

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-31-2017

REPLACES
05-01-2016

SUBJECT **INVOICE ACCRUAL PROCEDURES**

APPROVAL
AAR

PAGE NO.
1 OF 10

CONTENT: This Instruction defines the quarterly and yearly corporate accruals policies and procedures for services or materials. The proponent, in the context of this instruction, is the Department Head having responsibility for the organization requiring the accrual. The text includes:

1. Reference
2. Introduction
3. Requirements for Accruals
4. Charges to be Accrued
5. Quarter and Year End Materials Accruals
6. Submission of Accruals
7. Reversal of Accruals
8. Monitoring Accruals
9. Accruals for Construction Projects
10. Accrual Entries

Attachment I: Accrual Charges to Cost Centers

Attachment II: Accrual Charges to other than Cost Centers

Attachment III: Invoice Accrual Certificate

1. **REFERENCE**

1.1 ABBREVIATIONS & ACRONYMS

AOC	-	Aramco Overseas Company B.V.
ASC	-	Aramco Services Company
ATC	-	Aramco Trading Company
ES&SAD	-	Export Sales & Shipping Accounting Division/OAD
GR	-	Goods Receipt
IO	-	Internal Order
OAD	-	Operations Accounting Department
PAD	-	Payables Accounting Division/OAD
PM	-	Project Management
PMO	-	Plant Maintenance Order
PO	-	Purchase Order
SAO	-	Saudi Aramco Organization
SES	-	Service Entry Sheet
TXN	-	Transaction
WBS	-	Work Breakdown Structure

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-31-2017

REPLACES
05-01-2016

SUBJECT **INVOICE ACCRUAL PROCEDURES**

APPROVAL
AAR

PAGE NO.
2 OF 10

1.2 RELATED FORMS

Accrual Charges Form 1 - Accrual Charges to Cost Centers - Direct On-Line Accrual
 Accrual Charges Form 2 - Accrual Charges to Other than Cost Centers
 Accrual Certificate

2. INTRODUCTION

- 2.1 The objective of invoice accruals is to record outstanding charges for supplies and services (including contract claim settlements) in the same accounting period that they are received or rendered, even though these charges have not been paid through invoices or released SES/GR. The accrual process ensures that the financial information provided to Management and relevant stakeholders reflects the expenditures in the same period that they are incurred. The invoice accrual process should not be used to match actual expenses against budget or operating plan.
- 2.2 The accruals shall not include any amounts for services to be completed or supplies to be procured in the following year. Any violations of this will result in OAD charging the cost to the respective Departments' following year (Controllable cost) budgets for and reporting of such deviations to the proponent's admin area head and the Controller.
- 2.3 For materials purchases, GR is charged to the proponent identified in the PO when the receiving document is entered into SAP. Therefore, accruals for materials received but not invoiced are not required by proponents if the GR has been posted in SAP.
- 2.4 For services received under contracts that utilize SES, these are charged to projects or proponents when the SES is entered and released into SAP. Therefore, accruals for services received but not invoiced are not required by proponents if the SES has been posted in SAP.
- 2.5 Automated accrual is a process used by specific organizations to capture all the accruals that have SES created but not posted. Accounting Policies & Systems Department must approve the use of the automated accrual process. OAD generates the list using TXN Code ZSV0750 and sends it to the respective proponents for review and approval. After the proponent confirmation, OAD processes the accruals accordingly.
- 2.6 Accruals for construction projects under Project Management are handled as described in Section 9.

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-31-2017

REPLACES
05-01-2016

SUBJECT **INVOICE ACCRUAL PROCEDURES**

APPROVAL
AAR

PAGE NO.
3 OF 10

3. REQUIREMENTS FOR ACCRUALS

- 3.1 Accrual entries are applicable for invoices greater than or equal to \$100,000 which have been received but not posted and reflected in the Operating Statement, or unbilled costs which have been incurred by the end of the period and not entered into SAP utilizing SES functionality (with the exception of automated accruals as stated in Paragraph 2.5).
- 3.2 Individual invoices of less than \$100,000 should not be combined for accrual purposes.
- 3.3 At quarter and year end, organizations may submit written accrual requests along with Form No. 2 (See attachment II) to OAD for invoices less than \$100,000, subject to the aggregate total of the accruals considered material. The OAD Manager has the authority to approve or reject such requests.
- 3.4 Invoices must be accrued every quarter. However, monthly accruals are optional except for accruals related to affiliates and associates which must be done monthly.
- 3.5 OAD must receive an accrual request approved by the proponent Department Head or higher and, if it meets accrual requirements, will book the accrual for the period indicated accordingly.
- 3.6 All accruals online and requests to OAD should be supported by an electronic spreadsheet available for submission to OAD as the below:
- Accrual charges to cost centers for work actually performed, or services provided under contracts that utilized SES, should be entered by departments through the SAP accrual entry system. All online accruals should be supported by an electronic spreadsheet, Form No. 1 in the link below (see Attachment I):
 - Accrual charges to WBS, IO, PMO, miscellaneous invoices or contracts should be prepared by proponent and approved by the proponent Department Head or higher, and submitted to the OAD Manager using Form No. 2 in the link below (see Attachment II):

[Site Collection Documents - All Documents](#)

- 3.7 Quarterly and at year end, ASC (Financial Accounting) processes accruals for contracts related to SAO. ASC cross company posts these accruals directly to the SAO accounts through SAP TXN Code ZF0613 and automatically reverses these accruals the following month. Proponent Departments are responsible to follow up their accrual processing with ASC.

Saudi Aramco: Company General Use

* CHANGE

** ADDITION

NEW INSTRUCTION ☐

COMPLETE REVISION ☐

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-31-2017

REPLACES
05-01-2016

SUBJECT **INVOICE ACCRUAL PROCEDURES**

APPROVAL
AAR

PAGE NO.
4 OF 10

- 3.8 Quarterly and year end accruals for AOC contracts related to Saudi Aramco should be made by the SAO proponents in accordance with the procedures/requirements of this instruction.

4. CHARGES TO BE ACCRUED

- 4.1 Proponents should accrue for charges under cost centers and according to accrual requirements stated in Section 3. This accrual is only for work actually performed/services provided by a contractor under contracts that utilize SES for which a SES has not been posted and reflected in the department's Operating Statement.
- 4.2 OAD accrues charges for each invoice under;
- cost centers, WBS, IO and PMO for work actually performed/services provided by a contractor (under miscellaneous invoices), or contracts that are not utilizing SES; and
 - contracts that are utilizing SES for other than cost center charges (WBS, IO and PMO), for which an invoice or SES has not been posted and reflected in the Operating Statement.

The proponent should prepare the accrual request for these types of accruals and forward it to OAD for processing.

5. QUARTER AND YEAR END MATERIALS ACCRUALS

No accruals will be made based on purchase requisitions. Accruals based on PO are reviewed on a case by case basis and must meet the following requirements:

- 5.1 An official request approved by the Proponent Department Head, or higher.
- 5.2 The PO is for materials purchased Out-of-Kingdom at quarter and year end.
- 5.3 The PO total is equal to or greater than \$100,000.
- 5.4 The material has been received by ASC/AOC, or any other SAO entity and is therefore in the custody of SAO.

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-31-2017

REPLACES
05-01-2016

SUBJECT **INVOICE ACCRUAL PROCEDURES**

APPROVAL
AAR

PAGE NO.
5 OF 10

6. **SUBMISSION OF ACCRUALS**

Accruals are the responsibility of the affected organizations. It is the proponent's responsibility to submit their accrual requests to OAD prior to the scheduled closing date.

- 6.1 At the beginning of the year, OAD is responsible for sending a notice to all Managers, advising them of the deadlines for reporting their accruals every month. For the month of December, the deadline will be specified before the end of the year.
- 6.2 Accrual entries will be parked/posted by the proponents using TXN Code ZF0085 or OAD using TXN Code FV50, which will create a ZL Document Type and will ultimately be reflected in the proponent's Operating Statement. Prior to the scheduled closing date for the month, proponents should make sure that all parked accrual documents are posted. OAD will notify proponents of un-posted parked documents prior to month-end, to facilitate appropriate recognition of costs for the accounting period.
- 6.3 Proponents should fill out accrual request Form 1 and attach it with the accrual entry to OAD for accrual monitoring purposes.
- 6.4 Accruals should be submitted to OAD utilizing accrual request Form 2. The request should be approved by the Department Head, or higher, and sent to the Manager, OAD. An advance copy should be submitted via email to *OAD/PAD/SA&RU/Accrual.
- 6.5 All department heads must sign and submit the Quarterly and Year-End Accrual Certificate for non WBS elements (Controllable cost expense) or Form No. 2 if there is no accrual for the respective period. The certificate template is available at the following link (See Attachment II and III):

[Site Collection Documents - All Documents](#)

The Certificate acknowledgement represents accruals only for outstanding charges for supplies, services and contract claim settlements that were received by or rendered to the department in the year for which an invoice or SES have not been reflected.

7. **REVERSAL OF ACCRUALS**

- 7.1 All accruals will be automatically reversed in the following month for document type ZL without further direction.
- 7.2 All proponents should re-accrue for materials and any services which remain outstanding in the following quarter, subject to the limitations of sections 3, 4 and 5.

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-31-2017

REPLACES
05-01-2016

SUBJECT **INVOICE ACCRUAL PROCEDURES**

APPROVAL
AAR

PAGE NO.
6 OF 10

8. **MONITORING ACCRUALS**

As of the end of May, OAD will monitor accrual activities, particularly over-accruals, by verifying that previous year end accrual amounts and any outstanding accruals for non WBS match subsequent invoice, otherwise the accruals will be cleared, unless justified by a letter received from the Business Line head.

9. **ACCRUALS FOR CONSTRUCTION PROJECTS**

- 9.1 Accruals for construction projects under the direction of Saudi Aramco PM (Capital project) are made quarterly at the general ledger level only. The total accrual for all construction in progress is determined by PM and communicated to the OAD Manager prior to the scheduled closing date.
- 9.2 Accruals for contractor costs, chargeable to a Project or WBS Element are permitted for projects that are not under the direction of a PM team. However, the accrual is made at the general ledger level only, as indicated above.
- 9.3 Accruals for public service projects (Non capital project) are made quarterly at the cost chargeable to a Project or WBS Element.

10. **ACCRUAL ENTRIES**

- 10.1 For services, OAD and proponents will make the following accrual entries using TXN Code ZF0085 and FV50:

DR	740XXXX	Cost Element – Primary (Cost Object)	XXX	
CR	3003083	Accrued Liabilities – Materials & Services		XXX

- 10.2 For miscellaneous items OAD will make the following accrual entries using TXN Code and FV50:

DR	740XXXX	Cost Element – Primary (Cost Object)	XXX	
CR	3003084	Accrued Liabilities – Miscellaneous		XXX

- 10.3 For transportation & storage – Crude Exports, ES&SAD will make the following accrual entries using TXN Code FV50:

DR	2800017	Transportation & Storage - Crude Exports	XXX	
CR	3001021	Accrued Liabilities – Affiliates		XXX

SAUDI ARABIAN OIL COMPANY (Saudi Aramco)
GENERAL INSTRUCTION MANUAL

GI NO. **APPROVED**

230.035

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-31-2017

REPLACES
05-01-2016

SUBJECT **INVOICE ACCRUAL PROCEDURES**

APPROVAL
AAR

PAGE NO.
7 OF 10

10.4 For freight costs provided by ATC, OAD will make the following accrual entries using TXN FV50:

DR	740XXXX	Cost Element – Primary (Cost Object)	XXX	
CR	3100150	Accrued Freight Payable – ATC		XXX

10.5 For SAO construction projects such as BI-10, OAD will make the following accrual entry using TXN Code FV50:

DR	2045007	Construction Projects Accruals	XXX	
CR	3100007	Accrued Liabilities – Construction Project		XXX

10.6 For public service/non-capital construction projects such as BI-25/28, OAD will make the following accrual entry using TXN Code FV50:

DR	740XXXX	Cost Element – Primary	XXX	
CR	3100007	Accrued Liabilities – Construction Project		XXX

Approved: _____

Abdulaziz A. Al-Ruwaii, Manager
 Accounting Policies & Systems Department

MNR

Saudi Aramco: Company General Use

* CHANGE

** ADDITION

NEW INSTRUCTION ☐

COMPLETE REVISION ☐

APPROVED

COMPLETE REVISION ☒

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-31-2017

REPLACES
05-01-2016

SUBJECT INVOICE ACCRUAL PROCEDURES

APPROVAL
AAR

PAGE NO.
9 OF 10

ATTACHMENT II

MANAGER

DATE:

OPERATIONS ACCOUNTING DEPARTMENT
ROOM T-707A, TOWER BUILDING
DHAHRAN

INVOICE ACCRUALS
MONTHLY

ACCRUAL CHARGES TO OTHER THAN COST CENTERS

For the month of 0

- ☐ Please accrue the following estimated liabilities for services performed as indicated below:
- ☐ No accrual to be booked:

[illegible]

* Do not accrue amounts under \$100,000 per invoice. OAD will not accrue reported amounts under \$100,000 per invoice

* If Invoice Number is unknown, please leave the Invoice Number blank.

Prepared By

Phone

Department	Department Head Name & Signature	Phone	Date

FORM NO. 2

SAUDI ARABIAN OIL COMPANY (Saudi Aramco)
GENERAL INSTRUCTION MANUAL

GI NO. **APPROVED**

230.035

ISSUING ORG. ACCOUNTING POLICIES & SYSTEMS DEPARTMENT

ISSUE DATE
10-31-2017

REPLACES
05-01-2016

SUBJECT **INVOICE ACCRUAL PROCEDURES**

APPROVAL
AAR

PAGE NO.
10 OF 10

ATTACHMENT III

Department

Office address, Tel: xxx-xxxx , Fax: xxx-xxxx
Dhahran
Month day, year

MOHAMMED.RAHBEENI

2013 YEAR-END INVOICE ACCRUAL CERTIFICATE

Manager

Operations Accounting Department
T-707, Floor 7,
Dhahran

MOHAMMED.RAHBEENI

I hereby acknowledge that the accruals submitted for the year end 2013 by my department are in compliance with the accrual policies and procedures as per General Instruction (GI) 230.035 "Invoice Accrual Procedures".

These accruals represent outstanding charges for supplies, services and contract claim settlements that were received by or rendered to my department in 2013 for which an invoice or Service Entry Sheet have not been reflected. These accruals do not include any amounts for services to be completed or supplies to be procured in 2014.

I understand that any violations from the policies covered under GI 230.035 will result in charging the cost to my Department's 2014 budget and reporting of such deviations.

Should you have any questions, please contact XXXXXXXX at xxx-xxxx

MOHAMMED.RAHBEENI

XXXXXXXXXXXXXXXXXXXX, Manager
XXXXXXXXXXXXXXXXXXXXDepartment

MOHAMMED.RAHBEENI

Saudi Aramco: Company General Use

* CHANGE

** ADDITION

NEW INSTRUCTION ☐

COMPLETE REVISION ☐