Accounting Procedure - Provisions and Employee Benefits

Section 1 - Background and Purpose

(1) This Procedure is applied in accounting for provisions and employee benefits.

Section 2 - Scope

(2) Refer to the Accounting (Financial) Policy.

Section 3 - Policy Statement

(3) Refer to the Accounting (Financial) Policy.

Section 4 - Procedure

Provisions

Recognition

(4) A provision is only recognised when the University has a present legal or constructive obligation as a result of past events, or it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

(5) Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Measurement

(6) Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as a borrowing cost.

Employee Benefits

Wages and Salaries and Annual Leave

(7) Liabilities for wages and salaries, including non-monetary benefits are measured at the amount expected to be paid when the liability is settled. The liability for annual leave is recognised in current provisions in respect of employees' services up to the reporting date and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. The expected future payments are

discounted using market yields at the reporting date on national Government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. Regardless of the expected timing of settlements, provisions made in respect of employee benefits are classified as a current liability, unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability.

Long Service Leave

(8) A liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. The expected future payments are discounted using market yields at the reporting date on national Government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Retirement Benefit Obligations

(9) All employees of the University are entitled to benefits on retirement, disability or death. The University has a defined benefit section and a defined contribution section within its plan. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from the University and its legal or constructive obligation is limited to these contributions.

Defined Benefit Plans

(10) A liability or asset in respect of the defined benefit superannuation plan is recognised in the statement of financial position, and is measured as the present value of the defined benefit obligation at the reporting date, plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund’s assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the plan to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service.

(11) Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(12) Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, outside of the income statement, in the statement of comprehensive income.

(13) Past service costs are recognised immediately in the income statement, unless the changes to the superannuation plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

(14) Future taxes that are funded by the entity and are part of the provision of the existing benefit obligation (for example, taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

Defined Contribution Plan

(15) Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Unfunded Superannuation

(16) Any unfunded liabilities shall be recorded in the statement of financial position as determined by independent actuaries relating to defined benefit superannuation plans.

Termination Benefits

(17) Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The University recognises termination benefits at the earlier of when the University can no longer withdraw the offer of benefits or when the University recognises costs for restructuring involving the payment of termination benefits. Benefits falling due more than 12 months after reporting date are discounted to present value.

Section 5 - Definitions

a. Actuarial gains and losses comprise:
    i. experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
    ii. the effects of changes in actuarial assumptions.
b. A constructive obligation is an obligation that derives from the University's actions where:
    i. by an established pattern of past practice, published policies or a sufficiently specific current statement, the University has indicated to other parties that it will accept certain responsibilities; and
    ii. as a result, the University has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
c. A legal obligation is an obligation that derives from:
    i. a contract (through its explicit or implicit terms);
    ii. legislation; or
    iii. other operation of law.
d. The University means La Trobe University.

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