



CURRENT LIABILITIES AND EMPLOYEE BENEFIT PROVISIONS

THE DEFINITION

AASB 101.60 defines a *current liability* as follows:

60. A liability shall be classified as current when it satisfies **any** of the following criteria:
- (a) it is expected to be settled in the entity's normal operating cycle;
 - (b) it is held primarily for the purpose of being traded;
 - (c) it is due to be settled within twelve months after the reporting date; or
 - (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
- All other liabilities shall be classified as non-current.

AN INTERPRETATION

We understand that Auditor-General in one State is interpreting this as implying that all employee benefits provisions **must be classified as a current liability** except where the employer has an unconditional right to defer settlement of the liability for at least 12 months after reporting date.

To pick on a fictitious example:

Employee Blogs has been employed for 13 years, and has recently taken the 13 weeks leave to which he became entitled after 10 years service. His next long service leave will be due in 2 years (NSW local government) or 8 years time. Should he choose to resign at any time, his employer will be required to pay the accruing long service leave as a lump sum on termination.

The employer therefore does not have "an unconditional right to defer settlement of the liability for at least 12 months".

We understand that the Auditor-General is applying this interpretation consistently to **all** liabilities.

OUR INTERPRETATION

AASB 137.59 states:

"59. Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. "

In our view, the *current best estimate* relates to both amount and timing, and the classification between current and non-current liability must follow that estimate.

YOU WILL NEED TO DISCUSS THIS MATTER WITH YOUR AUDITOR

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