Policy Directive: compliance is mandatory

Accruals Policy Directive

Objective file number: 2012-12380
Document classification: Public-I1-A1
Policy developed by: Finance and Corporate Services Division
Approved at Portfolio Executive on: 6 August 2015
Next review due: 31 July 2020

Summary
The Accruals Policy Directive has been created to ensure the accrual basis of accounting is understood and used in the preparation of financial statements; whether for internal use, or for statutory reporting.

Keywords

Policy history
Is this a new policy? Y
Does this policy amend or update an existing policy? N
Does this policy replace an existing policy? N

Applies to
All SA Health Portfolio

Staff impact
All Staff

EPAS compatible
N/A

Registered with Divisional Policy
Yes

Contact Officer

Policy doc reference no.
D0387

Version control and change history

<table>
<thead>
<tr>
<th>Version</th>
<th>Date from</th>
<th>Date to</th>
<th>Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>V1.0</td>
<td>21/11/2012</td>
<td>03/08/2015</td>
<td>Oracle Assist</td>
</tr>
<tr>
<td>V1.0</td>
<td>06/08/2015</td>
<td>Current</td>
<td>PE Approved</td>
</tr>
</tbody>
</table>
Accruals Policy Directive

Version V1.0
Portfolio Executive Approved
**Document control information**

<table>
<thead>
<tr>
<th>Document owner</th>
<th>Group Manager, Financial Accounting, Finance and Corporate Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributors</td>
<td>Director, Financial Accounting, Finance and Corporate Services</td>
</tr>
<tr>
<td></td>
<td>Regional Finance Director (SAAS), Financial Corporate Advisory</td>
</tr>
<tr>
<td></td>
<td>Service</td>
</tr>
<tr>
<td></td>
<td>Group Manager, Financial Accounting</td>
</tr>
<tr>
<td></td>
<td>Manager, NALHN, SALHN &amp; DHA, Financial Accounting</td>
</tr>
<tr>
<td></td>
<td>Manager, CHSALHN, Financial Accounting</td>
</tr>
<tr>
<td></td>
<td>Manager, Project Accounting, Corporate Finance Services</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Document Classification</th>
<th>Public, I1, A1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document location</td>
<td>SA Health Internet</td>
</tr>
<tr>
<td>Reference</td>
<td>GL_P_6009</td>
</tr>
<tr>
<td>Valid from</td>
<td>6 August 2015</td>
</tr>
<tr>
<td>Review date</td>
<td>31 July 2020</td>
</tr>
</tbody>
</table>

**Document history**

<table>
<thead>
<tr>
<th>Date</th>
<th>Author</th>
<th>Version</th>
<th>Change reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/10/2012</td>
<td>Senior Financial Accountant, Policies and Procedures, Corporate Finance Services, Finance and Corporate Services</td>
<td>V1.0</td>
<td></td>
</tr>
</tbody>
</table>

**Endorsements**

<table>
<thead>
<tr>
<th>Date</th>
<th>Endorsed by</th>
<th>Version</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/11/2013</td>
<td>Director, Corporate Finance Services, Finance and Corporate Services Division</td>
<td></td>
</tr>
</tbody>
</table>

**Approvals**

<table>
<thead>
<tr>
<th>Date</th>
<th>Approved by</th>
</tr>
</thead>
<tbody>
<tr>
<td>06/08/2015</td>
<td>Portfolio Executive</td>
</tr>
</tbody>
</table>
# Table of contents

1. **Objective** ................................................................................................................................................. 4  
2. **Scope** ........................................................................................................................................................ 4  
3. **Principles** .................................................................................................................................................. 4  
4. **Detail** ....................................................................................................................................................... 4  
   - 4.1. Major Accruals ........................................................................................................................................ 4  
   - 4.2. Accruing for GST .................................................................................................................................... 5  
5. **Roles and Responsibilities** .................................................................................................................... 6  
   - 5.1. Financial Accounting .......................................................................................................................... 6  
   - 5.2. Business Units ...................................................................................................................................... 6  
6. **Reporting** .................................................................................................................................................. 6  
7. **EPAS** ....................................................................................................................................................... 6  
8. **Exemptions** ............................................................................................................................................. 6  
9. **National Safety and Quality Health Services Standards** ...................................................................... 6  
10. **Risk** ......................................................................................................................................................... 6  
11. **Evaluation** ............................................................................................................................................... 6  
12. **Definitions** ............................................................................................................................................. 7  
13. **Associated Policy Directives / Policy Guidelines** .............................................................................. 7  
14. **References, Resources and Related Documents** ................................................................................. 7  

**Appendix** .................................................................................................................................................. 8  
- A. Monthly and Annual Accrual Process ..................................................................................................... 8  
- B. Accruing for GST – journal entries ........................................................................................................ 8
Accruals Policy Directive

1. Objective

This policy directive has been created to ensure the accrual basis of accounting is understood and used in the preparation of the Annual Financial Statements; whether for internal use, or for statutory reporting.

The use of accrual accounting is in accordance with the Australian Accounting Standards Board (AASB) 101 *Presentation of Financial Statements*.

2. Scope

This policy directive applies to all SA Health finance staff.

3. Principles

The following principles must be followed:

- All material monthly and annual accruals must be processed.
- An end of financial year time table must be compiled which lists the required information for annual accruals.
- The Goods and Services Tax (GST) component must be accrued if a valid tax invoice is received or issued.

4. Detail

The accrual basis of accounting is used in the preparation of the Annual Financial Statements, in accordance with AASB 101 *Presentation of Financial Statements*.

4.1. Major Accruals

SA Health has a number of income and expenditure accruals that are processed on a monthly basis, as well as accruals that are processed on an annual basis. Below is a list of major accruals that are performed with information in brackets representing the business unit(s) responsible for providing information and processing the accruals.

Regardless of whether the reporting is monthly or for year end, income and expenditure accruals are to be raised based on the following thresholds:

- any amounts of $5,000 or more per invoice, or
- invoices greater than 10% of the annual budget, or
- for projects, invoices greater than 10% of the annual project budget.

These same rules apply to inter-business accruals.
Consideration needs to be given to grouping smaller common amounts, i.e. from the same contractual arrangement, for possible accruing. Where the income or expenditure does not meet the above thresholds, but may form part of a material annual income or expense, further consideration needs to be given as to whether the accrual may be submitted quarterly or bi-annually; once it meets the threshold.

The following accrual information is to be supplied to Financial Accounting for processing on an annual and monthly (where appropriate) basis. Please note, the lists below are not exhaustive and are to be used as a guide only.

- Material expenditure incurred but not yet recorded in the general ledger;
- Material revenue earned but not yet recorded in the general ledger;
- Payroll (Financial Accounting data sourced from Shared Services SA);
- Patient transport fees (Financial Accounting data sourced from SA Ambulance Service);
- Contract management expenses (projects);
- Accrued creditors where an invoice has been received but not yet recorded in the general ledger (all business units);
- Debtors where an invoice request form has been received but not yet recorded in the general ledger (all business units);
- Unearned revenue (all business units);
- Medicare interstate patient transfers (Financial Accounting data sourced from Policy and Intergovernmental Relations); and
- Auditor’s remuneration (regardless of amount – AASB 1054 Australian Additional Disclosures, para 10 and 11).

4.2. Accruing for GST

Urgent Issues Group (UIG) Interpretation 1031 Accounting for the GST paragraph 6-9 states, ‘revenues, expenses and assets shall be recognised net of the amount of goods and services tax (GST) except where:

- the amount of GST incurred by a purchaser that is not recoverable from the taxation authority shall be recognised as part of acquisition of an asset or as part of an item of expense.
- receivables and payables shall be stated with the amount of GST included.’

The DTF Model Financial Statements further advises that expense accruals are GST inclusive. With practicality in mind, if a valid tax invoice has been received or issued then accrued creditors and debtors must include the GST component. See Appendix B – Accruing for GST – journal entries.

It is important to note these rules shall apply in the absence of a specific accounting standard that prescribes otherwise, (for example, AASB 117 Leases requires the present value of minimum lease payments to be accrued GST inclusive).
5. Roles and Responsibilities

5.1. Financial Accounting

Financial Accounting is responsible for:

- ensuring that all material monthly and annual accruals are processed; and
- compiling the end of year timetable, listing information required for annual accruals.

5.2. Business Units

Business units are responsible for:

- advising Financial Accounting of any regular monthly accruals that relate to their business unit; and
- informing Financial Accounting of any outstanding accruals at the end of the financial year that need to be recognised in the Annual Financial Statements. This information is to be provided electronically in a timely manner as specified by the end of year timetable which is distributed by Financial Accounting.

6. Reporting

N/A

7. EPAS

N/A

8. Exemptions

N/A

9. National Safety and Quality Health Services Standards

N/A

10. Risk

Non-compliance with this policy directive could result in the Annual Financial Statements being incorrect or misleading. This may result in adverse commentary from Audit.

11. Evaluation

Compliance with this document will occur when material accruals are recognised and processed in a timely fashion so that the Annual Financial Statements are represented accurately.
12. Definitions

In the context of this document:

- **accrual basis** means the accounting basis whereby the assets, liabilities, equity, revenues and expenses are recognised in the accounting period to which they relate, regardless of when cash is received or paid.
- **accrued expenses** are expenses that have been incurred in earning revenue but are unrecorded at reporting date.
- **accrued revenue** is revenue that has been earned but is unrecorded at reporting date.
- **business unit** is a collective term which encompasses all Local Health Networks/Health Networks, the Department for Health and Ageing and the South Australian Ambulance Service.
- **material** describes information that by its omission, misstatement or non-disclosure has the potential to adversely affect decisions made by users of financial information. In the context of this policy directive, materiality has been determined by the Project Accounting team to include amounts that could be considered material at an individual project level.

13. Associated Policy Directives / Policy Guidelines

- [Financial Commitments Policy Directive](#)
- [Prepayment Policy](#)
- [Finance and Operating Leases Policy](#)

14. References, Resources and Related Documents

This policy directive should be read in conjunction with the following documents:

- [AASB 101 Presentation of Financial Statements](#)
- [AASB Framework for the Preparation and Presentation of Financial Statements](#)
- [Treasurer's Instruction 2 Financial Management](#)
Appendix

A Monthly and Annual Accrual Process

Monthly
Monthly accruals are to be processed by 3pm on the third working day of the next month. For example, March accruals are to be processed by 3pm on the third working day of April to be included in the General Ledger for the month of March.

Annually
At the end of the financial year, Financial Accounting will provide details regarding the accruals processed in Jun-Adj (Period 13) to each Regional Finance Director.

B Accruing for GST – journal entries

Accrued Creditors (with valid tax invoice)

<table>
<thead>
<tr>
<th>Dr</th>
<th>$100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense</td>
<td></td>
</tr>
<tr>
<td>GST Receivable</td>
<td>$10</td>
</tr>
<tr>
<td>Cr</td>
<td></td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>$110</td>
</tr>
<tr>
<td>(Payables)</td>
<td></td>
</tr>
</tbody>
</table>

Accrued Debtors (with valid tax invoice)

<table>
<thead>
<tr>
<th>Dr</th>
<th>$110</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued Revenue</td>
<td></td>
</tr>
<tr>
<td>(Receivables)</td>
<td></td>
</tr>
<tr>
<td>Cr</td>
<td>$100</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
</tr>
<tr>
<td>Cr</td>
<td>$10</td>
</tr>
<tr>
<td>GST Payable</td>
<td></td>
</tr>
</tbody>
</table>

Accrued Creditors (no valid tax invoice)

<table>
<thead>
<tr>
<th>Dr</th>
<th>$100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense</td>
<td></td>
</tr>
<tr>
<td>Cr</td>
<td></td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>$100</td>
</tr>
<tr>
<td>(Payables)</td>
<td></td>
</tr>
</tbody>
</table>

Accrued Debtors (no valid tax invoice)

<table>
<thead>
<tr>
<th>Dr</th>
<th>$100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued Revenue</td>
<td></td>
</tr>
<tr>
<td>(Receivables)</td>
<td></td>
</tr>
<tr>
<td>Cr</td>
<td>$100</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
</tr>
</tbody>
</table>