

NATIONAL CIGFARO *m*SCOA WORKSHOP 2020

Construction work in progress

Presented by National Treasury Ria von Ronge 12 November 2020



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Objectives of the session

To provide guidance on

- Construction Work in progress using the mSCOA chart in terms of *mSCOA* Circular no 7 released on 02 March 2020.
- The Annexure to the *mSCOA* Circular no 7 released on CWIP released 22 September 2020

Why is there not a separate category for Construction work in progress per asset class?

The *m*SCOA in its design is a multi dimensional and as such reduces the complexity of a single segment chart.

Instead of duplicating accounts in a single segment the same can be achieved with fewer accounts using different segments

Thus for different Construction projects you will use the project linked to the Item: Asset
Construction work in Progress

List of possible projects:

- Roads and bridges -CWIP
- Water networks, Reservoirs, Dams- CWIP
- Electrical infrastructure -CWIP
- Buildings -CWIP

Construction work in progress

Tree Structure

Projects

- Capital(PC)
 - Infrastructure(PC-001)
 - + Existing(PC-001-001)
 - New(PC-001-002)
 - Electrical Infrastructure(PC-001-002-001)
 - Power Plants(PC-001-002-001-001)

Item

- Construction Work-in-progress(IA-002-016)
 - Opening Balance(IA-002-016-001)
 - Acquisitions(IA-002-016-002)
 - Outsourced(IA-002-016-002-001)
 - Own Account Construction(IA-002-016-002-002)
 - Materials and Supplies(IA-002-016-002-002-001)
 - Compensation of Employees(IA-002-016-002-002-002)
 - Cost of Site Preparation(IA-002-016-002-002-003)
 - Initial Delivery and Handling Cost(IA-002-016-002-002-004)
 - Installation and Assembly Cost(IA-002-016-002-002-005)
 - Cost of Testing Sites(IA-002-016-002-002-006)
 - Professional Fees(IA-002-016-002-002-007)

Construction work in Progress

Construction Work In Progress

Opening balance
Additions
 Outsourced
 Own account construction
 <various accounts>
 Borrowing costs
Closing balance
Transfers to <various asset categories>
Accumulated impairment

Single set of accounts
for the recording of
CWIP in the **item**
segment

Property, Plant and Equipment (PPE)

Roads Infrastructure
Cost
 Opening balance
 Additions
 <various other accounts>
 Closing balance
Transfers to <various asset categories>

Various accounts in
the **asset segment**

Using the item and asset segment in this way
eliminates the duplication of CWIP accounts
under "additions" in the **item segment**

Capital Work in Progress

- The costs of construction of Assets is accumulated in :
Item Assets: Non Current Assets :Construction WIP
 - Outsourced, or
 - Own labour, and or
 - Inventory.
- At the end of the project the Final Asset Created will be transferred out of CWIP and Capitalised in the correct asset component.
- The Core system should be able to provide a transaction to perform the capitalisation of assets into Item Assets: Non Current Assets: PPE, the Transferring out of CWIP : PPE transferred out of CWIP.
- The Construction WIP account must be reconciled monthly and annually to ensure timeous capitalisation of Assets that will start depreciation and maintenance of assets.

Transacting in *m*SCOA for CWIP and Inventory

- Upgrading of Existing Reservoirs in ward 20 of the Municipality using own materials from Inventory

Segment	Debit	Credit
Project	Capital:Infrastructure:Existing: Upgrading:Water Supply Infrastructure:Reservoirs	Capital:Infrastructure:Existing: Upgrading:Water Supply Infrastructure:Reservoirs
Function	Function:Water Management:Core Function:Water Storage	Function:Water Management:Core Function:Water Storage
Item	Assets:Non-current Assets: Construction Work-in-progress:Acquisitions: Own Account Construction: Materials and Supplies	Assets:Current Assets: Inventory:Materials and Supplies:Issues
Funding	Fund: Non-Funding	Fund: Non- Funding
Region	Whole of Municipality	Whole of Municipality
Costing	Default	Default

Componentisation of Assets

- As per GRAP 17 assets must be capitalised per component
- *m*SCOA Item asset segment is aligned with CIDMS to provide the user with the categories as prescribed to capitalise a **completed project** per the relevant Asset category.
- In the case of a Road that is being constructed the asset categories that might be used is road infrastructure and stormwater infrastructure.(Depending on the specification of the tender)
- Depreciation will now start as per the accounting policy.
- The new asset must now be included in the Asset Maintenance Plan.
- Asset Maintenance is an operational project that will keep the asset in a condition to perform optimally.
- Asset Maintenance plans will inform the Project Maintenance and be utilised to populate SA34a to SA34e.

This slide is a highlighting the life cycle of Assets

Example of Capitalisation of Assets per component.

- Capitalise the total Upgrading of Existing Reservoirs in ward 20 of the Municipality

Segment	Debit	Credit
Project	Capital:Infrastructure:Existing: Upgrading:Water Supply Infrastructure:Reservoirs	Capital:Infrastructure:Existing: Upgrading:Water Supply Infrastructure:Reservoirs
Function	Function:Water Management:Core Function:Water Storage	Function:Water Management:Core Function:Water Storage
Item	Assets:Non-current Assets: Property, Plant and Equipment: Cost Model:Water Supply Infrastructure: Reservoirs:Cost: Acquisitions	Assets:Non-current Assets: Construction Work-in-progress: Transfer to PPE
Funding	Fund: Non-Funding	Fund: Non- Funding
Region	Ward 20	Ward 20
Costing	Default	Default

Retention

- Retention on Construction Contracts must be addressed in the Tender process and the signed Service Level Agreement between contractors and the Municipality.
- Retention could be in the form of :
 - 1. a Bank guarantee or;
 - 2. a portion/ percentage of the payment must be withheld and accrued per payment certificate.
- When using the Percentage withheld methodology
 - Retention is captured in the Trade and Other Payables sub system. Retention must be captured, per project, per Contractor.
- Retention can only be paid out in the event of a fully completed, signed-off asset after the agreed period in accordance with the contract and after all defects were fixed.
- The reporting of Grant funding used for projects must include Retention and VAT of all payments made.

Example of Retention of Construction Work in Progress

- Allocation of Retention Liability on a Construction Contract

Segment	Debit	Credit
Project	Capital:Infrastructure:Existing: Upgrading:Water Supply Infrastructure:Reservoirs	Capital:Infrastructure:Existing: Upgrading:Water Supply Infrastructure:Reservoirs
Function	Function:Water Management:Core Function:Water Storage	Function:Water Management:Core Function:Water Storage
Item	Assets:Non-current Assets: Construction Work-in- progress:Outsourced	Liabilities:Current Liabilities: Trade and Other Payable Exchange Transactions: Retentions:Deposits
Funding	Fund:Non-Funding	Fund:Non-Funding
Region	Ward 20	Ward 20
Costing	Default	Default

Example of Retention payable to Contractor at the end of the period

- Payment of Retention Liability on a Construction Contract at the end of period

Segment	Debit	Credit
Project	Capital:Infrastructure:Existing: Upgrading:Water Supply Infrastructure:Reservoirs	Capital:Infrastructure:Existing:Upgrading: Water Supply Infrastructure:Reservoirs
Function	Function:Water Management:Core Function:Water Storage	Function:Water Management:Core Function:Water Storage
Item	Liabilities:Current Liabilities:Trade and Other Payable Exchange Transactions:Retentions: Withdrawals	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Withdrawals
Funding	Fund:Capital:Transfers and Subsidies:Monetary Allocations:National Government: Municipal Infrastructure Grant	Fund:Capital:Transfers and Subsidies:Monetary Allocations:National Government: Municipal Infrastructure Grant
Region	Ward 20	Ward 20
Costing	Default	Default



Receiving of Transfers and Subsidies

Segment	Debit	Credit
Project	Default	Default
Function	Finance and Administration: Core: Finance	Finance and Administration: Core: Finance
Item	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Deposits	Item Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies Unspent : Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant: Received
Funding	Fund:Capital:Transfers and Subsidies: Monetary Allocations:National Government:Municipal Infrastructure Grant	Fund:Capital:Transfers and Subsidies :Monetary Allocations:National Government:Municipal Infrastructure Grant
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

Recognising of Transfers and Subsidies as revenue

- Once the Grant /Transfer **was spend** the amount spend must be recognised as Revenue

Segment	Debit	Credit
Project	Default	Default
Function	Function:Finance and Administration: Core: Finance	Function:Finance and Administration: Core: Finance
Item	Item Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies Unspent : Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant: Recognised	Item: Revenue: Non-exchange Revenue: Transfers and Subsidies: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant
Funding	Fund:Non- Funding	Fund:Non-Funding
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

How is an impairment of an asset under construction recorded in *m*SCOA

- Impairment Loss(IZ-005)		- Construction Work-in-progress(IA-002-016)	
<u>Biological or Cultivated Assets(IZ-005-001)</u>		Opening Balance(IA-002-016-001)	
Heritage Assets(IZ-005-002)		+ Acquisitions(IA-002-016-002)	
Intangible Assets(IZ-005-003)		Transfer to PPE(IA-002-016-004)	
Investment Property(IZ-005-004)		Transfer to Intangible Assets(IA-002-016-005)	
+ Property, Plant and Equipment(IZ-005-005)		Accumulated Impairment(IA-002-016-006)	
+ Other Receivables from Non-exchange Revenue(IZ-005-006)			
+ Trade and Other Receivables from Exchange Transactions(IZ-005-007)			
Construction Work-in-progress(IZ-005-008)			

Dt Item
Gains &
Losses

Cr Item
Assets

How is an impairment of an asset under construction reversed in *m*SCOA

— Construction Work-in-progress(IA-002-016)

Opening Balance(IA-002-016-001)

+ Acquisitions(IA-002-016-002)

Transfer to PPE(IA-002-016-004)

Transfer to Intangible Assets(IA-002-016-005)

Accumulated Impairment(IA-002-016-006)

— Reversal of Impairment Loss(IZ-006)

Biological or Cultivated Assets(IZ-006-001)

Heritage Assets(IZ-006-002)

Intangible Assets(IZ-006-003)

Investment Property(IZ-006-004)

+ Property, Plant and Equipment(IZ-006-005)

+ Other Receivables from Non-exchange Revenue(IZ-006-006)

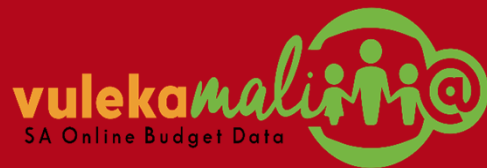
+ Trade and Other Receivables from Exchange Transactions(IZ-006-007)

Construction Work-in-progress(IZ-006-008)

Dt Item
Assets

Cr Item
Gains &
Losses

THANK YOU



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