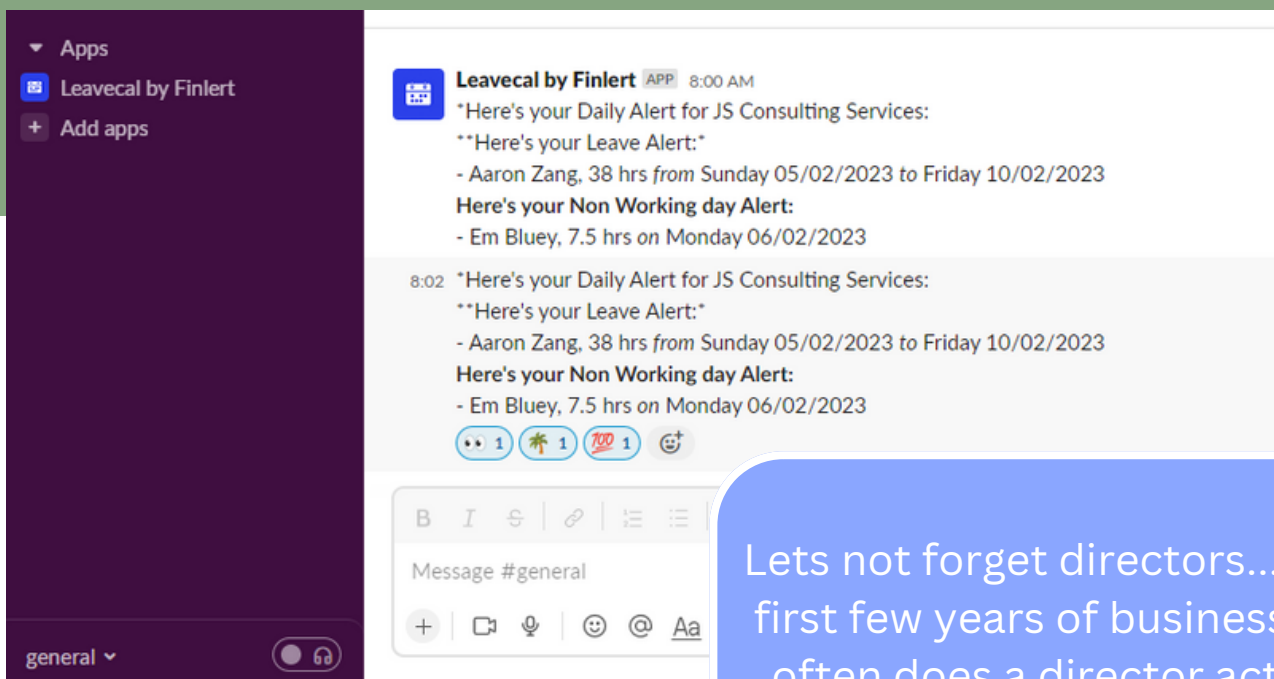
In recent years, we have seen many organisations get very creative to attract new talent. Extra leave days, free days, and any number of other ‘days’ are being offered to employees as part of their packages to entice them.

But, in addition, we have seen many employees working from home. Unfortunately, with these newfound working arrangements, we are seeing an increase in leave leakage, i.e., people taking leave but not officially taking leave. One of the best ways to stop leave accumulating is to make sure there is no leakage and to provide visibility of who is taking leave across the organisation.



A shared calendar or having people update their calendars is a great way of getting visibility, but this isn't linked to payroll. As LeaveCal links directly to your payroll platform, the shared calendar is automatically updated when a leave request is approved.

Many of our customers have reported that by simply putting in place LeaveCal alerts, compliance has increased around submitting leave requests. When using a weekly alert, all members of the team are made aware of who has upcoming leave. If someone says they are taking time off, but it doesn't appear in the alert, it isn't real leave.



Lets not forget directors... in the first few years of business, how often does a director actually take leave? For some that can mean several months of leave accumulated before they put in a leave request!

## Reduce it

This one sounds obvious, but in practice, it can be a bit tricky to manage. In a small business, getting people to take leave while still servicing customers is hard, but quite simply, the conversations need to be had. If someone has a large leave balance, there should be someone talking to them about taking some time off.

Although this often falls to the business owner or HR manager to have these discussions, that is often because they are the only people with access to the information.

If you can share leave balance information with the team's day-to-day manager, you can get them to work together on reducing the balance.



Make it visible to management, put processes in place to ensure that when people are taking time off, they are putting in the leave requests to support it.

## Cash it out

Yes, this is possible... but with some conditions which are dependent on the relevant award. We recommend consulting with your accountant prior to cashing out anyone's leave.

There is standard functionality in Xero that will allow you to cash out leave. To do so, create a new leave request, then select the 'Cash Out' leave type.

Note if you do cash out leave, and you are already using LeaveCal, it will come through to the calendar, so keep that in mind from a visibility point of view.





We hope you have found some good insights or practical solutions here to help you manage your leave liabilities. If you like the idea of implementing LeaveCal into your business, you can sign up for a free 14-day trial by going to [leavecal.finlert.com](https://leavecal.finlert.com). Or if you would like to discuss more, get in touch with us



[www.finlert.com](https://www.finlert.com)



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