

SAUDI ARABIAN OIL COMPANY (Saudi Aramco) GENERAL INSTRUCTION MANUAL		G I Number 230.035 Approved	
ISSUING ORG.	ACCOUNTING POLICIES & SYSTEMS DEPARTMENT	ISSUE DATE 03-21-11	REPLACES 09-27-10
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CONTENT: This Instruction defines the corporate policies and procedures for services or materials accruals. The proponent, in the context of this instruction, is the Department Head having responsibility for the organization requiring the accrual. The text includes:

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1. **ABBREVIATIONS & ACRONYMS**

AOC	-	Aramco Overseas Company B.V.
ASC	-	Aramco Services Company
OAD	-	Operations Accounting Department
PAD	-	Payables Accounting Division/OAD
SA&RU	-	Services Accounting and Receivables Unit/PAD/OAD
SAO	-	Saudi Aramco Organization

2. **INTRODUCTION**

- 2.1 The objective of invoice accruals is to record outstanding charges for supplies and services, but not to match the budget/plan, (including contract claim settlements) in the same accounting period that they are rendered or received, even though these charges have not been reflected in the Invoice Cost Report through paid invoices or released Service Entry Sheets (SES). Management is thereby provided financial information reflecting expenditures made and expenses incurred within that period.
- 2.2 Proponents should utilize TXN Code ZF0085 in SAP to park and post accruals which will create a ZL Document Type and will ultimately be reflected in their cost sheets. Prior to the scheduled closing date for the month, proponents should make sure that all parked accrual documents are posted. OAD will notify proponents on un-posted parked documents prior to month end to facilitate appropriate recognition of costs for the accounting period. Parked documents not posted at month end will be deleted.
- 2.3 For Materials purchases, goods receipts are charged to the proponent identified in

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the purchase order when the receiving document is entered into SAP. Therefore, accruals for materials received but not invoiced are not required by proponents if the Goods Receipt (GR) has been posted in SAP. Refer to Paragraph 5 below for yearend procedures.

2.4 For Services received under contracts that utilize Service Entry Sheets (SES), goods and services received are charged to projects or proponents when the Service Entry Sheet 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. Utilization of the SES functionality is encouraged since this eliminates the need for manual accruals.

2.5 Accruals for construction projects under Project Management are handled as described in Paragraph 10.

3. **CHARGES TO BE ACCRUED BY PROPONENTS**

Charges equal to or greater than \$100,000 for each invoice under cost centers only for work actually performed/services provided by a contractor under contracts that utilize Service Entry Sheets (SES) for which an SES has not been posted and reflected in the Invoice Cost Report.

4. **CHARGES TO BE ACCRUED BY OAD**

Charges equal to or greater than \$100,000 for each invoice under cost centers or other than cost centers such as Work Breakdown Structures (WBS), Internal Orders (IO) and Plant Maintenance Orders (PM) for work actually performed/services provided by a contractor under miscellaneous invoices or contracts that are not utilizing an SES, and under contracts that are utilizing SES for other than cost center charges, for which an invoice or SES has not been posted and reflected in the Invoice Cost Report. The proponent should prepare the accrual request for these types of accrual and forward it to OAD for processing.

5. **YEAR END MATERIALS ACCRUALS**

No accruals will be made based on purchase requisitions. Accruals based on purchase orders (PO) are reviewed on a case by case basis and must be approved by the Administrator, Payables Accounting Division of OAD based on the following requirements:

5.1 The PO is for materials purchased Out-of-Kingdom.

5.2 The PO total is equal to or greater than \$100,000.

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5.3 The material has been received by ASC/AOC, or any other SAO entity and is therefore in the custody of SAO.

6. **REQUIREMENTS FOR ACCRUALS**

Accrual entries are applicable for invoices greater than or equal to \$100,000 which have been received but not entered into SAP, or unbilled costs which have been incurred by the end of the period and not entered into SAP utilizing SES functionality. Accrual entries will be parked and posted by the proponents or OAD using TXN Code ZF0085 (generating a ZL Document Type in the general ledger). Monthly accruals are optional, however monthly, quarterly and year-end accruals must meet the following criteria:

- 6.1 To be accrued, an invoice must be equal to or greater than \$100,000. Individual invoices of less than \$100,000 should not be combined for accrual purposes. Charges equal to or greater than \$100,000 for services received for which an SES or invoice hasn't been posted and reflected in the Invoice Cost Report by the end of the accrual period Only approved accrual requests will be processed by OAD.
- 6.2 OAD must receive an accrual request approved by the Department Head or higher and, if it meets accrual requirements, will book the accrual for the period indicated accordingly.
- 6.3 All accruals online and requests to OAD should be supported by an electronic spreadsheet available for submission to OAD. The electronic sheets are available at the following location:

Accrual process by Proponents Online

<http://sharek.aramco.com.sa/orgs/30002974/Lists/Services/DispForm.aspx?ID=24&Source>

Accruals processed by OAD

<http://sharek.aramco.com.sa/orgs/30002974/Lists/Services/DispForm.aspx?ID=25&Source>

- 6.4 At year end only, organizations may submit written accrual requests to OAD for invoices less than \$100,000. The Manager, OAD, has the authority to approve or disapprove such requests, including charges for work actually performed/services provided by a contractor for which no invoice or SES has been posted in SAP and reflected in the Invoice Cost Report. Accrual entries will be parked and posted by OAD using TXN Code FV50 creating document type ZL.
- 6.5 At year-end only, ASC (Financial Accounting) processes accruals to SAO accounts in Period 12 and automatically reverses these accruals the following January (Period 01). ASC will cross company post these accruals directly to the SAO accounts

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through SAP TXN Code ZF0613.

- 6.5 Accruals for ASC and AOC contracts related to Saudi Aramco should be made by the SAO proponents in accordance with the procedures/requirements of this instruction.

7. 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.

- 7.1 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 for all months of the year. Except for the month of December, the deadline will be specified at the end of the year.
- 7.2 For accruals related to proponent cost centers under contracts that utilize SES, proponents are to utilize TXN Code ZF0085 for parking and posting their accruals. Proponents should fill out accrual request Form 1 and submit it to OAD for accrual monitoring purposes.
- 7.3 Accruals for accounts that are related to proponent cost centers, or to other than cost centers (such as WBS/IO/PM) under miscellaneous invoices or contracts that are not utilizing SES, and accruals for accounts that are related to other than cost centers under contracts that are utilizing SES, should be submitted to OAD utilizing accrual request Form 2. The request should be approved by Department Head, or higher, and sent to the Manager, OAD. An advance copy may be submitted via email to *OAD/PAD/SA&RU/Accrual.

8. REVERSAL OF ACCRUALS

- 8.1 OAD will reverse all accruals in the following month using TXN Code F.80 – Mass Reversal - for document type ZL without further direction.
- 8.2 All proponents should re-accrue any services which remain outstanding in the following quarter, subject to the limitations of Paragraphs 5, 6 and 7.

9. MONITORING ACCRUALS

OAD will monitor accrual activity, particularly over-accruals, by verifying that all year end accrual amounts and any outstanding accruals as of the end of May of the following year will be cleared (below the line), unless justified by a letter received from the Business Line head.

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10. ACCRUALS FOR CONSTRUCTION PROJECTS

- 10.1 Accruals for construction projects under the direction of Saudi Aramco Project Management are made at the general ledger level only. Accruals are made quarterly. The total accrual for all construction in progress is determined by Project Management and communicated to the Manager, OAD prior to the scheduled closing date.
- 10.2 Accruals for contractor costs, chargeable to a Project or Work Breakdown Structure (WBS) Element are permitted for projects that are not under the direction of a Project Management Team. However, the accrual is made at the general ledger level only, as indicated above.

11. ACCRUAL ENTRIES

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

DR	740XXXX	Cost Element - Primary	XXX	
CR	3003083	Accrued Liabilities – Materials & Services		XXX

- 11.2 For miscellaneous items OAD will make the following accrual entries using TXN Code ZF0085:

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

- 11.3 For transportation & storage – Crude Exports, OAD will make the following accrual entries using TXN Code ZF0085:

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

- 11.4 For freight costs provided by Vela, OAD will make the following accrual entries using TXN ZF0085:

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DR	740XXX	Cost Element – Primary	XXX
CR	3100150	Accrued Freight Payable – Vela	XXX

11.5 For construction projects. OAD will make the following accrual entry using TXN Code ZF0085:

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

For any of the above entries, use the appropriate intercompany account, if applicable. Such entries will be reversed by OAD in the following month.

Approved:

R.A. KRYGSMAN, Manager
Accounting Policies & Systems Department

MDH
W/C #T445

* CHANGE

** ADDITION

NEW INSTRUCTION

COMPLETE REVISION ☐