

**TREASURER'S DIRECTIONS**  
**ACCOUNTING – EXPENSES**  
**Section A6.3 : General Expenses**

**STATEMENT OF INTENT**

*General expense information includes many day to day Agency expenses and is important for the assessment and evaluation of the cost of an Agency's operations. This Section explains the types of expense classifications that are a subset of general expenses.*

**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.

**General Expenses**

- General expenses include those expenses incurred as a result of activities that are undertaken by an Agency as part of the delivery of Agency outputs. General expenses include:
  - purchases of goods and services;
  - property management;
  - repairs and maintenance;
  - asset expenses;
  - finance expenses; and
  - bad and doubtful debts.

**Purchases of Goods and Services**

- Purchases of goods and services are to be recognised and recorded as an Agency expense when the relevant goods or services have been received.
- The Accountable Officer (or delegate) is to approve all official travel (except for short local trips), hospitality and personal telephone expenditure prior to the expense being incurred.

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*

### REFERENCES

AAS 29        Financial Reporting by Government Departments  
                  Framework for the Preparation and Presentation of Financial  
                  Statements

*Related Treasurer's Directions:*

A1.3        Accounting – Introduction : Standard Classification Codes  
A2.2        Accounting – Assets : Property, Plant and Equipment  
A2.3        Accounting – Assets : Depreciation and Amortisation  
A2.4        Accounting – Assets : Revaluation  
A2.5        Accounting – Assets : Improvements and Repairs and Maintenance  
A2.7        Accounting – Assets : Receivables  
A2.8        Accounting – Assets : Inventories  
A2.9        Accounting – Assets : Prepayments  
A2.10      Accounting – Assets : Impairment of Assets  
A3.2        Accounting – Liabilities : Accounts Payable and Accrued Expenses  
A3.4        Accounting – Liabilities : Employee Benefits  
A3.6        Accounting – Liabilities : Leases  
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A6.1        Accounting – Expenses : Overview  
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WHAT ARE GENERAL EXPENSES?

A6.3.1

General expenses include those expenses incurred as a result of activities that are undertaken by an Agency as part of the delivery of Agency outputs.

- (i) General expenses are those expenses that Agencies incur in the delivery of outputs. They relate to the day to day operations of an Agency and often are of a regular and ongoing nature. For the purposes of these Directions, general expenses encompass a range of expenses that are not specifically covered in other Treasurer's Directions Sections. General expenses explained in this Treasurer's Directions Section include:
- purchases of goods and services, including information technology charges, legal expenses and consultants fees;
  - property management charges (for example, property leasing);
  - repairs and maintenance costs;
  - asset expenses, such as depreciation, amortisation, impairment losses, and losses on disposal of a non-current asset;
  - finance and interest expenses;
  - bad and doubtful debt expenses;
  - goods and services received free of charge; and
  - assumption of liabilities.
- (ii) Other types of expenses are explained in related Treasurer's Directions Sections and include:
- employee expenses; and
  - grants and subsidies.
- (iii) In practice expenses will be recognised simultaneously with the recognition of an increase in liabilities (for example, accounts payable) or a decrease in assets (for example, depreciation). Additional instruction and guidance in relation to the definition, recognition and classification of expenses may be found in Treasurer's Directions Section A6.1.

### A6.3.2

**General expenses are to be classified and recorded under the relevant expense codes provided in the Standard Classifications.**

- (i) The Standard Classification Codes provide a complete list of expense codes and also provide explanations for certain items. Some codes, for example 'information technology charges' and 'legal expenses' are extensive and accurate use of these codes is essential. This improves the quality of data recorded and reduces the time and effort involved in the preparation of financial reports.
- (ii) Separate Standard Classification Codes exist for 'consultants fees' (for example, professional fees for legal expenses, marketing and promotion consultants or information technology consultants), and for procurement activity that falls within the definition of a 'standard service contract'.
- (iii) Consultancies differ from standard service contracts in that the manner in which the task is to be performed is not generally described in detail, the consultant is expected to exercise independent skills and judgement, and there is no direct supervision by the contracting Agency. Consultancies generally involve the application of expert professional skills or perspectives not available within the public sector, whereas standard service contracts often involve the provision of routine operational services related to the day to day functions of an Agency.
- (iv) When considering engaging a consultant, an Agency should also have regard to instructions and requirements related to the *Procurement Act* and other applicable Government policy.

## PURCHASES OF GOODS AND SERVICES

### A6.3.3

**Purchases of goods and services are to be recognised and recorded as an Agency expense when the goods or services have been received.**

- (i) Goods and services expenses include the purchase of items that are necessary for the day to day operations of the Agency and are generally intended to be used within a short period of time. Examples of goods and services expenses include:
  - bank charges;
  - communications expenses;
  - consultants fees;
  - information technology charges;
  - legal expenses;
  - motor vehicle expenses; and
  - official duty fares.

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- (ii) Goods and services expenses will be recognised when goods and services are received or provided rather than when cash payments are made. Where material, services delivered over more than one reporting period would be recognised as an expense on a systematic basis.
- (iii) Purchases of goods and services should be clearly distinguished from the purchase or construction of assets such as land, buildings, infrastructure, equipment and inventories. Such asset purchases are expensed as the assets are utilised. However, items of property, plant and equipment with an original cost of less than \$5,000 are not recognised as assets but are expensed at the time of purchase. Further instruction and guidance on the recognition and depreciation of assets is provided in Treasurer's Directions Sections A2.2 and A2.3.
- (iv) Where stocks of inventory are not expensed when purchased, items of inventory will be expensed as they are used, consumed, or distributed. Further instruction and guidance in relation to inventories is provided in Treasurer's Directions Section A2.8.
- (v) Goods and services that have been received but not yet invoiced are also recorded as expenses (for example, accrued expenses). Further instruction and guidance on these accrued expenses is provided in Treasurer's Directions Section A3.2.

### A6.3.4

**The Accountable Officer (or delegate) is to approve all official travel, hospitality and personal telephone expenditure prior to the expense being incurred.**

- (i) Official travel, hospitality and personal telephone costs are by their nature expenses that may be subject to scrutiny and have the potential for misuse. Accordingly, such expenses should be fully justified and will require prior approval of the Accountable Officer (or appropriately delegated officer). In addition, Agencies should remain aware of Fringe Benefit Tax (FBT) considerations in relation to these and other expenses. Additional instruction and guidance in relation to FBT policy may be found in FBT Circulars
- (ii) Official travel (except short local trips) requires prior approval utilising a movement requisition. Subsequent travel is to be undertaken in accordance with that approved on the movement requisition, and is required to be appropriately acquitted.
- (iii) Hospitality expenditure relates to the provision of hospitality in connection with official business of the Territory or an Agency and may include the provision of food and drinks, entertainment and other official function costs. Tips and gratuities will not be approved as hospitality expenses within Australia, but may be appropriate overseas. The Accountable Officer (or delegate) may approve hospitality expenditure having due regard to the potential benefits to the Territory, the cost, and to whom the hospitality is provided, ensuring that expenses are justifiable and open to scrutiny.

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- (iv) In certain circumstances, the Accountable Officer (or delegate) may determine that an employee's personal telephone (fixed line or mobile) is an official telephone, and may approve the payment of subsidies (paid on a reimbursement basis) to the employee for the cost of using that telephone. Mobile telephones provided to senior officers as part of their employment do not require separate approval under Treasurer's Direction A6.3.4.

### PROPERTY MANAGEMENT

**A6.3.5** **Property management charges are to be recognised and recorded as an expense when property management services are provided to, or incurred by an Agency.**

- (i) Property management charges include those relating to the lease or rent of buildings, cleaning of premises, grounds maintenance, security and any other associated lease costs.
- (ii) Recognition of property management expenses will occur when property management services are provided rather than when cash payments are made.
- (iii) Agencies may be offered an incentive to enter into a lease such as a rent free period or payment for fit-out costs by the lessor. In certain circumstances such incentives may be required to be recognised in Agency financial statements. Advice should be sought from Treasury where these incentives are material. Further instruction and guidance in relation to leases is provided in Treasurer's Directions Section A3.6.

### REPAIRS AND MAINTENANCE

**A6.3.6** **Repairs and maintenance costs are to be recognised as an expense when the repairs and maintenance services are provided to, or incurred by an Agency.**

- (i) Repairs and maintenance expenses are incurred to maintain the existing service potential of an asset over its useful life. Costs include day to day servicing, repairs for damage, wear and tear, and cyclical preventative maintenance.
- (ii) Repairs and maintenance costs will be recognised when repairs and maintenance works are undertaken rather than when cash payments are made. However, in some situations it will not be practical for an Agency to accurately determine the timing and exactly which repairs and maintenance services have been provided by contractors. As such, an expense may be recognised on receipt of advice from a contractor that works are complete (for example, receipt of an invoice).

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- (iii) Expenses associated with longer term works may be recognised on a stage of completion basis. For example, repairs and maintenance costs would be recognised based on a survey of work completed. In practice, such advice may be provided by the Department of Planning and Infrastructure (DPI), where DPI manages the delivery of repairs and maintenance works for the Agency.
- (iv) Additional instruction and guidance on the accounting treatment of repairs and maintenance expenses is provided in Treasurer's Directions Section A2.5.
- (v) Agencies should remain aware that funding allocated for repairs and maintenance purposes may only be spent on repairs and maintenance.

### ASSET EXPENSES

#### A6.3.7

**Asset expenses are to be recognised and recorded by an Agency when the related asset is consumed, disposed of, or certain types of impairment losses are incurred.**

- (i) Asset expenses result from the use, disposal or loss of assets during the reporting period. Examples include:
  - depreciation and amortisation;
  - asset write-offs;
  - downward revaluations not charged to the Asset Revaluation Reserve;
  - asset donations and gifts;
  - loss on disposal of a non-current asset; and
  - asset impairment losses where the adjustment is not made to the Asset Revaluation Reserve.
- (ii) Depreciation (and amortisation) is a periodic expense associated with the consumption or loss of service potential of non-current assets. The term amortisation applies in relation to intangible assets, while depreciation is applied to physical assets such as property, plant and equipment (note: land is not depreciated or amortised). Treasurer's Directions Section A2.3 gives detailed instruction and guidance in relation to depreciation and amortisation.
- (iii) An asset may be written off in the situation where it has been lost, stolen or ceases to retain future economic benefits. Approval is required under the *Financial Management Act* to write-off the value of an asset. In situations where an asset is written off, both the cost (or revalued amount) and any accumulated depreciation will be written off. As a result, an expense equivalent to the written down value will be recognised in the reporting period in which the asset is written off.
- (iv) Treasurer's Directions Sections A2.2, A2.4 and A2.10 give further instruction and guidance in relation to assets write-offs, donations, gifts, revaluations, write-downs, and impairment. In addition, Agencies should remain aware that the Treasurer's approval under the *Financial Management Act* is required prior to an asset being donated or gifted.

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A6.3.8

An Agency is to recognise and record the net gain (or loss) on disposal of a non-current asset as income (expense) in the reporting period in which the disposal or loss occurs.

(i) Any gain or loss from the disposal of non-current assets is recognised as at the date of disposal and reflects the net disposal value received after deducting the carrying value of the asset from any proceeds received. In the case of a lost or stolen asset, the proceeds on disposal would be nil (unless partial or full recovery was made).

(ii) The gain or loss on disposal is determined as follows:

Gross Asset Value	\$50,000
<u>Less</u> : Accumulated Depreciation	(\$20,000)
<u>Less</u> : Accumulated Impairment Losses	(\$10,000)
Carrying Amount	\$20,000
<u>Less</u> : Proceeds	(\$15,000)
Net Loss on Disposal	<u>(\$ 5,000)</u>

(iii) Regardless of whether a gain or a loss is incurred, the amount will be included by Agencies and Government Business Divisions on a net basis in the Operating Statement. Gross proceeds on disposal will be disclosed by way of a note to the financial statements. An example of how to account for a loss on disposal of a non-current asset is provided at [Appendix A](#).

### FINANCE EXPENSES

A6.3.9

An Agency is to recognise and record all finance costs as expenses when incurred.

A6.3.10

Agencies are not to capitalise any finance or borrowing costs.

(i) Finance expenses include interest and other finance costs incurred by an Agency in connection with the borrowing of funds and financing of an Agency's activities. Finance expenses include:

- borrowing and loan interest;
- finance lease interest;
- bank overdraft interest; and
- other finance and borrowing costs.

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- (ii) To comply with external reporting requirements, all Agencies and Government Business Divisions are not to capitalise any finance or borrowing costs.
- (iii) Agencies may incur interest expenses on outstanding advances, loans and borrowings. In most situations, interest payments are made at regular intervals throughout the term of the loan, advance or borrowing and consequently, an expense may be recognised at the time the loan payment is due and payable. Where interest payments are not made at regular intervals, interest will be recognised as an expense when incurred.
- (iv) Finance lease interest is recognised as an expense in the reporting periods covered by the lease term, and is calculated on the balance of a finance lease liability. Detailed instruction and guidance in relation to leases is provided in Treasurer's Directions Section A3.6
- (v) Bank overdraft interest is recognised in the reporting period in which the interest charge is incurred. Agencies should manage their cash balances to avoid incurring interest on bank overdrafts. Treasurer's Directions Section C2.2 provides further instruction and guidance in relation to Agency bank accounts.
- (vi) Other finance and borrowing costs will be rare for most Agencies but may include:
  - the amortisation of discounts on premiums relating to borrowings; and
  - exchange differences arising from foreign currency borrowing.

### BAD AND DOUBTFUL DEBTS

A6.3.11

**Each Agency is to recognise and record a doubtful debts expense at the time the corresponding allowance for doubtful debts is raised.**

A6.3.12

**Each Agency is to recognise and record a bad debts expense once an amount is deemed uncollectible and approval under the *Financial Management Act* to write-off the debt has been obtained.**

- (i) An expense for doubtful debts will be recognised by an Agency when objective evidence exists that all or part of a debt is unlikely to be collected. If subsequently, the Agency realises that the amount will not be collected, the allowance for doubtful debts is transferred to bad debts expense and the debt is written-off. Approval under the *Financial Management Act* to write-off the debt is required prior to a bad debts expense being raised.
  - (ii) Where the Agency realises that an amount will not be collected and an allowance for doubtful debts has not previously been raised, a bad debts expense will be raised and the receivable written-off. However, Agencies should remain aware that approval under the *Financial Management Act* to write-off the debt is required prior to a bad debt expense being raised.
  - (iii) Detailed instruction and guidance in relation to bad and doubtful debts is provided in Treasurer's Directions Section A2.7.
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GOODS AND SERVICES RECEIVED FREE OF CHARGE

A6.3.13

An Agency is to recognise and record an expense in relation to goods and services received free of charge when the fair value of the goods and services received can be reliably measured and those goods and services would have been purchased if they had not been provided free of charge.

- (i) To reflect the total cost of Agency outputs, material goods and/or services received free of charge will be recorded as an Agency expense, with a corresponding income item titled 'goods and services received free of charge'. The value recorded will equate to the fair value of the goods or services provided (for example, the price charged by the providing Agency or entity).
- (ii) Services received free of charge, will only be recognised where the services would have been otherwise purchased by the Agency. In practice, material Agency resources received free of charge will also need to be incorporated into Agency income and expense budgets so that large budget discrepancies are avoided. Material budget adjustments should occur prior to the recognition of material services received free of charge.
- (iii) Goods and services that an Agency receives free of charge may include:
- personnel and payroll services;
  - accounts processing;
  - asset management;
  - office accommodation;
  - car parking;
  - power and lighting; and
  - audit services.
- (iv) It is useful for an Agency to be aware of the shift in allocation of resources resulting from these transactions and achieve more accurate costing of service delivery. However, Agencies should remain aware of the administrative costs and materiality of expense information collected.
- (v) Resources received from another entity as a result of machinery of Government changes, or in the form of grants and subsidies are not included as goods and services received free of charge.

ASSUMPTION OF LIABILITIES

A6.3.14

An Agency is to recognise and record an expense in relation to a liability assumed from another entity when the assumption occurs unless the transaction is in the nature of a distribution to Government.

- (i) An Agency that assumes a liability of another entity will recognise an expense and a liability equivalent to the liability assumed where the liability assumed is not in the nature of a distribution to Government. Further instruction and guidance in relation to distributions to Government is provided in Treasurer's Directions Section A4.2.
- (ii) A situation where an Agency assumes a liability of another entity includes an employee transfer between Agencies, where employee benefits accrued (for example, recreation leave) up to transfer date are transferred to the receiving Agency. The receiving Agency recognises an expense and a liability in respect of any obligations to pay accrued employee benefits in the future, that are assumed as a consequence of the transfer. Further instruction and guidance on employee benefit liabilities is provided in Treasurer's Directions Section A3.4.

**LOSS ON DISPOSAL OF A NON-CURRENT ASSET – EXAMPLE**

An Agency disposes of a complex piece of equipment initially costing \$250,000 and now with a written down value (carrying amount) of \$50,000 (accumulated depreciation is \$200,000, the asset has no residual value, and there are no accumulated impairment losses associated with this asset). The equipment is subsequently sold for \$40,000 (GST exclusive) resulting in a \$10,000 loss.

The journal entry to write back the accumulated depreciation (and any accumulated impairment losses – where applicable); record the asset proceeds; and to determine whether a gain or loss has been made on the disposal is as follows:

DR	Accumulated Depreciation	<i>(Decrease in Contra Asset – Balance Sheet)</i>	\$200,000
DR	Cash at Bank	<i>(Increase in Assets – Balance Sheet)</i>	\$40,000
DR	Sale of Plant and Equipment (loss)	<i>(Increase in Expenses – Operating Statement)</i>	\$10,000
CR	Plant and Equipment – Sales	<i>(Decrease in Assets – Balance Sheet)</i>	\$250,000