

TREASURER'S DIRECTIONS
ACCOUNTING – LIABILITIES
Section A3.4 : Employee Benefits

STATEMENT OF INTENT

Employee benefit liabilities invariably constitute a major liability for Agencies and the Government and, as such, it is important that these costs are accurately identified and recorded. This Section provides the requirements relating to the identification, recognition and measurement of employee benefit liabilities.

MAIN FEATURES

Section 38 of the *Financial Management Act* requires every Accountable Officer and every employee of an Agency to comply with the Treasurer's Directions.

Employee Benefit Liabilities

- Employee benefit liabilities are future outflows of resources that an Agency is presently obliged to make in exchange for services rendered by employees.

Recognition of Employee Benefit Liabilities

- Employee benefit liabilities are to be recognised and recorded when they are earned but not paid to employees at the end of the reporting period.
- An Agency is not to recognise superannuation or long service leave liabilities as these liabilities will be recognised and recorded in the Central Holding Authority.

Employee Transfers

- An employee transfer may result in the recognition of employee benefit liabilities (other than long service leave and superannuation liabilities) by the receiving Agency.
- Where an employee ceases employment with an Agency, the Agency is to derecognise any Agency held employee benefit liabilities that have accrued to the employee at cessation date.

For authoritative instruction and guidance, reference should be made to related Treasurer's Directions and associated commentary, relevant Australian accounting standards and other authoritative interpretations.

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AUTHORITIES

Financial Management Act

Financial Management Regulations

Public Employment (Mobility) Act

Public Sector Employment and Management Act

Public Sector Employment and Management By Laws

REFERENCES

AAS 29 Financial Reporting by Government Departments

AASB 119 Employee Benefits

Related Treasurer's Directions:

F2.2 Framework – *Working for Outcomes* : Central Holding Authority

A3.1 Accounting – Liabilities : Overview

A3.2 Accounting – Liabilities : Accounts Payable and Accrued Expenses

A6.2 Accounting – Expenses : Employee Benefits

WHAT ARE EMPLOYEE BENEFIT LIABILITIES ?

A3.4.1

Employee benefit liabilities are future outflows of resources that an Agency is presently obliged to make in exchange for services rendered by employees.

- (i) Employee benefit liabilities are amounts due but not yet paid to employees for services provided. Certain employee benefit liabilities, such as long service leave and superannuation, will be recorded centrally in the Central Holding Authority (CHA) rather than being recorded in individual Agency financial statements. Examples of Agency employee benefit liabilities include:
- salaries and wages;
 - recreation leave and leave loading; and
 - other employee benefit liabilities.
- Treasurer's Directions Section A6.2 provides instruction and guidance in relation to the different types of employee benefits and clarifies what an employee is.
- (ii) Other costs may be incurred as a consequence of providing employment that are not employee benefits, such as payroll tax. These costs are known as employee benefit on-costs and will also be recognised as liabilities and expenses (where material) when the services to which they relate have been provided.
- (iii) While it is important that the full cost of services rendered by employees is known, some employee benefit liability information may not be administratively effective to collect. For example, some benefits, or on-costs associated with those benefits, may be of a minor or insignificant nature. Agencies should remain aware of the administrative costs and materiality of employee benefit information collected.
- (iv) Treasurer's Directions Section A3.1 provides detailed instruction and guidance in relation to the recognition and classification of liabilities.
- (v) Overpayments of moneys to employees, including salaries and wages and other employee benefit payments, are required to be recovered in accordance with requirements contained in the Financial Management Regulations. For the purpose of the Financial Management Regulations, employee includes former employees and the recovery of any associated employee benefit overpayments.

SALARIES AND WAGES

A3.4.2

An Agency is to recognise and record a liability for salaries and wages earned but not paid to employees at the end of the reporting period, at their nominal amounts.

- (i) At reporting date, the amount of any benefit arising from the performance of services by employees that is unpaid, will constitute a liability for salaries and wages (accrued salaries and wages). For example, pay periods for salaries and wages often do not coincide with the end of the reporting period. In such cases it will be necessary to accrue a liability for the unpaid amount. This liability will be reversed in the following reporting period to avoid double counting when the salaries and wages are actually paid.
- (ii) The nominal basis for measurement is based on remuneration rates that an Agency expects to pay at each reporting date. Where an employee is currently being paid an ongoing allowance, (for example, Northern Territory Allowance) this amount will be incorporated into the remuneration rate used to calculate accrued salaries and wages.
- (iii) Accrued salaries and wages are calculated based on information included in the Personnel Information and Payroll System (PIPS) and charged automatically to Agency ledgers. An example of how to account for accrued salaries and wages is provided at [Appendix A](#).
- (iv) Further instruction and guidance on accrued expenses is provided in Treasurer's Directions Section A3.2.

RECREATION LEAVE

A3.4.3

An Agency is to recognise and record a current liability for recreation leave and recreation leave loading earned but not paid to employees where the liability is expected to fall due within 12 months of the end of the reporting period. Current liabilities are to be recognised at their nominal amounts.

A3.4.4

An Agency is to recognise and record a non-current liability for recreation leave earned but not paid to employees where the liability is not expected to fall due within 12 months of the end of the reporting period. Non-current liabilities are to be recognised at present value.

- (i) Unpaid entitlements to recreation leave and recreation leave loading arising from services rendered by employees during the reporting period satisfy the criteria for recognition as liabilities (for example, provision for recreation leave). This is the case as they are capable of being measured reliably and employees obtain their entitlement to recreation leave and recreation leave loading as they provide their service.

Section A3.4 : Liabilities – Employee Benefits

- (ii) Agency recreation leave liabilities that fall due within 12 months of the end of the reporting period are classified as current liabilities and measured at their nominal amounts. The nominal basis of measurement uses remuneration rates that an Agency expects to pay at each reporting date. For example, where an Agency knows or reasonably expects a salary increase to occur in two months time, current employee benefit liabilities as at 30 June would be adjusted for those expected future salary increases (where not already incorporated into system calculations).
- (iii) Agency recreation leave liabilities that are not expected to fall due within 12 months from the end of the reporting period are classified as non-current liabilities and are measured at present value. Measuring employee benefit liabilities at present value includes adjusting the liability for expected future salary increases and discounting the adjusted liability using the long term bond rate that will be advised by Treasury after 30 June each year.
- (iv) Agency recreation leave loading liabilities will be classified as current liabilities unless Agency specific evidence exists suggesting otherwise. It would be unusual for Agencies to classify recreation leave loading liabilities as non-current liabilities where these liabilities are automatically required to be paid out in January of each year. In addition, even where an Agency has employees with more than one recreation leave loading liability outstanding at 30 June, the aggregate of these amounts is not expected to be material.
- (v) In practice, PIPS will calculate recreation leave and recreation leave loading liabilities based on information in PIPS. As these PIPS calculated liabilities will be based on whole of Government assumptions, they may not always accurately represent individual Agency circumstances. In these situations, Agencies remain responsible for ensuring that Agency recreation leave and recreation leave loading liabilities appropriately represent the value of liabilities earned but not paid at the end of the reporting period. An example of how to account for accrued recreation leave and recreation leave loading is provided at [Appendix A](#).
- (vi) In certain situations, Agencies will be required to recognise and derecognise employee benefit liabilities that arise as a result of employee transfers. Employee transfers are explained later in this Section.

SICK LEAVE

A3.4.5

An Agency is not to recognise a liability for sick leave unless amounts are due and unpaid to an employee at the end of the reporting period.

- (i) Sick leave for Northern Territory Public Sector employees is of a non-vesting nature. This means that sick leave entitlements accumulate to an employee but are only paid upon approval of a valid claim. An employee will not be entitled to payment for accumulated sick leave when ceasing employment and as a result, a provision for sick leave is not required.
- (ii) An Agency will therefore only recognise a sick leave liability for any approved and unpaid amounts for sick leave at the end of the reporting period. In practice, such liabilities will be classified as accrued salaries and will be measured at their nominal amounts.

LONG SERVICE LEAVE

A3.4.6

An Agency is not to recognise a long service leave liability, as this liability will be recognised and recorded in the Central Holding Authority.

- (i) To the extent that it is probable that long service leave entitlements accumulated by employees during the reporting period will result in cash outflows by an employer in future reporting periods, they will satisfy the recognition criteria for a liability. In practice, the calculation of a liability for long service leave takes account of the probability of an employee reaching 10 years service.
- (ii) Long service leave liabilities relating to Agency employees will be recorded in the CHA rather than in Agency financial statements.
- (iii) Where an employee has prior service recognised for long service leave purposes in accordance with the *Public Employment (Mobility) Act*, the calculation of the long service leave liability in the CHA will take account of this prior service. Agencies should remain aware that the recognition of employee benefit liabilities related to prior service will depend on relevant employment determinations and may be subject to a period of minimum service.
- (iv) The recording of Agency long service leave liabilities in the CHA does not remove or diminish an Agency's responsibility in relation to the management and use of long service leave by Agency employees.
- (v) Treasurer's Directions Section F2.2 elaborates on the concept of the CHA and the items recorded by it.

SUPERANNUATION

A3.4.7

An Agency is not to recognise a superannuation liability, as superannuation liabilities for superannuation schemes managed by the Northern Territory Government will be recognised and recorded in the Central Holding Authority.

- (i) The provision of superannuation benefits gives rise to liabilities for payment of future superannuation benefits. The future liabilities of Government managed superannuation schemes will be recorded in the CHA and will invariably be determined by an actuary. An example of a Government managed superannuation scheme is the Northern Territory Government and Public Authorities Superannuation Scheme (NTGPASS).
- (ii) Employers and some employees may also make superannuation contributions to non-government employee nominated superannuation funds (for example, the Australian Government Employees' Superannuation Trust - AGEST). In particular, employees who commenced work in the Northern Territory Public Sector from 10 August 1999 are required to use a private superannuation fund provider. These superannuation funds are not managed or controlled by the Government, and as such, no superannuation liability will be raised by the CHA (or Agencies) in relation to these funds.

A3.4.8

Superannuation contributions due but not yet paid at reporting date are to be recognised and recorded as a liability in Agency records.

- (i) Any superannuation contributions due but not yet paid by an Agency to either the CHA or employee nominated superannuation fund will constitute a liability in the books of the Agency at the end of the reporting period.
- (ii) Treasurer's Directions Section A6.2 provides further instruction and guidance in relation to superannuation expense contributions.

OTHER EMPLOYEE BENEFIT LIABILITIES

A3.4.9

An Agency is to recognise a liability for other employee benefits that are earned but not paid at the end of the reporting period.

- (i) Other employee benefits may accumulate as an employee provides service. Where these employee benefits are vesting, there is a legal obligation on the employer to pay these benefits to an employee on cessation of employment. In such cases, a liability for these other employee benefits will be recognised in the reporting period that the benefit is accumulated, provided such amounts are material.
- (ii) Certain other employee benefits are non-vesting and would not be paid to an employee on cessation of employment. As a result, an Agency liability does not eventuate (for example, sick leave and miscellaneous leave).
- (iii) Other Agency employee benefit liabilities will be recognised at their nominal amounts where payment is expected to fall due within 12 months of the reporting date (current liabilities). Other employee benefit liabilities will be recognised as non-current liabilities where payment is not expected to fall due within 12 months of the reporting date. Non-current employee benefit liabilities are measured at present value as discussed under 'Recreation Leave'.

EMPLOYEE BENEFIT ON-COSTS

A3.4.10

Costs that are a consequence of employees providing employment, but which are not employee benefits, are to be recognised as Agency liabilities when the employee benefits to which they relate are recognised as liabilities.

- (i) Where the settlement of Agency employee benefit liabilities is expected to give rise to the payment of employment on-costs, an Agency liability shall be recognised for those on-costs at the time the liability for the employee benefits is recognised. For example, a liability raised on 30 June for unpaid salaries and wages will also give rise to a liability for payroll tax.
- (ii) In practice, some employee benefit on-cost information may not be administratively effective to collect at the time the employee benefit liability to which it relates is recognised. Agencies should therefore remain aware of the costs and the materiality of collecting and recognising this information.

EMPLOYEE TRANSFERS

A3.4.11 Where an employee commences employment with an Agency and the employee has transferred from another Agency or from a public employer as defined in the *Public Employment (Mobility) Act*, the Agency is to recognise any employee benefit liabilities (other than long service leave and superannuation liabilities) that have accrued to the employee and remain unpaid at commencement date.

A3.4.12 Where an employee ceases employment with an Agency, the Agency is to derecognise any Agency held employee benefit liabilities that have accrued to the employee as at cessation date.

- (i) Employee transfers will occur for a variety of reasons and may include employee movements between Agencies resulting from promotion, temporary transfers that become permanent and other transfers. The *Public Employment (Mobility) Act* facilitates mobility in employment and allows employees to retain accrued employee benefits when transferring to or from certain areas of public employment, including Agencies.
- (i) Employee benefit liabilities recognised by an Agency in relation to an employee may include recreation leave, recreation leave loading and other employee benefit liabilities. Superannuation and long service leave liabilities associated with Agency employees will be recorded in the Central Holding Authority rather than Agencies. The recognition of Agency employee benefit liabilities will result in a corresponding increase in Agency employee benefit expenses as shown at [Appendix B](#).
- (ii) Employee benefit liabilities relating to an employee being transferred will be recognised by the receiving Agency as at the agreed transfer date. Where the transfer is on a temporary basis, the recognition by the receiving Agency (and derecognition by the transferring Agency) should occur when there is a reasonable expectation that the transfer will become permanent. In practice, it would not be administratively efficient to recognise employee benefit liabilities associated with temporary transfers less than six months unless there is an expectation that the transfer will exceed six months. The timing of recognition and derecognition by the receiving and transferring Agencies should also be consistent.
- (iii) Where an employee is transferred on a different salary level (for example, on promotion), the change in salary impacts on the employee benefit liabilities recognised by the receiving Agency only. In these situations the receiving Agency will recognise any employee benefit liabilities for that employee based on the different salary level.
- (iv) Where an employee ceases employment (for example, by way of resignation, retirement or transfer), the relevant Agency will derecognise any employee benefit liabilities for that employee as at the agreed cessation date. This will result in a reduction in Agency employee benefit liabilities and a corresponding reduction in:
- cash, where employee liabilities are paid out (for example, on resignation); or
 - employee benefit expenses, where employee benefit liabilities are not required to be paid out (for example, where employee transfer provisions apply).

ACCOUNTING FOR EMPLOYEE BENEFIT LIABILITIES – EXAMPLES

Example 1 – Accrued Salaries and Wages - Agency

Agency employees provide services to an Agency over a two week period and are to be paid \$1 million. As the pay period does not coincide with the end of the reporting period, a liability for salaries and associated on-costs, such as payroll tax will be recognised for the amounts earned but unpaid at the end of the reporting period.

The salaries and payroll tax to be paid will need to be apportioned between the amount earned in the current period (6 days) and that relating to future periods (4 days). Salaries are calculated on a ten day fortnight, as there is no payment for Saturday or Sunday.

Total amount to be paid to the employees	=	\$1,000,000
Amount earned in current period	=	\$1,000,000 x 6/10 days
	=	\$600,000
Payroll Tax for current period (6.2%) ^{1, 2}	=	\$600,000 x 6.2%
	=	\$37,200

At the end of the reporting period a liability is recognised for the salary (and associated payroll tax²), the employees have earned in the current period but will not be paid until a future period:

DR	Salaries Expense	(Increase in Expenses – Operating Statement)	\$600,000
DR	Payroll Tax Expense	(Increase in Expenses – Operating Statement)	\$37,200
CR	Accrued Salaries	(Increase in Liabilities – Balance Sheet)	\$600,000
CR	Provision for Payroll Tax	(Increase in Liabilities – Balance Sheet)	\$37,200

¹ Refer to relevant Treasury Revenue Circulars for up to date information on Payroll Tax.

² In practice a liability for Payroll tax may be determined on an annual basis (that is, 30 June) where amounts are immaterial.

APPENDIX A (Continued)

Example 1 – Accrued Salaries and Wages – Agency – continued:

On the first day of the next reporting period the journal is automatically reversed:

DR	Accrued Salaries	(Decrease in Liabilities – Balance Sheet)	\$600,000
DR	Provision for Payroll Tax	(Decrease in Liabilities – Balance Sheet)	\$37,200
CR	Salaries Expense	(Decrease in Expenses – Operating Statement)	\$600,000
CR	Payroll Tax Expense	(Decrease in Expenses – Operating Statement)	\$37,200

When the employees earn the remaining four days salary and these amounts are paid, the journal entry would be:

DR	Salaries Expense	(Increase in Expenses – Operating Statement)	\$1,000,000
CR	Cash at Bank	(Decrease in Assets – Balance Sheet)	\$1,000,000

When the payroll tax is due to be paid for the previous reporting period, the journal entry would be:

DR	Payroll Tax Expense	(Increase in Expenses – Operating Statement)	\$62,000
CR	Cash at Bank	(Decrease in Assets – Balance Sheet)	\$62,000

APPENDIX A (Continued)**Example 2 – Recreation Leave Liability - Employee**

In practice the following calculation would be undertaken for all Agency employees based on information in the Personnel Information and Payroll System (PIPS) with journals automatically charged to the Agency's ledger. For illustrative purposes this example shows the calculation of amounts and associated journals for a single employee for a single month.

Assuming an employee is entitled to 6 weeks recreation leave per annum, a liability of 2.5 days per month will accrue as the employee provides service. In addition, a liability for payroll tax and recreation leave loading will accrue over time. At the end of the period a journal entry is required to recognise a liability for the recreation leave earned but not yet taken by the employee.

The employee is paid \$2,000 per fortnight and is entitled to leave loading.

Daily rate of pay	=	\$2,000 x 1/10 days
	=	\$200
Recreation Leave earned for the month	=	\$200 x 2.5 days
	=	\$500
Recreation Leave Loading for the month	=	\$500 x 10% ¹
(entitlement of 17.5% up to a maximum amount) ²	=	\$50
Payroll Tax for the month (6.2%) ³	=	(\$500 + \$50) x 6.2%
	=	\$34

At the end of the reporting period a liability for recreation leave, recreation leave loading and on-costs such as payroll tax ³, is recognised for leave earned but not yet taken by the employee:

DR	Recreation Leave Expense	(Increase in Expenses – Operating Statement)	\$500
DR	Recreation Leave Loading Expense	(Increase in Expenses – Operating Statement)	\$50
DR	Payroll Tax Expense	(Increase in Expenses – Operating Statement)	\$34
CR	Provision for Recreation Leave	(Increase in Liabilities – Balance Sheet)	\$500
CR	Provision for Recreation Leave Loading	(Increase in Liabilities – Balance Sheet)	\$50
CR	Provision for Payroll Tax	(Increase in Liabilities – Balance Sheet)	\$34

¹ In this example, a 10% rate is used to estimate recreation leave loading amounts during the year. This rate is considered to better approximate an Agency's total recreation leave loading liability and takes account of the payment of a maximum recreation leave loading amount.

² A maximum payment for recreation leave loading applies under the *Public Sector Employment and Management Act*. Note that recreation leave loading does not apply to Executive Contract Officers.

³ Refer to relevant Treasury Revenue Circulars for up to date information on Payroll Tax. In practice a liability for Payroll tax may be determined on an annual basis (that is, 30 June) where amounts are immaterial.

ACCOUNTING FOR EMPLOYEE TRANSFERS – AGENCY TO AGENCY

An employee who has 8 weeks of recreation leave entitlements owing (totalling \$12,000) and a recreation leave loading liability owing (maximum recreation leave loading payment for that year was \$1,018) permanently transfers to another Agency at the same salary band. The transfer is not associated with an Administrative Restructure.

Receiving Agency

The receiving Agency will recognise an increase in expenses and an increase in liabilities for the employee's recreation leave and recreation leave loading owed as at the date of transfer.

DR	Recreation Leave Expense	(Increase in Expenses – Operating Statement)	\$12,000
DR	Recreation Leave Loading Expense	(Increase in Expenses – Operating Statement)	\$1,018
CR	Provision for Recreation Leave	(Increase in Liabilities – Balance Sheet)	\$12,000
CR	Provision for Recreation Leave Loading	(Increase in Liabilities – Balance Sheet)	\$1,018

Transferring Agency

The transferring Agency will derecognise liabilities for the employee's recreation leave and recreation leave loading. This will result in a reduction in employee benefit liabilities and expenses in the reporting period.

DR	Provision for Recreation Leave	(Decrease in Liabilities – Balance Sheet)	\$12,000
DR	Provision for Recreation Leave Loading	(Decrease in Liabilities – Balance Sheet)	\$1,018
CR	Recreation Leave Expense	(Decrease in Expenses – Operating Statement)	\$12,000
CR	Recreation Leave Loading Expense	(Decrease in Expenses – Operating Statement)	\$1,018