

## 5. LIABILITIES AND NET TAXPAYER INVESTMENT

---

### CHAPTER 5      LIABILITIES AND NET TAXPAYER INVESTMENT

5.1	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES .....	2
5.2	ACCRUED INTEREST PAYABLE.....	29
5.3	CONTRACTOR HOLDBACKS.....	34
5.4	SALES TAXES.....	39

## 5.1 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

### 1. Effective Date

This policy is effective as of April 1, 2001.

### 2. Policy Objective

The objective of this policy is to outline the accounting treatment and financial statement presentation of accounts payable and accrued liabilities and to ensure a consistent application of this policy across the department.

### 3. Definitions

**Account verification procedures** are a series of items that must be verified before a manager certifies under section 34 of the F.A.A. They include providing confirmation that:

- a) goods or services supplied have been ordered by an officer with appropriate expenditure initiation authority (i.e. commitment authority under Section 32 of the Financial Administration Act);
- b) the computation of the charges is arithmetically correct;
- c) discounts due have been deducted;
- d) inadmissible extras have not been added;
- e) the account, or part of it, has not been paid previously;
- f) the work has been performed, the goods supplied or the services rendered or in the case of other payments, the payee is entitled to or eligible for the payment;
- g) relevant contract or agreement terms and conditions have been met including price, quantity and quality. If in exceptional circumstances, the price is not specified by the contract, that it is reasonable;
- h) where a payment is made before the completion of work, delivery of goods or rendering of services, as the case may be, that such advance payment is required by the contractual terms of the contract;
- i) the transaction is accurate and the financial coding has been provided; and
- j) all relevant statutes, regulations, orders in council and Treasury Board policies have been complied with (e.g. travel policy, etc.).

**Payment procedures** are a series of items that must be verified before a finance officer certifies under section 33 of the FAA. They include providing confirmation that:

- a) verification procedures have been carried out by the Activity Centre Manager (this may be done on a sample basis using the principles outlined in the Treasury Board statistical sampling policy);
- b) all the information on the cheque requisition (payment voucher) is accurate;
- c) the payment is for the purposes of CSC's appropriation as voted by Parliament;

## 5.1 Accounts Payable and Accrued Liabilities

---

- d) the payment is in accordance with all relevant statutes, orders-in-council, Treasury Board and CSC minutes, regulations, directives, agreements, etc.;
- e) the payment will not result in an expenditure in excess of CSC's appropriation;
- f) the payment will not reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it; and
- g) the payment is accurately coded and charged to the correct fiscal year.

An **accounts payable** is a current liability that arises as a result of work performed, goods received, or services rendered and certified under Section 34 of the FAA in one accounting period and paid for in a subsequent accounting period. An account payable may also include other amounts owing but not paid for at period end. Examples would include reimbursements related to travel or claims against the Crown, where the extent or value or the amount owing has been determined and agreed to by CSC (as evidenced by the Section 34 certification)

An **accounting period** is a calendar month; for example, Period 1 covers April 1 to April 30. There are 12 accounting periods defined in the IFMMS. The CFMRS has twelve accounting periods with an extended Period 12 (P12.1, P12.2, P12.3, etc.) to process year-end payments, accruals and adjustments.

An **accrued liability** is a current liability and it arises as a result work performed and acknowledged by CSC but for which invoices are not yet due, and for goods provided and services rendered for which an invoice has not yet been received. An accrued liability may also include other amount owing such as claims against the Crown where CSC recognizes it liability but the value of the liability has not been determined nor agreed to by CSC.

**Authority to confirm contract performance and price** is the certification, as required by Section 34 of the *FA* that; work has been performed as required, services and supplies have been satisfactorily provided, travel and removal have been carried, contract performance has been in accordance with the contractual terms and conditions, in the case of contributions, the terms and conditions of the relevant contribution arrangement have been met and the claimant is entitled to the payment, in the case of grants, the eligibility and entitlement criteria have been met.

A **claim against the Crown** is a request for payment for which the Crown has not received any value or service; but for which a liability is recognized by the Crown.

A **commitment** is the encumbering of funds for a specific purpose.

A **commitment authority** is the certification, as required by Section 32 of the *FAA*, that, for the planned expenditure, there are sufficient unencumbered funds to discharge the debt that will arise as a result of the planned expenditure.

## 5.1 Accounts Payable and Accrued Liabilities

---

An **ex gratia payment** is a benevolent payment made by the Crown under the authority of the Governor in Council. The payment is made to anyone in the public interest for loss or expenditure incurred for which there is no legal liability on the part of the Crown. An ex gratia payment is an exceptional vehicle used only when there is no statutory, regulatory or policy vehicle to make the payment.

A **holdback** is a portion of the contract payment or the progress payment withheld to ensure the performance of the contract in accordance with its terms and conditions. It is not a payable until the contractor has fulfilled all the terms and conditions of the contract.

An **invoice** is a billing document that records the details of a purchase transaction or a claim for the settlement of the amount of indebtedness.

A **liability** is a financial obligation of CSC to its suppliers, both internal and external, and in some instances to its employees, as a result of transactions or economic events that have not been settled on or before the end of the accounting period.

A **period-end** is the last day of the month.

The **regional cut-off date** is a date by which regional offices must have recorded all transactions to be included in the particular month.

A **transfer payment** is a monetary payment, or a transfer of goods, services or assets made, on the basis of an appropriation, to a third party, including a Crown corporation, that does not result in the acquisition by the Government of Canada of any goods, services or assets. Transfer payments are categorized as grants, contributions and other transfer payments. Transfer payments do not include investments, loans or loan guarantees.

### 4. Scope

This policy applies to CSC accounts payable and accrued liabilities throughout the year, at period-end and at year-end.

### 5. Policy Statement and Requirements

It is the policy of Correctional Services Canada (CSC) to account for accounts payable and accrued liabilities in accordance with the accrual basis of accounting.

The accrual basis of accounting requires that amounts be recognized and recorded in the period in which they occur, regardless of the period in which they are paid. The offsetting entry will either be to cash, accounts payable or accrued liabilities.

## **5.1 Accounts Payable and Accrued Liabilities**

---

An amount will be recognized as an accrued liability when it has not yet been processed for payment. Where an invoice is not received, the value of the amount will be a reasonable best estimate as determined by the responsible manager.

An amount will be recognized as an accounts payable when the invoice has been processed but the cheque has not been issued to the payee.

### **5.1 Identification of Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities may arise in any of the following areas detailed in the following sections. Accrued liabilities will be recorded when they meet the criteria detailed, subject to the materiality limits set out in Section 5.2.below and must be recorded at month-end / year-end.

#### **5.1.1 Acquisition of Goods**

In order to establish whether goods including purchases of inventory and fixed assets have been received as at month-end, the ownership of the goods must be determined. In general, the contract terms and receipt of the goods signifies ownership in that physical control, title and substantial risk have passed to CSC.

#### **5.1.2 Acquisition of Services**

In order to establish whether services have been received at month-end, there must be evidence that the vendor has rendered services in accordance with the contractual arrangement covering the provision of these services.

#### **5.1.3 Construction and Work in Progress**

Where long term contracts for the construction of fixed assets extend more than one fiscal period and there is work in progress at month-end, the ownership has not passed to CSC. In general, where the vendor issues no progress billing, the value of the accrual for the work completed is based on the manager's reasonable best estimate of the percentage of work completed but not paid.

#### **5.1.4 Other Payments**

When there is a claim made against the Crown, the expense for this type of payment will be recorded when the economic event obligating the department has occurred, such as approval to pay the claim.

Ex-gratia payments will be recorded as an expense, when the decision to pay has been made.

## **5.1 Accounts Payable and Accrued Liabilities**

---

Transfer payments will be recorded as an expense in the period in which the economic events giving rise to the transfer occurred provided all of the following conditions have been met:

- a) for contributions, the recipient or payee has satisfactorily fulfilled the terms and conditions set forth in the contribution agreement and the payment can be determined; and
- b) for grants, the required terms and conditions have been satisfied and payment eligibility can be determined.

## **5.2 Materiality Guidelines**

A materiality guideline of \$100,000 per expense on a monthly basis and \$5,000 per expense at year-end is established for the purpose of determining whether amounts are to be considered material.

## **6. Procedures**

Within CSC there are six distinct processes for recording expenses and the associated accounts payable or accrued liabilities. The procedures dealing with each vary. The six processes are as follows:

- a) accounts payable arising from transactions with entities external to the government;
- b) accounts payable arising from transactions with entities internal to the government where the OGD has creditor initiated the transaction;
- c) accounts payable arising from transactions with entities internal to the government where the CSC has debtor initiated the transaction;
- d) accounts payable arising from transactions with CORCAN;
- e) accounts payable arising from CORCAN sales with CSC on behalf of the Inmates; and
- f) accrued liabilities established at month end / year end with adjusting entries.

## 5.1 Accounts Payable and Accrued Liabilities

### 6.1 Accounts payable arising from transactions with entities external to the government

Managers are responsible for initiating purchases of goods, services and other amounts, e.g. travel, grants, contributions, etc. to be charged to their budgets. Generally, the Self Serve Purchasing (SSP) Module of IFMMS, contracts, or acquisition cards will be used to make purchases with outside suppliers.

As purchase invoices are received, Managers should ensure that the account verification procedures have been completed before signing under section 34 of the F.A.A.

Invoices should be sent to finance on a timely basis for processing. Once invoices have been processed in IFMMS for payment they will be automatically set up as accounts payable.

#### Entries to record transactions:

Following is an entry to record an invoice in IFMMS:

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXXX	XXXX	XXXX	E
DR. GST Receivable	19600	000	000000	603	35000	1	1		13392	G111	8171	E
CR Account Payable	99999	999	99999	DAP	99999	1	1		21111	R300	6299	E

Note: When purchasing on behalf of Inmates, allotment 820 would be used and the amount would include sales taxes, see Section 6.5 for additional details.

### 6.1.1 Mandatory Withholding Taxes on Amounts Paid to Non-resident Persons Performing Services in Canada

Paragraph 153(1) of Regulation 105 of the *Income Tax Act* mandates that government departments withhold a 15% tax from payments to non-resident suppliers (whether an individual, corporation, partnership, joint venture or other) for services rendered in Canada. Failure to comply with the withholding tax rules will result in CSC being fined the withholding tax amount that should have been remitted along with interest that starts on the day the payment to CRA should have been made.

Suppliers may request that the 15% withholding tax be waived under certain circumstances. However, it is the supplier's responsibility to submit a request to the CRA. This request must be submitted 30 days before the work is started or 30 days before the first invoice for services rendered under the contract is to be paid. To this effect, CRA has prepared a briefing document that suppliers can request from them, entitled "[Guidelines for Treaty-Based Waivers Involving Regulation 105 Withholding](#)". Additional information is also available from "[Income Tax Information Circular No. 75-6R2](#)", Annex A.

The following procedures are to be followed when paying a non-resident supplier.

- The 15% withholding applies only to the gross amount for services, GST/HST excluded. The contract documents must therefore include a detailed breakdown of the amounts to be paid (goods, services, travel fees, administrative fees). Otherwise, the 15% withholding will be applied on the **total** gross amount of the contract. If only part of the work is performed in Canada, a breakdown of the fees payments (according to milestones or deliverables) should be included.
- Please note that the 15% withholding tax must be applied **by law** regardless of whether the contract contains a withholding tax clause or not.
- Some suppliers that have offices in Canada and other countries may have a billing address different from the address of the office performing the work. **The address appearing on the contract must be for the appropriate supplier location (where or by whom the work is being performed) as it describes the contractual relationship.**

When paying invoices the gross amount (excluding GST/HST) will be charged to the applicable expense line of coding. The 15% withholding tax will be credited to a payable and the non-resident will receive 85% of the invoiced amount plus the GST/HST.

A coding example follows:



## 5.1 Accounts Payable and Accrued Liabilities

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	240	XXXXX	1	1	10,000	51321	B120	XXXX	E
DR GST Receivable	19600	000	00000	603	35000	1	1	700	13392	G111	8171	E
CR US Withholding Tax	XXXXX	XXX	XXXXX	760	45600	1	1	1,500	21129	R300	6299	E
CR A/P	99999	999	99999	DAP	99999	1	1	9,200	21111	R300	6299	E

A second payment voucher must be prepared at the same time to remit the 15% withholding tax to Canada Revenue Agency (CRA) which will be coded as follows:

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR US Withholding Tax	XXXXX	XXX	XXXXX	760	45600	1	1	1,500	21129	R300	6299	I
CR AP	99999	999	99999	OGD 18	99999	1	1	1,500	21134	R300	6299	I

The following information must be included on the remittance to CRA.

- CSC's regulation number 12149 1807 RP0409,
- the name of the non-resident as per above definition, and
- the year to which the payment applies.

### 6.2 Accounts payable arising from transactions with OGDs (OGD creditor initiates and sends an invoice to CSC)

Managers are responsible for initiating purchases of goods, services and other amounts, e.g. travel, grants, contributions, etc. to be charged to their budgets. Generally the Self-Serve Purchasing (SSP) Module of IFMMS, contracts, will be used to make the purchase from the OGD.

When incurring costs, e.g. MOUs or purchasing items, from OGDs it is imperative that Managers supply the OGD with the following information when initiating the expenditure:

- **IS Organization Code** – this will be the Managers Responsibility, Sub-Responsibility and Cost Centre numbers. The code supplied cannot exceed 16 characters
- **IS Reference Number** – this will be a unique reference number supplied by the Manager and cannot exceed 22 characters.

When items are ordered using the SSP module these numbers will automatically be transmitted to the OGD. The IS Organization Code will be extracted from the coding supplied on the order and the IS Reference Number will be the purchase order number assigned to the order by the SSP module.

When SSP is not used to order from OGDs, the Manager must ensure the IS Organization Code and IS Reference Number is supplied to the OGD.

As invoices are received Managers should ensure that the account verification procedures have been completed before signing under section 34 of the F.A.A.

In order for the automatic reconciliation processes to function as intended, it is imperative that CSC pay the **full amount** of the invoice that was issued by the OGD when preparing payment vouchers for input to IFMMS.

Invoices should be sent to finance on a timely basis for processing. Once invoices have been processed in IFMMS for payment they will be automatically set up as accounts payable.

Once the Standard Payment System has confirmed the processing of the IS requisition to the originating department, the IS is considered settled.

### Disputed amounts

If any amounts being charged to CSC on an IS invoice from an OGD are in dispute, CSC may question the IS which has the effect of cancelling the IS on the OGDs books and no further action is required by CSC. It is recommended that we only question amounts when the total amount charged to CSC has been charged in error.

When amounts are incorrectly charged, it is recommended that the total amount of the invoice be processed. This is important if the automatic reconciliation processes are to function as intended.

For the amounts charged in error, the following procedures apply:

1. The CSC Manager must communicate with the OGD to determine the correct amount;
2. Process the invoice for the full amount, e.g. \$10,000;
3. Code the correct amount to the Manager's coding, e.g. \$8,000;
4. Code the amount charged in error to the Accrued Accounts Receivable-OGD coding eg. \$2,000 using the same coding with the exception of the allotment and line object which will be one of the following:
  - Accrued Receivable OGD - O&M/Revenue - Allotment 698, LOBJ 88200
  - Accrued Receivable OGD - Capital - Allotment 698, LOBJ 88500
5. Credit the amount under charged to Accrued Accounts Payable -OGD coding; e.g. \$10,000 invoice should be \$12,000, then Code \$12,000 to the manager's coding and credit \$2,000 to an accrued accounts payable account using the same coding with the exception of the allotment and line object which will be one of the following:
  - Accrued Accounts Payable OGD - O&M/Revenue Allot. 698, LOBJ 88200
  - Accrued Accounts Payable OGD - Capital Allot. 698, LOBJ 88500
6. Agree on how the over / under charged amount will be settled in the new year with the OGD- see below for possible scenarios;
7. Exchange IS Organization and IS Reference number codes to be used when the corrections are processed; and
8. Process the required entries to clear the Accrued Accounts Receivable / Accrued Accounts Payable, as agreed to with the OGD.

In the new-year two scenarios are possible to clear disputed amounts with the OGD. Either CSC can initiate the corrections or the OGD can initiate the corrections. The critical thing is to communicate with the OGD to determine which department will initiate the correction. **Whichever scenario is adopted it should be with the agreement of both trading partners.**

### **If the OGD overcharges CSC:**

#### **Option 1:**

- CSC can request the OGD to raise a "debtor initiated" IS back to CSC for the difference:
- CSC would have to monitor that the IS is received in our IS Undistributed IS Receipts Suspense Account,
- Identify to whom the IS should be credited to in CSC and
- Prepare the necessary journal entries to transfer the amount from the Undistributed IS Receipts Suspense to the applicable RAYE coding

#### **Option 2 (Preferred):**

- CSC can raise a "creditor initiated" IS to the OGD for the amount charged in error:
- CSC prepares an invoice (must quote the IS Org Code and IS Reference No. from the OGD)
- CSC processes the invoice using the RAYE coding and sends a copy to the OGD.

From CSC's perspective option 2 is preferred as it avoids the necessity to monitor the repayment and CSC is in control of the clean-up process.

### **If CSC has been undercharged by the OGD:**

#### **Option 1 (Preferred):**

- CSC can raise a debtor initiated transaction to the OGD for the amount owing (CSC does invoice) or

#### **Option 2:**

- CSC can request the OGD to raise another "creditor initiated" IS to CSC for the difference (OGD does invoice).

Again, from CSC's perspective option 1 is preferred as it avoids the necessity to monitor the repayment and CSC is in control of the clean-up process.

If managers encounter problems in resolving the dispute, they should contact their local finance officer who in turn should contact the Head, Corporate Accounting at NHQ and request that the IS invoice be questioned. This questioning process will have the effect of informing the OGD that CSC is rejecting the invoice. This process should only be used when the managers cannot resolve the dispute.

Following is a series of entries that are recorded as the invoices are processed through the various stages in IFMMS:

## 5.1 Accounts Payable and Accrued Liabilities

### Invoice entry

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR. Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXXX	XXXX	XXXX	I
CR. Account Payable	99999	999	AAAA1	DAP	99999	1	1		21116	R300	6299	I

Invoice payment (not sent to SPS/IS as it is initiated by the OGD) the following entry is automatically generated when section 33 is applied:

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR. Accounts Payable	99999	999	AAAA1	DAP	99999	1	1		21116	R300	6299	I
CR IS Clearing	99999	999	99999	176	SPS05	1	1		21116	R300	6299	I

The OGD would have initiated the transaction to SPS and CSC will receive an IS Notification File to be processed, the following entry will be automatically generated;

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR.IS Clearing	99999	999	99999	176	SPS05	1	1		21116	R300	6299	I
CR RGGL IS Credit Clearing	99999	999	99999	176	RGL05	1	1		21116	R300	6299	I

Process RGGL Control Data File - Run Process Control Account Transactions to generate the following entry;

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR.RGGL IS Credit Clearing	99999	999	99999	176	RGL05	1	1		21116	R300	6299	I
CR. IS Credit Control Account	99999	999	99999	C65	99998	1	1		65053	000	0000	I

## 5.1 Accounts Payable and Accrued Liabilities

### 6.3 Accounts payable arising from transactions OGDs (OGD is not aware of the amounts and CSC must initiate the payment)

These types of situations will arise when CSC owes an amount to the OGD and the OGD does not have the necessary information to generate an invoice. Examples of these transactions include:

- GST RAA account that must be paid to CRA at each year end;
- Deductions for income tax from instant awards paid to employees; and
- Return of OGD suspense money to the contributing department.

In these and similar situations, the Manager will prepare a payment voucher and forward it to finance for processing.

Following is a series of entries that are recorded as the transaction is processed through the various stages in IFMMS:

#### Invoice entry

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	240	XXXXX	1	1		XXXXX	XXXX	XXXX	I
CR Accounts Payable	99999	999	AAAA1	DAP	99999	1	1		21116	R300	6299	I

#### Automatic entry generated at the Invoice Payment stage;

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Accounts Payable	99999	999	AAAA1	DAP	99999	1	1		21116	R300	0000	I
CR Cash Clearing	99999	999	AAAA1	DCC	99999	1	1		21116	R300	0000	I

#### Batch Payment - Run Prepare IS Journals - IS Payment

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Cash Clearing	99999	999	AAAA1	DCC	99999	1	1		21116	R300	6299	I
CR IS Credit Clearing	99999	999	99999	176	SPS05	1	1		21116	R300	0000	I

## 5.1 Accounts Payable and Accrued Liabilities

### Prepare IS Notification File - Run Prepare IS Journals - IS Notification

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR IS Credit Clearing	99999	999	99999	176	SPS05	1	1		21116	R300	0000	I
CR RGGL IS Credit Clearing	99999	999	99999	176	RGL05	1	1		21116	R300	0000	I

### Process RGGL Control Data File - Run Process Control Account Transactions

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR RGGL IS Credit Clearing	99999	999	99999	176	RGL05	1	1		21116	R300	0000	I
CR IS Credit Control Account	99999	999	99999	C65	99998	1	1		65053	0000	0000	I

## 5.1 Accounts Payable and Accrued Liabilities

### 6.4 Accounts payable arising from transactions with CORCAN

Note: No credit card purchases are permitted between CSC and CORCAN.

#### 6.4.1 CSC purchases inventoried goods from CORCAN

The process is initiated when a CSC institution (Ex: Bowden Institution) creates and approves a PO through the purchasing module which is sent to a CORCAN supplier (Ex: CORCAN DORCHESTER MANUFACTURING). The PO is used by CORCAN to create a sales order, that makes references the PO number, in the Order Module (OM) to fulfil the order (Ex: Customer in OM = Bowden Institution).

Once the goods have been shipped, CORCAN creates an automated AR invoice from the sales order in OM via the AR Open Interface (Ex: Customer in AR = CSC Bowden Institution with the transaction type in AR = CSC INTRA).

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR AR	19600	000	00000	703	53301	2	2	5,000	21612	R300	6299	I
CR Revenue/ Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	2	2	5,000	XXXXX	XXXX	XXXX	I

Overnight the invoice is posted and a receipt created using the CSC INTRA Lockbox process (Ex. Receipt Source = CSC INTRA).

When the goods are received against the PO, an ERS (Evaluated Receipt Settlement) invoice is automatically created overnight through the AP open interface. The next day, a CSC AP technician opens the AP invoice to update: the "Invoice DFF" field to CORCAN INTRA; and to enter the appropriate CORCAN AR invoice number (the actual AR invoice number).

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	5,000	XXXXX	XXXX	XXXX	I
CR Accounts Payable	99999	999	99999	COR	99999	1	1	5,000	21612	R300	6299	I



## 5.1 Accounts Payable and Accrued Liabilities

CSC then processes the payment on the invoice.

CSC and CORCAN run the CORCAN-CSC Transactions Reconciliation Reports to verify that the transaction reconciles, i.e. there is a match between the CSC payment and CORCAN cash receipt. Note as the CORCAN-CSC Transactions Reconciliation Reports extract only posted and paid CSC AP invoices, the reconciliation of a particular intra transaction should at the earliest take place after a 3 day grace period from the date of sending the original AR invoice to CSC.

### 6.4.2 CSC receives partial shipments of goods from CORCAN

For example, CSC places an order for \$1,300 of goods with CORCAN and due to a back order, CORCAN supplies the goods over two separate shipments valued at \$900 and \$400.

#### First partial shipment

To process the first partial shipment, CORCAN creates a completed AR invoice for the partial shipment based on the Sales Order in OM via the open interface (Ex: Customer in AR = CSC Bowden Institution with transaction type = CSC INTRA) in the amount of \$900.

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR AR	19600	000	00000	703	53301	2	2	900	21612	R300	6299	I
CR Revenue/ Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	2	2	900	XXXXX	XXXX	XXXX	I

Overnight the invoice is posted and a receipt created using the CSC INTRA Lockbox (Ex. Receipt Source = CSC INTRA).

When the partial shipment of goods is received against the PO, an ERS (Evaluated Receipt Settlement) invoice is automatically created overnight through the AP open interface. The next day, a CSC AP technician opens the AP invoice to update: the "Invoice DFF" field to CORCAN INTRA; and to enter the appropriate CORCAN AR invoice number (the actual AR invoice number).

## 5.1 Accounts Payable and Accrued Liabilities

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	900	XXXXX	XXXX	XXXX	I
CR Accounts Payable	99999	999	99999	COR	99999	1	1	900	21612	R300	6299	I

CSC then processes the payment on the invoice.

CSC and CORCAN run the CORCAN-CSC Transactions Reconciliation Reports to make sure the transaction reconciles. \$900 CSC AP Invoice = \$900 CORCAN AR Invoice.

### Second partial shipment

To process the second partial shipment, CORCAN creates a completed AR invoice for the partial shipment based on the Sales Order in OM via the open interface (Ex: Customer in AR = CSC Bowden Institution with transaction type = CSC INTRA) in the amount of \$400.

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR AR	19600	000	00000	703	53301	2	2	400	21612	R300	6299	I
CR Revenue/ Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	2	2	400	XXXXX	XXXX	XXXX	I

Overnight the invoice is posted and a receipt created using the CSC INTRA Lockbox (Ex. Receipt Source = CSC INTRA).

The CSC internal institution receives the second shipment of goods against the same PO. An ERS (Evaluated Receipt Settlement) AP invoice is automatically created overnight through the AP open interface. The next day, a CSC AP technician opens the AP invoice to update: the "Invoice DFF" field to CORCAN INTRA; and to enter the appropriate CORCAN AR invoice number. CSC then processes the payment on the invoice.

## 5.1 Accounts Payable and Accrued Liabilities

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	400	XXXXX	XXXX	XXXX	I
CR Accounts Payable	99999	999	99999	COR	99999	1	1	400	21612	R300	6299	I

CSC and CORCAN run the CORCAN-CSC Transactions Reconciliation Reports to make sure the transaction reconciles. \$400 CSC AP Invoice = \$400 CORCAN AR Invoice.

### 6.4.3 CORCAN recovers costs of (non-inventory) goods and services from CSC

When CORCAN provides goods or services to CSC (Ex: Training activities) and is entitled to recover the costs, CORCAN would create a manual AR invoice and send it to CSC (Ex. Customer in AR = CSC (Number) with transaction type = CSC INTRA).

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR AR	19600	000	00000	703	53301	2	2	2,000	21612	R300	6299	I
CR Revenue/ Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	2	2	2,000	XXXXX	XXXX	XXXX	I

Overnight the invoice is posted and a receipt created using the CSC INTRA Lockbox process (Ex. Receipt Source = CSC INTRA).

The next day, CSC would enter an AP invoice to settle the amount due (Supplier in AP = CORCAN, Invoice DFF = CORCAN INTRA, and to enter the appropriate CORCAN AR Invoice number (the actual AR invoice number). CSC then processes the payment on the invoice.

## 5.1 Accounts Payable and Accrued Liabilities

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	2,000	XXXXX	XXXX	XXXX	I
CR Accounts Payable	99999	999	99999	COR	99999	1	1	2,000	21612	R300	6299	I

CSC and CORCAN run the CORCAN-CSC Transactions Reconciliation Reports to verify that the transaction reconciles, i.e. there is a match between the CSC payment and CORCAN cash receipt. Since the CORCAN-CSC Transactions Reconciliation Reports extract only posted and paid CSC AP invoices, the reconciliation of a particular intra transaction should at the earliest take place after a 3 day grace period from the date of sending the original AR invoice to CSC.

### 6.4.4 Correcting Intradepartmental Transactions

#### 6.4.4.1 CSC underpays for inventoried goods purchased from CORCAN

Example: CORCAN DORCHESTER MANUFACTURING bills Bowden Institution for \$1,200 worth of inventoried goods. However, Bowden sets up a payable and processes a payment for \$120. During reconciliation, CORCAN discovers the shortfall of \$1,080.

The procedure on how to process this transaction up to point of corrective action is described in Section 6.4.1; CSC purchases inventoried goods from CORCAN.

Bowden Institution enters an AP invoice to make up the difference of \$1,080 (Ex. Supplier in AP = CORCAN, Invoice DFF = CORCAN INTRA, and to enter the appropriate CORCAN AR Invoice number (the actual AR invoice number).

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	1,080	XXXXX	XXXX	XXXX	I
CR Accounts Payable	99999	999	99999	COR	99999	1	1	1,080	21612	R300	6299	I

CSC then processes the payment on the invoice.

CSC and CORCAN run the CORCAN-CSC Transactions Reconciliation Reports to ensure that the transactions reconcile. CORCAN would be able to see the reconciliations against its AR invoice of \$1,200 matched with the two separate CSC AP invoices for \$120 and \$1,080.

### **6.4.4.2 CSC refers to an incorrect CORCAN AR invoice when entering an AP invoice.**

Example: CORCAN bills CSC \$1,200 and CSC pays CORCAN \$1,200 in two payments of \$200 and \$1,000. However, when making the \$1,000 payment, CSC incorrectly referenced the wrong CORCAN AR invoice number.

When the error is discovered during the reconciliation process, there would be an underpayment of \$1,000 on the AR invoice for \$1,200 and an overpayment on the incorrectly referenced CORCAN AR invoice by \$1,000. Although, the dollar amounts even out, for purposes of maintaining accurate audit trails, such errors should be corrected.

To correct the error, the CSC AP technician would open the incorrectly referenced CSC AP invoice for \$1,000 and under the Invoice DFF = CORCAN INTRA updates the invoice number to the correct CORCAN AR invoice number (the actual AR invoice number) for \$1,200.

CSC and CORCAN run the CORCAN-CSC Transactions Reconciliation Reports to ensure that the transactions reconcile. CSC would be able to reconcile its two AP invoices of \$200 and \$1,000 to the CORCAN AR invoice for \$1,200.

### **6.4.4.3 CSC returns damaged goods to CORCAN.**

Example: CORCAN DORCHESTER MANUFACTURING bills Bowden Institution for \$1,200 worth of inventoried goods. Subsequently, CSC discovers that \$500 of the goods received is damaged and returns them to CORCAN.

Two common examples dealing with damaged returns follow:

1. CSC returns the goods prior to making payment, i.e. before entering an AP invoice; or
2. CSC returns the goods after making payment for the full amount of the order, i.e. \$1200.

The procedure on how to process this transaction to the point of CSC receiving the goods is described in Section 6.4.1; CSC purchases inventoried goods from CORCAN.

## 5.1 Accounts Payable and Accrued Liabilities

### Corrective Action when CSC returns the goods prior to making payment

When the undamaged goods of \$700 are received by CSC Bowden against the PO (and the \$500 of damaged goods are returned to CORCAN), an ERS (Evaluated Receipt Settlement) invoice is automatically created overnight through the AP open interface for \$700. The next day, a CSC AP technician opens the AP invoice to update: the "Invoice DFF" field to CORCAN INTRA; and to enter the appropriate CORCAN AR invoice number (the actual AR invoice number).

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	700	XXXXX	XXXX	XXXX	I
CR Accounts Payable	99999	999	99999	COR	99999	1	1	700	21612	R300	6299	I

CSC then processes the payment on the invoice.

Note: if CSC or CORCAN attempts to reconcile this transaction at this point it won't reconcile as \$700 payment can't be matched to \$1,200 receivable.

When CORCAN receives the damaged goods, they would create a RMA (on-account credit memo) in OM for the damaged goods amounting to \$500, which is then imported to AR via the open interface. CORCAN would then reverse the receipt for the \$1,200 that was originally created by the lockbox process for the \$1,200 AR invoice. This would re-open the receivable of \$1,200, meaning the AR invoice would have a balance due of \$1,200.

CORCAN would query the AR intra invoice for \$1,200 and update the 'Intra Status' field of Transaction Information DFF = OPEN. A CORCAN AR technician applies the on-account credit memo of \$500 that was imported from OM against the AR invoice, reducing the amount due on the invoice to \$700.

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Revenue/ Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	2	2	500	XXXXX	XXXX	XXXX	I
CR AR	19600	000	00000	703	53301	2	2	500	21612	R300	6299	I

## 5.1 Accounts Payable and Accrued Liabilities

Overnight the automated receipt creating process would create a receipt of \$700 and applied to the \$700 AR invoice (Ex. Receipt Source = CSC INTRA).

Note it is important that preceding step is completed by CORCAN; if not the Lockbox process will not extract the AR invoice to create the receipt. CSC and CORCAN run the CORCAN-CSC Transactions Reconciliation Reports to ensure the transactions reconcile. CORCAN would be able to reconcile its AR invoice for \$700 against CSC AP invoices for \$700.

### Corrective Action if CSC returns the goods after making payment for the full amount of the order

When the entire shipment of goods worth \$1,200 is received by CSC Bowden against the PO, an ERS (Evaluated Receipt Settlement) invoice is automatically created overnight through the AP open interface. The next day, a CSC AP technician opens the AP invoice to update: the "Invoice DFF" field to CORCAN INTRA; and to enter the appropriate CORCAN AR invoice number (the actual AR invoice number).

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	1,200	XXXXX	XXXX	XXXX	I
CR Accounts Payable	99999	999	99999	COR	99999	1	1	1,200	21612	R300	6299	I

CSC then processes the payment on the invoice.

Upon determining that \$500 of damage goods were received, CSC would void the AP cheque payment of \$1,200 and would adjust the corresponding AP invoice to the correct amount of \$700. When the invoice is adjusted, the following entry is created in the system:

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR AP	99999	999	99999	COR	99999	1	1	500	21612	R300	6299	I
CR Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	500	XXXXX	XXXX	XXXX	I

## 5.1 Accounts Payable and Accrued Liabilities

CSC then processes the payment on the invoice.

Note if CSC or CORCAN attempts to reconcile this transaction at this point it won't reconcile as \$700 payment can't be matched to \$1,200 receivable.

CORCAN receives the damaged goods. CORCAN creates a (RMA) on-account credit memo in OM for the damaged goods amounting to \$500, which is then imported to AR via the open interface. CORCAN would reverse the receipt for the \$1,200 that was originally created by the lockbox process for the \$1,200 AR invoice. This would re-open the receivable of \$1,200, meaning the AR invoice would have a balance due of \$1,200.

CORCAN would query the AR intra invoice for \$1,200 and update the 'Intra Status' field of Transaction Information DFF = OPEN. A CORCAN AR technician applies the on-account credit memo of \$500 that was imported from OM against the AR invoice, reducing the amount due on the invoice to \$700.

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Revenue/ Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	2	2	500	XXXXX	XXXX	XXXX	I
CR AR	19600	000	00000	703	53301	2	2	500	21612	R300	6299	I

Overnight the automated receipt creating process would create a receipt of \$700 and applied to the \$700 AR invoice (Ex. Receipt Source = CSC INTRA).

Note it is important that the preceding step is completed by CORCAN; if not, the Lockbox process will not extract the AR invoice to create the receipt. CSC and CORCAN run the CORCAN-CSC Transactions Reconciliation Reports to ensure that the transactions reconcile. CORCAN would be able to reconcile its AR invoice for \$700 against CSC AP invoices for \$700.



### 6.5 Accounts payable arising from CORCAN sales with CSC on behalf of the Inmates.

Since CORCAN is not permitted to sell directly to inmates, inmates' committees or inmates' canteens, CORCAN must select the customer "**CSC's Inmates (including Canteen) – USED BY CORCAN ONLY**" (#57958) with the transaction type (for both taxable and non-taxable items) as "**CSC Intra**".

Three examples follow to demonstrate the tax effects on the recording of CSC's AP and CORCAN's AR. The examples deal with: (1) a non-taxable item sold to either a canteen or inmate; (2) a taxable item sold to a canteen; and (3) a taxable item sold to an inmate.

- Example 1: CORCAN sells \$100 of eggs to either a canteen or directly to inmates (through CSC); no GST or PST tax will be charged as the product is tax exempt. CORCAN's AR will be setup for \$100 and CSC's AP (coded to allotment 820) would match CORCAN's \$100. [When a tax exempt product is sold – no GST or PST is ever charged].
- Example 2: CORCAN sells \$100 of textile products (a taxable item) to the inmates' canteen (through CSC) – GST tax will be charged as the item is taxable and PST will not be charged as the canteen would use CSC's PST exemption number. CORCAN's AR will be setup for \$106 and CSC's AP (coded to allotment 820) would match CORCAN's \$106. [When a taxable product is sold to an inmates' canteen – GST is charged and PST is not charged]
- Example 3: CORCAN sells \$100 of textile products directly to an inmate (through CSC) – both the GST and PST taxes would be charged because both, the customer and the product, are not tax exempt. CORCAN's AR will be setup for \$114 (using Ontario as the province) and CSC's AP (coded to allotment 820) would match CORCAN's \$114. CORCAN will remit \$6 of GST to Canada Revenue Agency and the \$8 of PST to the Ontario government. [When a taxable item is sold directly to an inmate (not through the canteen), both GST and PST are charged on the item]

*Note:* The total invoice amount, including taxes when appropriate, will be charged to the Inmate Welfare Fund (allotment 820). For taxable items, there is no need to separate the GST paid to CORCAN since CSC cannot collect it.

The process to settle the invoice is described in Section 6.4.1

A disbursement for the total amount will also be recorded in the Inmate Accounting System (IAS) and will be flagged as "**Not to be Transferred to IFMMS**". This will ensure that the total amount in IAS will balance with the Inmate Welfare Fund in IFMMS.

## 5.1 Accounts Payable and Accrued Liabilities

### 6.6 Accrued Liabilities

At month end, local finance officers will consult with their site Managers to determine if any material expenses, i.e. \$100,000 or more, have been incurred and have not yet been processed for payment. At year-end, material expenses will be those of \$5,000 or more.

The local finance officer will accrue the applicable expense in the general journal module of IFMMS prior to the close of the period.

All amounts accrued at month end / year-end must be reversed in the following period if the payments have been processed in IFMMS.

Following is an example of a journal entry to accrue the expense and establish the corresponding accrued liability:

Entry	CSC Coding							Amount	Government Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Expense	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1		XXXXX	XXXX	XXXX	I or E
CR Accrued Liabilities PAYE Supplier O&M	XXXXX	XXX	XXXXX	690	84200	1	1		21113	R300	6299	E
CR Accrued Liabilities PAYE Supplier Capital	XXXXX	XXX	XXXXX	690	84500	1	1		21113	R300	6299	E
CR Accrued Liabilities PAYE OGD O&M	XXXXX	XXX	XXXXX	691	86200	1	1		21131	R300	6299	I
CR Accrued Liabilities PAYE OGD CAPITAL	XXXXX	XXX	XXXXX	691	86500	1	1		21131	R300	6299	I
CR Accrued Liabilities PAYE CORCAN O&M	XXXXX	XXX	XXXXX	692	85200	1	1		21612	R300	6299	I
CR Accrued Liabilities PAYE CORCAN Capital	XXXXX	XXX	XXXXX	692	85500	1	1		21612	R300	6299	I

### **Monitoring and reporting**

NHQ Corporate Accounting will monitor the various clearing and control accounts to ensure they are cleared on a regular basis. As required, regional input may be requested to follow up on outstanding items.

At year-end, regional offices will be required to provide a schedule of all amounts being reported as accounts payable and accrued liabilities. Requirement will be detailed in the year end instructions.

Site finance officers must monitor the Accrued Accounts Receivable allotments and line objects to ensure they are cleared on a regular basis.

### **7. Financial Statement Presentation and Disclosure**

Accounts payable and accrued liabilities require disclosure in the departmental financial statements.

#### **7.1 Statement of Financial Position**

Accounts Payable and Accrued Liabilities are disclosed as liabilities on the Statement of Financial Position. A single amount representing the total accounts payable and accrued liabilities must be disclosed.

In addition, the change in liabilities is disclosed on the Statement of Cash Flow, as part of the Operating Activities, Statement of Financial Position adjustments.

#### **7.2 Statement of Operations**

The expenses related to the accounts payable and accrued liabilities will be disclosed on the Statement of Operations.

#### **7.3 Notes**

In the Notes to the Financial Statements, significant accounting policies are disclosed. In this note, the policies affecting expenditures will provide information on accounts payable and accrued liabilities.

#### **7.4 Schedules**

Should it be required, detailed information on accrued liabilities and accounts payable may be disclosed in one of the Schedules included in the Notes to the Financial Statements.

8. References

Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statement

Treasury Board Accounting Standard 2.1 - Summary of Significant Accounting Policies

FIS Accounting Manual Section 4.0

CICA Handbook Section 1510

Receiver General Manual Chapter 10 Departmental and Central Accounting Entries (Under Full FIS)

Appendix A - Materiality Determination

To determine materiality a number of factors, both qualitative and quantitative, must be considered. The qualitative factors include such items as effect of non-disclosure on the reader of the financial statements. Quantitative factors include such items as amounts in relation to the total operating expenses. The following is a calculation to support the selection of \$100,000 as a monthly material amount. The year-end amount of \$5,000 was chosen to ensure compliance with Receiver General Directives.

Operating Budget - All -(A)	\$1,200,000,000
Responsibility Centres (B)	70
RC Budget - average (A/B)	\$ 17,000,000
RC Budget - monthly average D=C/12	\$ 1,425,000

Operating Budget Total \$1,200,000,000

1/2 of 1%	\$ 6,000,000
1%	\$12,000,000
2%	\$24,000,000

RC Budget - average \$17,000,000

1/2 of 1%	\$ 85,000
1%	\$170,000
2%	\$340,000

## 5.2 ACCRUED INTEREST PAYABLE

### 1. Effective Date

This Policy is effective as of April 1, 2001.

### 2. Policy Objective

The purpose of this policy is to outline the accounting treatment and financial statement presentation of accrued interest payable, and to ensure a consistent application of this policy.

### 3. Definitions

**Accrued liability or accrued expense:** liability or expense that has been incurred during the period, but for which an invoice has not been received or has not yet been paid. These may result from items such as interest, rent, taxes, or salaries.

### 4. Scope

This policy applies to all CSC accrued interest payable.

### 5. Policy Statement and Requirements

It is CSC policy to account for interest payable in accordance with the accrual basis of accounting, taking into account materiality of the amounts available for accrual.

In particular, CSC will accrue interest payable at month and year end in each of the following areas only if the amount can be shown to be material:

- a) supplier accounts; and
- b) legal actions against CSC.

For the purposes of accruing interest expense, the materiality limit is \$5,000 for period-end and year-end interest accruals.

### 6. Procedural Requirements

#### 6.1 Overdue Supplier Accounts – Payment on Due Date (PODD)

CSC incurs interest charges on overdue accounts payable owed to non-OGD suppliers, in compliance with Treasury Board's Policy on Payment Requisitioning and Payment on Due Date. Where court proceedings are not involved, it is government policy to pay interest only if expressly provided for by contract or statute.

Suppliers must be paid on the due date, in accordance with the contract, as specified by a standard payment term. The due date is usually determined to be 30 days from the later of three dates:

- a) the date of the invoice;
- b) the date of receipt of the invoice, or
- c) the date of receipt of the goods and/or services.

When an amount is not paid by its due date, CSC will be liable for interest charges on the past due amount.

The standard 30-day payment policy to suppliers is not applicable:

- a) when, with the approval of the Treasury Board, the terms of payment under a contract are different from the 30-day standard, as is the case for instance for certain construction contracts that currently have a 45-day payment period and the contract with the Canadian Corps of Commissionaires which calls for immediate payment;
- b) when regulatory agencies approve fee schedules and payment terms such as utility bills that must be paid by a specific day each month;
- c) to Interdepartmental accounts;
- d) to payments to employees, such as travel claim reimbursements, which should be paid as soon as possible;
- e) to rental payments for real property, which are to be paid in accordance with the terms of the lease or rental agreement, but not earlier; and
- f) when it is more cost-effective to make a single payment for a number of invoices under \$2,500 that are due within the same week. The invoices may be paid in a single payment on the earliest due date of the combined invoices.
- g) CSC has been granted an exemption from the Treasury Board Policy on Payment Requisitioning and Payment on Due Date (PODD) for payment to self-employed aboriginal and native elders. While CSC pays the aboriginals at an earlier due date than the TB PODD policy

---

## 5.1 Accounts Payable and Accrued Liabilities

usually permits, these contracts are still subject to the payment of interest on any overdue accounts payable. Interest will be paid to the aboriginal supplier from the day after the due date until the invoice is paid by CSC.

### 6.2 Effective Interest Rate

The interest rate that applies to overdue payments is the interest rate that is in effect on the payment date. When a payment is overdue and interest has to be paid, i.e., when the contract provides for interest, the rate payable is the average daily Bank of Canada rate for the month preceding the current month plus three percent.

The interest rate will be posted on the PWGSC internet home page. The PWGSC internet address is <http://www.pwgcs.gc.ca/text/podd-e.html> for the English version and <http://www.pwgcs.gc.ca/text/podd-f.html> for the French version. PWGCS has also established a telephone number for the PODD interest rate - (613) 953-3830.

### 6.3 Accruing Interest on Overdue Accounts

At month end / year-end, local finance officers will consult with their site Activity Centre Managers to determine if any material expenses, i.e. \$100,000 or more, are overdue and will be subject to interest charges.

When the amount of interest payable is greater than \$5,000, the local finance officer will accrue the applicable interest expense in the general journal module of IFMMS prior to the close of the period. The same criteria will be used for year-end interest accruals.

All interest amounts accrued at month end / year-end must be reversed in the following period if the payments have been made.

## 5.1 Accounts Payable and Accrued Liabilities

The following journal entry will be used to accrue this interest expense:

Entry	CSC Coding							Amount	Receiver General Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
DR Interest Expense	XXXXX	XXX	XXXXX	XXX	12410	1	1		51726	B120	3252	E
CR Accrued Interest Payable - O&M	XXXXX	XXX	XXXXX	690	84210	1	1		21117	R300	6299	E
CR Accrued Interest Payable - Capital	XXXXX	XXX	XXXXX	690	84510	1	1		21117	R300	6299	E

### 6.4 Accrued Interest Relating to Legal Proceedings

The accrual of interest payable and the recording of interest expense related to legal proceedings requires professional judgement. Each case should be assessed on its own, and a decision made as how to best account for the possibility of interest expense related to legal proceedings. The interest expense related to court proceedings will be accrued when the liability can be reasonably determined. Interest will be calculated according to the method/rate stated (or expected to be stated) in the judgement. Any such interest payable will be coded to court awards as part of the total settlement and accrued as an operating expense. If CSC was late in paying the ordered award, the late payment portion should be coded to the interest penalty LOBJ.



**7. Financial Statement Presentation and Disclosure**

**7.1 Statement of Financial Position**

Accrued interest payable is to be reported in the liabilities section of the Statement of Financial Position under the heading *Accounts payable and accrued liabilities*.

**7.2 Statement of Operations**

The amount of accrued interest payable set up in the period and subsequently charged to interest expense will be included on the Statement of Operations.

**7.3 Notes**

Not applicable

**7.4 Schedules**

Not applicable

**8. References**

CICA Handbook Section 1510 - Current Assets and Liabilities  
Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements  
Treasury Board Comptrollership Manual Chapter 2-6 - Policy on Payment Requisitioning and Payment on Due Date.  
| Policy on Transfer Payments (TBS)

### 5.3 CONTRACTOR HOLDBACKS

#### 1. Effective Date

This Policy is effective as of April 1, 2001.

#### 2. Policy Objective

The objective of this policy is to outline the accounting treatment and financial statement presentation of contractors' holdbacks and to ensure a consistent application of this policy.

#### 3. Definition

A **contractor holdback** is a portion of the contract payment or the progress payment withheld to ensure the performance of the contract. The holdback is not payable until the contractor has fulfilled all the terms and conditions of the contract.

#### 4. Scope

This policy applies to all CSC contracts and contractor holdbacks.

#### 5. Policy Statement and Requirements

It is CSC policy to account for contractor holdbacks in accordance with the accrual basis of accounting.

When required by the terms of a contract, CSC will record the full cost of the expense / asset and will establish a holdback at the time a progress billing or invoice is recorded.

The holdback will be released and paid in accordance with the terms of the contract.

### 6. Procedural Requirements

#### 6.1 Purpose of contractor holdbacks

Contractor holdbacks serve two purposes:

- a) to provide an incentive for the contractor to complete the work according to the stipulated specifications; and
- b) to provide CSC with access to funds resulting from a contractor's non-performance.

#### 6.2 GST/HST payable on contractor holdbacks

The GST/HST is payable on the invoice amount including the holdback at the time of the invoice, even if the contractor has already excluded the holdback from the invoice.

When the final reconciliation of the contract takes place, only the holdback amount is paid to the contractor as the GST/HST has already been paid on the full amount of the contract.

#### 6.3 Processing a Payment Requisition with a Provision for a Contractor Holdback

The Administrative Unit completes the Payment Requisition with the correct CSC coding including the coding for the contractor holdback.

The completed documentation is sent to Accounting Services, where the financial specialist reviews the invoice, any attachments and also refers to the terms of the contract.

If the documentation is in order and in accordance with the terms of the contract, the Financial Specialist will refer to the Contract Ledger. This ledger lists the previous contract payments as well as any extraordinary contract terms such as those for contractor holdbacks. The amount of the payment is entered manually and the holdback amount is indicated on the reverse of the ledger sheet.

## 5.1 Accounts Payable and Accrued Liabilities

---

If a contractor holdback is indicated on the contract, the amount of the holdback must be credited to a control account for eventual payment to the contractor.

The GST/HST is paid on the total amount of the invoice including the contractor holdback.

### 6.3.1 Accounting entries for an invoice with a 10% Contractor Holdback

Assuming that a 10% holdback is indicated on the contract, the financial specialist enters the coding into the CSC accounting system as follows:

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
Dr Exp/Assets	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	10,000	XXXXX	XXXX	XXXX	X
Dr GST/HST	19600	XXX	XXXXX	603	35000	1	1	1,500	11242	G111	8171	E
Cr Contractors Holdback	12004	000	00000	790	42201	1	1	1,000	21153	R300	6299	E
Cr Accts.Pay	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	10,500	XXXXX	XXXX	XXXX	X

### 6.4 Processing a Payment Requisition for Contractor Holdback

When the contract is completed according to the terms of the contract, the contractor will invoice CSC for the contractor holdback and the Administrative Unit completes the CSC coding on the payment requisition.

The completed requisition is sent to the financial specialist in Accounting Operations who then refers to the contract, the contract ledger and the payment requisition to compare the invoice amount and the contract balance. The total of the holdbacks on the contract ledger must match the contract amount outstanding and the payment requisition.

#### 6.4.1 Accounting entries for a payment requisition for a Contractor Holdback

In the case of requisition for payment of the contractor holdback, the following entries would be completed:

## 5.1 Accounts Payable and Accrued Liabilities

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
Dr Contractors Holdback	12004	000	00000	790	42202	1	1	1,000	21153	R300	6299	E
Cr Accts Pay	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	1,000	XXXXX	XXX	XXXX	E

### 6.5 Contractor Holdback not to be paid

If the deliverables are not satisfactorily provided according to the terms of the contract, the Activity Centre Manager, after consultations with the contractor, Contracting and Legal Services, may cancel the contract and not relinquish the holdback to the contractor.

In a case such as this, the contractor holdback liability account would be debited and the appropriate expense account would be credited.

In the case of non-payment of the contractor holdback, the following entries would be completed:

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
Dr. Contractors Holdback	12004	000	00000	790	42204	1	1	1,000	21153	R300	6299	E
Cr. Expenses / Assets or RPYE	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	1,000	XXXXX	XXX	XXXX	E

### 6.6 Monitoring and Reporting

Managers will monitor the terms of contracts and contractor holdbacks and advise when amounts should be released.

## **5.1 Accounts Payable and Accrued Liabilities**

---

Sites will be required to supply a schedule at the end of the year to support the amounts outstanding in their contractor holdback allotments

This schedule will list contractor holdbacks by contract number, contractor name, contract date, contract amount and contractor holdback paid and/or remaining. Further details will be included in the year end instructions.

Finance Operations will monitor contractor holdbacks by referencing the Contractor Holdback Report and the Contracts Ledger.

## **7. Financial Statement Presentation and Disclosure**

### **7.1 Statement of Financial Position**

Contractor holdbacks will be included on the CSC Statement of Financial Position under Liabilities.

### **7.2 Statement of Operations**

Contractor holdbacks are not required in the Statement of Operations.

### **7.3 Notes**

No notes are required in the financial statements.

### **7.4 Schedules**

Treasury Board Accounting Standards 1.2 requires Schedule 7 - Other Liabilities to be completed if the contractor holdback amounts are material.

## **8. References**

Treasury Board Accounting Standard 1.3  
Treasury Board Manual, Comptrollership, Policy on the Application of GST/HST  
Treasury Board Manual, Contracting Policy, section 12.11  
FIS Accounting Manual, section 3.3, Contractor Holdbacks

## 5.4 SALES TAXES

### 1. Effective Date

This Policy is effective as of April 1, 2001.

### 2. Policy Objective

The objective of this policy is to outline the accounting treatment and financial statement presentation of the Goods and Services Tax (GST), the Harmonized Sales Tax (HST) and Provincial Sales Tax (PST).

### 3. Definitions

**Goods and Services Tax (GST)** is a value added tax collected by the federal government of Canada on the purchase or sale of most goods and services in Canada.

**Harmonized Sales Tax (HST)** is the aggregate of a value added tax collected by the federal government of Canada on the sale of most goods and services (GST) in Canada, and the provincial value added tax (PST) levied on the goods and services purchased or sold in the participating provinces.

**Provincial Sales Tax (PST)** is considered to be a tax of general application, payable by the purchaser on the value of the goods or services, and is levied under a provincial retail sales tax statute, or its equivalent.

### 4. Scope

This policy applies to all CSC sales taxes.

### 5. Policy Statement and Requirements

It is CSC policy to account for all sales taxes in accordance with the accrual basis of accounting, with the exception of GST/HST paid on purchases.

Sales taxes will be charged to customers and paid on purchases in accordance with the legislation in the applicable jurisdiction.

## 6.0 Procedural Requirements

### 6.1 Sales Taxes on Sales by CSC

Following is a table summarizing the requirements to collect, report and remit information and payments regarding sales taxes applicable to sales transactions.

	<b>Collect</b>	<b>Report</b>	<b>Remit Payment</b>
<b>PST</b>	Sites / RHQ / NHQ	RHQ monthly	NHQ / RHQ monthly to Provincial governments
<b>GST</b>	Sites / RHQ / NHQ	RHQ (Canteens only) and NHQ monthly	NHQ/ RHQ (Canteens only) monthly to CRA by SPS/IS
<b>HST</b>	Sites / RHQ / NHQ	RHQ (Canteens only) and NHQ monthly	NHQ/ RHQ (Canteens only) monthly to CRA by SPS/IS

CSC must charge PST, GST and HST on sales to customers in accordance with the various provincial and the federal legislation. Activity centre managers will ensure that sales taxes are correctly applied on all sales transactions.

PST, GST and HST are calculated in various ways, depending on the province where the CSC responsibility is located.

If the sale is made in New Brunswick, Nova Scotia or Newfoundland, the PST is included with the GST and both are included in the Harmonized Sales Tax (HST). The HST is calculated as a percentage of the sales prices and the entire amount is payable to the CRA.

In Ontario, and provinces west of Ontario, except Alberta where there is no PST, the PST payable is calculated as a percentage of the sales price, and is payable to the provincial government in accordance with applicable provincial government requirements for reporting and remitting provincial sales taxes.

In Quebec, the Quebec Sales Tax (QST) is calculated as a percentage of the total of both the sales price plus GST. The QST is payable to the Quebec government.

Records must be maintained of amounts charged to customers on an accrual basis in liability accounts until the amounts are transferred to the applicable federal or provincial jurisdiction.



Regional Offices must submit monthly returns to the applicable provincial government for all PST charged using the normal cheque issue process.

Regional Offices must remit monthly returns to Canada Revenue Agency (CRA) for all the canteens' GST/HST charged using the debtor initiated IS process.

NHQ must remit monthly returns to CRA for all GST/HST charged and applicable to CSC, except canteens, using the debtor initiated process.

As both CSC and CORCAN are coding their GST/HST payables to RESP 19600, the department number (last digit of the financial coding block) will differentiate CSC and CORCAN transactions (Department 1 = CSC and Department 2 = CORCAN). CORCAN is responsible to remit to CRA on a monthly basis its GST/HST charged.

Complete the form "The Goods and Services Tax Return for Registrants (form GST-34E) and submit it to CRA by the end of the month following the month being reported. This form is also used to report HST received.

Any commissions earned for collecting and remitting PST to the provinces will be coded to allotment 160 – Miscellaneous Revenues and Line Object 14603 – PST Commissions.

The following are the accounting entries required for sales taxes charged on the sale of goods or services:

**6.1.1 CSC sells goods or services valued at \$500 to an outside party**

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
Dr Accounts Receivable	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	575	11221	R300	6299	E
Cr. GST/HST payable to CRA	XXXXX	XXX	XXXXX	190	14650	1	1	35	21134	R300	6299	E
Cr. PST payable (excluding HST)	XXXXX	XXX	00000	601	32XXX	1	1	40	21151	R300	6299	E
Cr. Sales	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	500	XXXXX	E500	XXXX	E

## 5.4 Sales Taxes

### 6.1.2 Monthly GST/HST IS Debtor Initiated by CSC to CRA by Regional Offices

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
Dr GST/HST payable to CRA	XXXXX	000	00000	190	14650	1	1	35	21134	R300	6299	I
Cr IS Credit Control Account	XXXXX	XXX	XXXXX	C65	99998	1	1	35	65053	0000	0000	I

### 6.1.3 Monthly payment by Regional Offices to Provincial Governments

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
Dr PST payable (excluding HST)	XXXXX	000	00000	601	32XXX	1	1	40	21151	R300	6252	E
Cr. Accounts Payable	XXXXX	XXX	XXXXX	XXX	XXXXX	1	1	40	XXXXX	XXX	XXXX	E

**6.2 Sales Taxes on Purchases**

Following is a table summarizing the requirements to record and report the sales taxes applicable to purchase transactions.

	<b>Record</b>	<b>Report</b>	<b>Refund</b>
<b>PST</b>	Generally exempt, see below for more details.	No requirement	No requirement
<b>GST</b>	Code to GST Refundable Advance Account	NHQ annually to CRA	NHQ annually from CRA by Creditor Initiated IS
<b>HST</b>	Code to GST Refundable Advance Account	NHQ annually to CRA	NHQ annually from CRA by Creditor Initiated IS

**6.2.1 PST on Purchases**

CSC generally does not pay PST on purchases with the exception of purchases made using petty cash, employee travel while on government travel and purchases made on behalf of inmates and charged directly to their trust fund accounts.

Applicable PST exemption numbers should be quoted when making purchases.

Provincial Exemption Numbers

Province/Territory	Exemption Number
Newfoundland	*
Prince Edward Island	OP-10000-250
Nova Scotia	*
New Brunswick	*
Quebec	*
Ontario	11708174G
Manitoba	390516-0
Saskatchewan	*
Alberta	*(see note 1)
British Columbia	005521
Northwest Territories	*(see note 1)
Yukon Territories	*(see note 1)

\* An exemption certificate must be used.

### Exemption Certificate:

“This is to certify that the property and/or services ordered or purchased by (insert name of Department/Agency) are being purchased with Crown funds, and are therefore not subject to sales and consumption taxes of the (insert name of Province/Territory).”

### Note 1:

The Alberta Province as well as the Northwest and Yukon Territories have no provincial sales tax. However, if a provincial sales tax is introduced, the sales tax exemption certificate would have to appear on purchasing orders or other purchase documents.

CSC should not be quoting the PST exemption number on purchases that are made on behalf of inmates and charged directly to their trust fund account.

In the event that a purchase is made using petty cash, the PST charged will be recorded as part of the cost of the item purchased. There will not be a separate entry to record the PST.

### **6.2.2 GST/HST on Purchases**

CSC will be charged the applicable GST /HST on purchases from external parties. The full invoice must be paid to the external party, with the GST/HST portion being coded to the asset account entitled Refundable Advance Account (RAA). GST/HST paid is not charged to a Manager’s budget.

As both CSC and CORCAN are coding their GST/HST receivables to RESP 19600, the department number (last digit of the financial coding block) will differentiate CSC and CORCAN transactions (Department 1 = CSC and Department 2 = CORCAN).

NHQ Accounting Services is responsible to initiate the collection of the balance in the GST RAA account to CRA which contains both CSC and CORCAN transactions. The transfer from CRA is completed using the Creditor Initiated IS process on the last working day of March and May. The [IS Notification for the GST/HST RAA transfer to CRA](#) must be completed and sent to CRA.

The following are the accounting entries required to record the purchase of a vehicle that includes a GST component.

### **CSC purchases a vehicle valued at \$24,000**

## 5.4 Sales Taxes

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
Dr. Assets / expense	XXXXX	XXX	XXXXX	582	09500	1	1	24,000	16133	B140	1261	E
Dr. GST Refundable Advance Accounts	19600	000	00000	603	35000	1	1	1,680	13392	G111	8171	E
Cr. Accounts Payable	99999	999	99999	DAP	99999	1	1	25,680	21111	R300	6299	E

The following accounting entry is required on March 31st and May 31st of each year to collect the GST/HST from CRA. This IS creditor initiated entry is done via the A/R Module by NHQ Accounting Services.

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
Dr IS Debit Control Account	99999	999	99999	C64	CE997	1	1	1,680	64053	0000	9122	I
Cr. GST Refundable Advance Accounts	19600	000	00000	603	35000	1	1	1,680	13392	G111	8171	I

The following accounting entry is required to transfer CORCAN's portion of the amount refunded by CRA.

**CORCAN bills CSC via the A/R Module for its portion of the GST reimbursed by CRA:**

## 5.4 Sales Taxes

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
Dr Accounts Receivable	19600	000	00000	703	53301	2	2	1,680	21612	R300	6299	I
Cr. GST Refundable Advance Accounts	19600	000	00000	603	35000	2	2	1,680	13392	G111	8171	I

**CSC pays CORCAN via the A/P Module:**

Entry	CSC Coding							Amount	Government-Wide Coding			
	Resp. Ctr.	Act	Project	Allot	Line Object	Entity	Dept		FRA	Auth.	Object	Internal/ External
Cr. GST Refundable Advance Accounts	19600	000	00000	603	35000	1	1	1,680	13392	G111	8171	I
Cr. Accounts Payable	99999	999	99999	COR	99999	1	1	1,680	21612	R300	6299	I

### **6.3 Monitoring and Reporting**

Regional Accounting Operations and NHQ Corporate Accounting will monitor the sales tax accounts to ensure that taxes are applied correctly and that all sales taxes are remitted or transferred as required.

## **7. Financial Statement Presentation and Disclosure**

### **7.1 Statement of Financial Position**

All GST/HST payable and not yet transferred to the Canada Revenue Agency (CRA) and all PST not remitted to the applicable provincial government will be recorded as a sales tax payable under the liabilities section in the Statement of Financial Position for CSC.

Any balance remaining in the GST RAA account will be recorded as an asset on the Statement of Financial Position for CSC.

### **7.2 Statement of Operations**

Sales taxes only impact the Statement of Operations in the event that a purchase is made using petty cash thereby incurring PST charges, and then only to the extent that the purchase is included as an expense for the fiscal year.

### **7.3 Notes**

Not applicable

### **7.4 Schedules**

Not applicable

## **8. References**

FIS Accounting Manual, section 9.3, Sales Tax  
Treasury Board Secretariat Policy the Processing of the Goods and Services Tax and the Harmonized Tax in Departments and Agencies of the Government of Canada