

Accounting Procedure - Payables and Borrowings

Section 1 - Background and Purpose

(1) This Procedure is applied in accounting for all financial liabilities except for:

- a. financial liabilities at fair value through profit or loss;
- b. financial liabilities that arise when a transfer of a financial asset does not qualify for de-recognition or when the continuing involvement approach applies;
- c. financial guarantee contracts;
- d. commitments to provide a loan at a below-market interest rate; and
- e. financial liabilities that are designated as hedged items.

Section 2 - Scope

(2) Refer to the [Accounting \(Financial\) Policy](#).

Section 3 - Policy Statement

(3) Refer to the [Accounting \(Financial\) Policy](#).

Section 4 - Procedure

Recognition

(4) Payables and borrowings are recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation, and the amount at which the settlement will take place can be measured reliably.

(5) Trade and other payables represent liabilities for goods and services provided to the University prior to the end of the reporting period which are unpaid. These amounts are unsecured and are provided with credit terms of payment.

Measurement

Payables

(6) Payables are recognised at the fair value of the item purchased and are subsequently measured at an amortised cost. Any differences between the cost of the transaction and the redemption amount shall be recognised in the income statement as finance costs. The cash flows relating to the payable are not discounted or increased if the effect of doing so is immaterial.

Borrowings

(7) Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Fees paid on the establishment of a loan facility (which are not an incremental cost relation to the actual draw down of the facility) are recognised as prepayments. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

De-Recognition

(8) Payables and borrowings are to be removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the income statement.

Borrowing Costs

(9) Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Section 5 - Definitions

(10) For the purpose of this Procedure:

- a. Amortised cost is the amount at which the financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of a provision account) for impairment or un-collectability.
- b. Effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
- c. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the University shall estimate cash flows considering all contractual terms of the financial instrument (e.g., prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.
- d. Fair value is the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- e. The University means La Trobe University.

Status and Details

Status	Current
Effective Date	15th November 2016
Review Date	30th September 2018
Approval Authority	Vice-Chancellor
Approval Date	15th November 2016
Expiry Date	Not Applicable
Unit Head	Mark Smith Chief Finance and Operations Officer
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