Resource Management Guide No. 124
Accounting for social benefit payments
Use of the Coat of Arms

The terms under which the Coat of Arms can be used are detailed on the following website: www.itsanhonour.gov.au/coat-arms.

Contact us

Questions or comments about this guide should be directed to:

Public Management Reform Agenda
Department of Finance
John Gorton Building
King Edward Terrace
Parkes ACT 2600

Email: pmra@finance.gov.au
Internet: www.pmra.finance.gov.au

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 that report social benefits payments in their financial statements.

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

**Purpose**

The purpose of this guide is to provide non-mandatory guidance on accounting for social benefits payments provided by Government to eligible individuals or households. This guide does not apply to benefits:

- the Government provides to the community for which there are no eligibility requirements, such as public goods;
- payments that might have similar characteristics to social benefits but are really compensation or remuneration – e.g. insurance contracts, employee benefits, compensation provisions; or
- paid through the tax system, such as tax offsets.

**Key points**

- Social benefits payments should be recognised at the point when recipients have met the eligibility criteria for the payment period and the payment or other benefit is due (the ‘due and payable’ basis).
- This usually means recognising an expense for each regular (e.g. fortnightly) cash payment and an end of period liability for any accrued entitlements.
- Social benefits liabilities should not be recognised for constructive obligations or for future payments the Government may make beyond the current payment period.

**Resources**


**Applicable accounting pronouncements**

- [AASB 1050 Administered Items](http://www.finance.gov.au)

**Contact information**

For further information or clarification, we encourage you to email Budget Estimates and Accounting (BEA) at [accountingpolicy@finance.gov.au](mailto:accountingpolicy@finance.gov.au).

---

1 Only payments provided directly to recipients are covered by this guide. Where a benefit may be paid either directly or through the tax system and the claimant elects to be paid through the tax system, this scope exclusion applies.
Guidance

1. Social benefits are typically, though not exclusively, provided by Budget funded agencies in the form of a regular (e.g. fortnightly) cash payment. Examples include Newstart allowance, pensions and paid parental leave.

2. However there may be circumstances in which non-cash benefits are provided and/or the paying entity is not Budget funded. For example, the National Disability Insurance Agency, a corporate Commonwealth entity, provides cash and in-kind benefit to National Disability Insurance Scheme recipients. The remainder of this guide uses ‘payment’ as a generic term to cover cash and non-cash benefits.

3. A standard requirement of social benefits payments is the use of ongoing eligibility requirements to assess the recipients’ entitlement to the payment (so a recipient will not qualify for the payment if they cease to satisfy the eligibility criteria). Eligibility requirements are usually codified in the legislation authorising the payment.

Accounting Treatment

4. Under paragraph 60 of the Conceptual Framework, obligations may be legally enforceable or arise from custom, equitable consideration or the desire for good relations. In case of social benefits, the Government incurs a liability at the time it has a legal obligation to make payment when the recipient meets the eligibility requirements.

5. Consequently, social benefits payments will not give rise to a constructive obligation under AASB 137 and no liability should be recognised for potential claimants who have not applied for the benefit as the Government has no legal obligation until a claim is lodged and the applicant is assessed to have met the eligibility requirements.

6. Under paragraph Aus 26.1 of AASB 137 the present obligation (and consequently the liability) for social benefits payment is recognised at the point when the entitlement conditions are met for payment during a particular payment period.

- Aus26.1 only automatically applies to entities that are part of the Commonwealth legal entity. However, paragraphs 10 and 11 of AASB 108 requiring entities to consider accounting standards dealing with similar issues would reasonably extend the ambit of Aus 26.1 to include corporate entities.

7. As the present obligation does not extend beyond the current payment period, payments the Government may make in future periods, however probable, are future obligations that do not meet the recognition criteria for liabilities.

8. The expense for social benefits payments is recognised at the time cash payment or other benefit is due (the ‘due and payable’ basis). At the end of each reporting period a liability is recognised for the outstanding accrual for the payment period. For example, if the 30 June fell in the middle of a fortnightly payment period, the liability would be the seven days’ accrual for eligible recipients.

9. The ‘due and payable’ basis, as outlined above, is considered the most appropriate under accounting standards, and is consistent with the approach currently taken in accounting for social benefit payments.

10. Entities should review existing social benefits payments to confirm they are accounted for on a due and payable basis. Where a different accounting treatment is identified, agencies should contact BEA (using the contact details under “resources” above) who will work with you to determine if a change in accounting treatment is required.
Disclosure requirements

11. Social benefits payments are usually disclosed as administered items under paragraph 17 of AASB 1050.

12. Where an accounting treatment other than the ‘due and payable’ basis has been used for an existing payment and this will be changed to the ‘due and payable’ basis, this will normally be disclosed as a change in accounting policy under paragraph 29 of AASB 108 and applied retroactively, where practicable, under paragraph 19 of AASB 108.

13. General presentation requirements for financial statements are in PRIMA Forms.

Budget implications

14. There are no Budget implications unless the accounting treatment is changed in the manner discussed above under ‘disclosure requirements’. BEA will work with agencies on any changes to the Budget estimates.

15. The most probable change in the accounting policy will be a change in the length or scope of the social benefit liability. This will have no impact on the Underlying Cash Balance (as the timing of cash payments is determined under the relevant legislation) and is unlikely to have a significant impact on the Fiscal Balance.

Definitions used

Social benefits
In SNA93 and the IMF GFS system, current transfers (in cash or kind) to households to provide for needs arising from events such as sickness, unemployment, retirement, housing, education, or family circumstances. (Australian System of Government Finance Statistics: Concepts, Sources and Methods) (ABS GFS Manual) (cat. no. 5514.0).

All the remaining definitions are taken from paragraph 10 of AASB 137

A constructive obligation is an obligation that derives from an entity's actions where:
(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A legal obligation is an obligation that derives from:
(a) a contract (through its explicit or implicit terms);
(b) legislation; or
(c) other operation of law.

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
Example of accounting for social benefits expense

The payment is made on a fortnightly basis to recipients meeting the eligibility criteria. There are 50,000 eligible recipients, each receiving a cash payment of $100 a fortnight.

At the end of each fortnight an expense is recognised for the amount of the cash payment:

\[
\begin{align*}
\text{Dr.} & \quad \text{Personal benefits expense} & \quad $5 \text{ million} \\
\text{Cr.} & \quad \text{Cash} & \quad $5 \text{ million}
\end{align*}
\]

The reporting period ends on the 30 June. This date falls on the midpoint of the fortnightly payment period. Consequently, a liability for seven days’ benefit payments is recognised.

There are a number of ways to journal the entries for the end of year liability. The entries below use an end of year accrual, assuming the preparer knows the number of eligible claimants at the 30 June and the payment due.

<table>
<thead>
<tr>
<th>Debit $'000</th>
<th>Credit $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>End of Period Financial Report:</strong></td>
<td></td>
</tr>
<tr>
<td><strong>30 June 20XX</strong></td>
<td></td>
</tr>
<tr>
<td>Dr. Personal benefits expense</td>
<td>2,500</td>
</tr>
<tr>
<td>Cr. Personal benefits payable</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>Recognition of end of year accrual</strong></td>
<td></td>
</tr>
<tr>
<td><strong>1 July 20XX</strong></td>
<td></td>
</tr>
<tr>
<td>Dr. Personal benefits payable</td>
<td>2,500</td>
</tr>
<tr>
<td>Cr. Personal benefits expense</td>
<td>$2,500</td>
</tr>
<tr>
<td><strong>Reversal of end of year accrual</strong></td>
<td></td>
</tr>
</tbody>
</table>

Where there is uncertainty over the number a claimants or the amount or timing of payments, the liability may also be recorded as a provision.