

2120 Holdbacks Payable

A. Overview

A holdback is a portion of a progress billing called for under the terms of a contract for which the government has an obligation but that is not payable to the contractor until the contract has been substantially completed and subcontractors paid by the contractor. An accounts payable is recorded for any holdbacks not yet paid.

B. Accountability

Ministries are responsible for maintaining source documents, working papers and files supporting holdbacks payable for internal and external audit and review.

Ministries are required to:

- establish and maintain accounting systems to collect, record and report information on their holdbacks payable;
- establish and maintain adequate internal control systems to ensure the accuracy and reliability of holdbacks payable information and reports; and
- monitor holdbacks payable balances and record transactions promptly and accurately.

C. Procedures

C1. Throughout the Year

When paying out a holdback that has been recorded as payable, an invoice is entered with a debit to account 255300 Holdbacks Payable rather than to an expenditure account.

Example 1.1

A \$600,000 holdback was recorded as holdbacks payable as at March 31 last year. On May 1, Ministry X records an invoice for \$600,000 to initiate a holdback payment under a contract to construct a building.

Debit	199200 Buildings – High Quality Construction – Current Year Additions	600,000	
Credit	255300 Holdbacks Payable		600,000
* debit memos to record holdbacks payable at March 31			
Debit	255300 Holdbacks Payable	600,000	
Credit	253000 Accounts Payable		600,000
* invoice to initiate payment of holdback on May 1			

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C. Procedures (*continued*)

C2. Quarter end

Record a holdbacks payable for any significant holdbacks not yet paid at quarter end. For purposes of quarter-end accruals, significant is defined to be amounts in excess of \$1 million. Refer to subsection C3. Year end for guidance on recording holdbacks payable.

C3. Year end

Record a holdbacks payable for any holdbacks not yet paid at March 31. Ministries may choose to adjust the Holdbacks Payable account either at year end or throughout the year.

Holdbacks are recorded to account 255300 Holdbacks Payable by debit memo using the same coding as the eventual payment to ensure proper disclosure in Volume 2 of the Public Accounts.

Example 3.1

Ministry X has a holdback of \$800,000 for a portion of progress billings under a contract to construct a building. The holdback has not been recorded as of March 31.

Debit	199200 Buildings – High Quality Construction - Current Year Additions	800,000	
Credit	255300 Holdbacks Payable		800,000
* debit memo to record holdbacks payable			

The balance in account 255300 Holdbacks Payable should be reviewed at year end to ensure that it is accurate. If any amounts previously recorded as holdbacks payable are mistakenly charged against expenditure/appropriation when paid in the current year, a debit memo should be recorded to correct the expenditure and holdbacks payable balances.

Example 3.2

Ministry X mistakenly debits account 199200 Buildings – High Quality Construction - Current Year Additions rather than account 255300 Holdback Payables when initiating a holdback payment of \$300,000 that was previously recorded as a holdbacks payable. Ministry X identifies the error in the same year that the duplicate expenditure is recorded.

Debit	255300 Holdbacks Payable	300,000	
Credit	199200 Buildings – High Quality Construction - Current Year Additions		300,000
* debit memo to correct the expenditure and holdbacks payable balances			

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C. Procedures (*continued*)

C3. Year end (*continued*)

Example 3.3

In the prior year, Ministry X mistakenly debited an expenditure account rather than account 255300 Holdback Payables when initiating a holdback payment of \$200,000. Ministry X did not identify the error in the prior year resulting in the holdbacks payable balance being too high.

Debit	255300 Holdbacks Payable	200,000	
Credit	486905 Change in Previous Years' Estimates		200,000
* debit memo to correct the holdbacks payable balance and record revenue			

If the balance in account 255300 Holdbacks Payable is determined to be higher than the actual or estimated further payments as a result of expenditures recorded in past years, the excess should be recorded as revenue in account 486905 Change in Previous Years' Estimates, rather than as a credit to expenditure, to avoid inappropriately increasing appropriation.

Example 3.4

Ministry X determines that the estimate for the holdbacks payable recorded at March 31 last year was \$50,000 too high.

Debit	255300 Holdbacks Payable	50,000	
Credit	486905 Change in Previous Years' Estimates		50,000
* debit memo to correct the holdbacks payable balance and record revenue			

D. Definition

A **holdback** is a portion of a progress billing called for under the terms of a contract for which the government has an obligation but that is not payable to the contractor until the contract has been substantially completed and subcontractors paid by the contractor.

E. References

Public Sector Accounting Handbook
PS 3200 Liabilities

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