Resource Management Guide No. 116
Accounting for the Paid Parental Leave scheme by Commonwealth employers

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Contact us

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This guide contains material that has been prepared to assist Commonwealth entities and companies to apply the principles and requirements of the Public Governance, Performance and Accountability Act 2013 and associated rules, and any applicable policies. In this guide the: mandatory principles or requirements are set out as things entities and officials ‘must’ do; and actions, or practices, that entities and officials are expected to take into account to give effect to those and principles and/or requirements are set out as things entities and officials ‘should consider’ doing.
Audience

This Guide applies to: CFOs and CFO Units in all Commonwealth entities in their administration of the entity’s employer obligations.

This guide is designed to be read in conjunction with the relevant Australian Accounting Standards.

Key points

- **Purpose**: To provide guidance on accounting for receipts and payments associated with the Paid Parental Leave scheme.
- **Aim**: To provide non-mandatory explanation and examples relating to the interpretation and application of Australian Accounting Standards and the PGPA Financial Reporting Rule (FRR) to the above entities.
- **Reference previous guidance**: This guide replaces Accounting Guidance Note No. 2011/1.

Resources


**Applicable accounting pronouncements**

- AASB 107 *Statement of Cash Flows*
- AASB 118 *Revenue*
- AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*
- AASB 1004 *Contributions*

**Commonwealth Entities Financial Statements Guide (incorporating the FRR)**

- Chapter 17 Income (Excluding Appropriations)
- Chapter 42 Appropriations – General Requirements

**Legislative requirements**

- *Paid Parental Leave Act 2010*

Contact information

For further information or clarification, please email Budget Estimates and Accounting (BEA) at accountingpolicy@finance.gov.au.

Laws

1. The *Paid Parental Leave Act 2010* enables parents of newborn or newly adopted children to take up to 18 weeks in leave, paid by the government at the national minimum wage rate.
Guidance

2. Payments will be taxable and subject to income and residency tests. Payments are not salary for workers compensation purposes and this leave is not counted as paid leave.

3. Employers are not obliged to make payments unless they have received funding from the government prior to payroll cut off.

Accounting treatment

Statement of comprehensive income

4. The Department of Finance (Finance) is of the view that receipts received by employers under the scheme are not revenue for the purposes of AASB 118. Consequently payments to employees for parental leave are not expenses.

5. There is an alternative view applying to for-profit entities only that they should recognise the receipts as grants, and hence be recorded as revenue (with corresponding expenses). For-profit entities adopting this approach should follow AASB 120 and offset revenues and expenses in the Statement of Comprehensive Income. Where for-profit entities adopt this approach, subsection 14(2) of the FRR provides support to offset transactions which relate to the scheme.

Statement of financial position

6. Where employers have received amounts at balance date that have not yet been paid to employees, they must be accounted for as cash and a liability (i.e. payable).

Statement of cash flows

7. For the purposes of AASB 107, receipts and payments must be accounted for as operating cash flows.

8. Cash flows associated with the scheme can either be reported on a gross basis, or a net basis in accordance with paragraph 22(b) of AASB 107.

Other issues

Relevant non-corporate entity receipts

9. Section 27 of the PGPA Rule provides that amounts receipted by employers under the scheme are ‘relevant non-corporate entity receipts’ and may be retained and used by non-corporate Commonwealth entities in accordance with section 74 of the PGPA Act.

Accounting and recording processes

10. Entities are responsible for determining the payroll, accounting, recording and reconciliation processes relating to receipt and payment of parental leave.
Disclosure requirements

11. Except for paragraph 12, paid parental leave receipts are to be disclosed in the financial statements of the entity as ‘relevant non-corporate entity receipts’ (section 74 of the PGPA Act).

12. To the extent that for-profit entities adopt the approach outlined in paragraph 5 above, they are required to prepare the disclosures required by AASB 120 paragraph 39 in relation to amounts received under the scheme.

Definitions used

- **Revenue** is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than ... [equity contributions] (adapted from AASB 118.7).