Provisions for Entitlements

Many businesses today seek to report employees' entitlements (amount of leave owing) in dollar value on the balance sheet to help better understand their net equity. These entitlements include annual, personal and long service leave which accrue according to the hours worked by the employee.

The exact entitlements for each employee would need to be established in consideration of Fair Work or other legal requirements. In most cases the annual and long service leave provisions are reported on the balance sheet, but it is not usual for personal leave to be recognised in the financial statements unless an award or agreement requires accrued personal leave to be paid on termination.

When accounting for employee entitlement provisions, it is usual to also provide for the superannuation expense on top of the leave expense. While super may not be paid on termination leave entitlements, it would be paid if the leave was taken by the employee while in the service of the employer.

National Fairwork Standards for Entitlements

Annual Leave	4 weeks p.a. or 152 Hours if 38hr week (Annual leave loading 17.5% to be added to accrual (where applicable)
Personal Leave	10 Days p.a. or 76 Hours if 38hr week
Long Service Leave	State based legislation or awards will determine the level of entitlement (For example Victoria: 13 weeks after 15 years; this starts accruing after 10 years (8.66 weeks) although pro rata entitlement is paid out after 7 years upon termination of employment)

Reporting Entitlements

It is the decision of the employer and/or the accountant whether these entitlements are to be reported in their financial statements. "Reporting entities" or "large" companies which are more often subject to application of the accounting standards may be legally required to report the outstanding entitlement values. AASB119 is the Accounting Standard in relation to "Employee Benefits" which can be found at www.comlaw.gov.au.

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Factors Affecting Leave Entitlement Balance

When calculating leave entitlement balances, it is important to factor in any other circumstances that may affect the balance.

- Unpaid leave
- Cashed out leave
- Change in employment status, e.g. moving from full-time to part-time employment
- Paid parental leave
- Workcover

Steps to bringing in the provisions to the balance sheet

Weeks
- Calculate the outstanding weeks or days or hours for each employee
- Note any factors that may affect leave entitlement

Value
- Calculate the dollar value using the employee's current pay rate

Journal
- Setup Liability Provision accounts
- Set up Expense Provision accounts
- Create a general journal to bring in the provisions
- Continue to update monthly or quarterly to reflect the changes in provision liability

Calculate the Outstanding Weeks or Days or Hours for Each Employee

Using the national standards and/or award of the employee, ascertain the number of weeks or days the employee is entitled to. Note that the employee is entitled to whichever allows for the greater benefit if there is a difference between the NES and the award or agreement.

Using a spreadsheet, record the start date of the employee to establish how many hours/days/weeks they are entitled to. Also record on the spreadsheet how many hours/days/weeks have been taken as leave or cashed out; also note any other adjustments required for unpaid leave and so on, and therefore show the final balance of the entitlement.

Note that if the award or agreement includes holiday leave loading at 17.5% you will need to add this to the calculation and final balance.

Note also the amount of superannuation to accrue if this is being reported in the provision accounts.

Most accounting systems today are setup to calculate these balances automatically.

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Calculate the Dollar Value Using the Employee's Current Pay Rate

Example of employee Sarah Jones with salary of $900 per week

(38 Hr week = 7.6 hr day) = $23.68 per hour

As at 31/03/2014 Sarah Jones has the following outstanding entitlements

Annual Leave = 3 weeks ⇨ 15 days ⇨ 114 Hours ⇨ $2,699.52 ($23.68 per hour x 114)

Personal Leave = 40 days ⇨ 304 Hours ⇨ $7,198.72 ($23.68 per hour x 38)

Long Service Leave after 10 years = 8.667 weeks=329.35 hours ⇨ $7,799 (329.35 x $23.68 or 8.667 weeks x $900)

Employee: Sarah Jones **Start Date: 01/04/2004-31/03/2014**			
Entitlement	**Accrued Days**	**Taken/Cashed**	**Balance**
Annual Leave	200	185	15
Personal Leave	100	40	60
Long Service Leave	43.335 days	0	8.667 weeks

Entitlements @ 31/03/2014 converted to hours and dollar value				
Entitlement	**Accrued Hours**	**Taken/Cashed**	**Balance**	**Value**
Annual Leave	1,520	1,406	114	$2,699.52
Personal Leave	760	456	304	$7,198.72
Long Service Leave	329.35	0	329.35	$7,799.00

Create Accounts and General Journal

1. **Setup the following Balance Sheet Liability Accounts**
   a. Provision for Annual Leave
   b. Provision for Personal Leave (if required)
   c. Provision for Long Service Leave (if required)
2. **Setup Expense Accounts**
   a. Annual Leave Accrual Expense
   b. Personal Leave Accrual Expense (if required)
   c. Long Service Leave Accrual Expense (if required)
3. **Recording the balance for the first time**: Record the dollar value at a reported date via a General Journal Entry (Use N-T Tax Code)
   Note that the expense amount will be to bring the accrual balance right up to date hence not all the expense will be directly attributable to the current period.

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Example Bringing in Balance for the Prior 10 Years:

Entry to bring in Leave Provisions @ 31/03/2014				
Account	**Debit**	**Credit**	**Memo**	**Tax**
Expense -Annual Leave	$,2699.52		AL provision	N-T
Liability-Provision for Annual Leave		$2,699.52		N-T
Expense-Annual Leave	$249.70		Super on AL provision	N-T
Liability-Provision for Annual Leave		$249.70		N-T
Expense-Long Service Leave	$7,799.00		LSL provision	N-T
Liability-Provision for Long Service Leave		$7,799.00		N-T
Expense-Long Service Leave	$721.41		Super on LSL provision	N-T
Liability-Provision for Long Service Leave		$721.41		N-T

4. **Updating the accrual balances**

It is usual to update the leave provisions monthly, however, for a smaller employer this could be done quarterly.

Monthly Report Example:

Entitlement Balance Report Sarah Jones 01/04/14 to 30/04/14							
Leave Type	**Opening Balance**	**Hours Accrued**	**Hours Taken**	**Hours Balance**	**Value @ 30/04/14**	**Value @ 31/03/14**	**Difference**
Annual Leave	114	11.69	15.2	110.49	$2,616.40	$2,699.52	-$83.12
Long Service Leave	329.35	2.53	0	331.88	$7,858.92	$7,799.00	$59.92

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Updating the balance can be done in two ways:

a. Do a reversal journal for the amount of the prior period, then do a new entry to reflect the balance at the current period end.

Entry to Reverse and Update Annual Leave Provisions @ 30/04/2014				
Account	**Debit**	**Credit**	**Memo**	**Tax**
Expense-Annual Leave		$2,699.52	Reverse AL provision	N-T
Liability-Provision for Annual Leave	$2,699.52			N-T
Expense-Annual Leave		$249.70	Reverse Super on AL provision	N-T
Liability-Provision for Annual Leave	$249.70			N-T
Expense -Annual Leave	$2,616.40		AL provision April	N-T
Liability-Provision for Annual Leave		$2,616.40		N-T
Expense-Annual Leave	$242.02		Super on AL provision April	N-T
Liability-Provision for Annual Leave		$242.02		N-T

b. Do a journal entry to reflect the change in the balance only.

Entry to Adjust Long Service Leave Provisions @ 30/04/2014			
Account	**Debit**	**Credit**	**Tax**
Expense-Long Service Leave	$59.92		N-T
Liability-Provision for Long Service Leave		$59.92	N-T

It is possible that the “Leave Accrued Expense” account may be in credit/negative in some reporting periods. If the amount of leave actually taken and therefore paid out is greater than the amount of leave that has been accrued for that period, then the accrual balance will decrease therefore the expense account will be in credit.

We recommend you keep track of initial calculations and subsequent monthly or quarterly adjustments in a spreadsheet for reference to support the journal entries in your accounting software.

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