

CIGFARO *m*SCOA NATIONAL WORKSHOP

ITEM 10.1

Bad Debts Written Off
and
Impairment Loss

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Date: 17 November 2021





national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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NATIONAL TREASURY
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Bad Debts Written Off and Impairment Loss

Problem Statement in terms of MFMA Budget Circular No. 98 dated 06 December 2019.

- Municipalities are incorrectly using the line item for bad debts written-off under the Item Expenditure segment when budgeting for debt impairment.
- It should be highlighted that bad debts written-off is not the same as debt impairment.
- Debt impairment is the provision that the municipality makes for non-payment while bad debt written-off is the irrecoverable debts written off during the financial year as approved by Council per type of service.

Although most municipalities use impairment allowances in terms of GRAP 104 on Financial Instruments and GRAP 108 on Statutory Receivables there is an inconsistent approach to the actual write-off of debt approved by Council:

- Some municipalities reflect the write-off against the allowance account (i.e., in the Statement of Financial Position)(against the Provision previously made) while
- Others recognize a debt write-off expense in the Statement of Financial Performance

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mSCOA Position: Debt Written Off

- Municipalities must recognize all **debt write-offs** in the **Statement of Financial Performance** and
- **Not** against the **accumulated debt impairment account** (or allowance) in the **Statement of Financial Position**.

	Debit	Credit
Bad debts written off (Financial Performance)	1 000 000	
Accounts receivable- exchange (Financial Position)		1 000 000

Recognition of amounts written off via council resolution

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NATIONAL TREASURY 5		
mSCOA Position: Debt Written Off		
<ul style="list-style-type: none"> Council approved write off of R1 000 000 for solid waste removal debts in Ward 1 		
Segment	Debit	Credit
Project	Municipal Running Costs	Municipal Running Costs
Function	Function: Waste Management: Core Function: Solid Waste Removal	Function: Waste Management: Core Function: Solid Waste Removal
Item	Expenditure: Bad Debts Written Off	Assets: Current Assets: Trade and Other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Waste Management: Debt Write-off
Fund	Fund: Operational: Revenue: General Revenue: Service Charges: Waste	Fund: Operational: Revenue: General Revenue: Service Charges: Waste
Region	Ward 1	Ward 1
Costing	Default	Default
Amount	R1 000 000	R1 000 000

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NATIONAL TREASURY 6		
mSCOA Position: Debt Impairment		
<ul style="list-style-type: none"> The impairment assessment, in terms of GRAP 104.57 and 108.17, should be conducted at the end of each reporting period taking all debt written-off into account. The assessment is therefore conducted on the <u>remaining debtors</u>. An increase is recognized as an "impairment loss" and a decrease as "reversal of impairment loss". 		
	Debit	Credit
Impairment loss (Statement of Financial Performance)	2 500 000	
Impairment allowance (Statement of Financial Position)		2 500 000
Recognition of impairment loss		

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mSCOA Position: Debt Impairment

An increase is recognised as an "impairment loss" – electricity debtors

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
Item	Gains and Losses: Impairment Loss: Trade and Other Receivables from Exchange Transactions: Electricity	Assets: Current Assets: Trade and Other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Impairment: Recognised
Fund	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity
Region	Ward 2	Ward 2
Costing	Default	Default
Amount	R2 500 000	R2 500 000

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Illustrative Accounting Entries

The following example illustrates the application:

Revenue from water sales of R10 million is earned from the sale of water, R5 million is collected and R2 million impairment losses are assessed against the year-end balance.

	Debit	Credit
Accounts receivable – exchange transactions	10 000 000	
Revenue from exchange transactions (water)		10 000 000
Recognition of revenue from sales		
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Bank	5 000 000	
Accounts receivable – exchange transactions		5 000 000
Recognition of amounts received from consumers		
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Impairment loss (Statement of Financial Performance)	2 000 000	
Impairment allowance (Statement of Financial Position)		2 000 000
Recognition of impairment loss		

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Illustrative Accounting Entries

- Revenue from sale of water R10 million

Segment	Debit	Credit
Project	Default	Default
Function	Function: Water Management: Core Function: Water Distribution	Function: Water Management: Core Function: Water Distribution
Item	Assets: Current Assets: Trade and Other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Water: Monthly Billing	Revenue: Exchange Revenue: Service Charges: Water: Sale: Conventional
Fund	Fund: Operational: Revenue: General Revenue: Service Charges: Water	Fund: Operational: Revenue: General Revenue: Service Charges: Water
Region	Ward 2	Ward 2
Costing	Default	Default
Amount	R10 000 000	R10 000 000

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Illustrative Accounting Entries

R5 million collected from debtors in the water function in Ward 2

Segment	Debit	Credit
Project	Default	Default
Function	Function: Water Management: Core Function: Water Distribution	Function: Water Management: Core Function: Water Distribution
Item	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Primary Bank account: Deposits	Assets: Current Assets: Trade and Other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Water: Collections
Fund	Fund: Operational: Revenue: General Revenue: Service Charges: Water	Fund: Operational: Revenue: General Revenue: Service Charges: Water
Region	Ward 2	Ward 2
Costing	Default	Default
Amount	R5 000 000	R5 000 000

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NATIONAL TREASURY II		
Illustrative Accounting Entries		
An increase in impairment loss assessed at year-end at debtors in water function in Ward 2		
Segment	Debit	Credit
Project	Default	Default
Function	Function: Water Management: Core Function: Water Distribution	Function: Water Management: Core Function: Water Distribution
Item	Gains and Losses: Impairment Loss: Trade and Other Receivables from Exchange Transactions: Water	Assets: Current Assets: Trade and Other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Water: Impairment: Recognised
Fund	Fund: Operational: Revenue: General Revenue: Service Charges: Water	Fund: Operational: Revenue: General Revenue: Service Charges: Water
Region	Ward 2	Ward 2
Costing	Default	Default
Amount	R2 000 000	R2 000 000

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NATIONAL TREASURY I 2		
Illustrative Accounting Entries		
Revenue from sanitation charges of R15 million is earned, R7.5 million is collected and R6 million is written off by council and R2.5 million impairment losses are assessed against the year-end balance		
	Debit	Credit
Accounts receivable – exchange transactions	15 000 000	
Revenue from exchange transactions (Sanitation)		15 000 000
Recognition of revenue from sales		
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Bank	7 500 000	
Accounts receivable – exchange transactions		7 500 000
Recognition of amounts received from consumers		
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Bad debts written off (Financial Performance)	6 000 000	
Accounts receivable – exchange transactions (Financial Position)		6 000 000
Recognition of amounts written off via council resolution		
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Impairment loss (Financial Performance)	2 500 000	
Impairment allowance (Financial Position)		2 500 000
Recognition of impairment loss		

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Illustrative Accounting Entries

- Revenue from billing of sanitation charges of R15 million in Ward 3

Segment	Debit	Credit
Project	Default	Default
Function	Function: Waste Water Management: Core Function: Sewerage	Function: Waste Water Management: Core Function: Sewerage
Item	Assets: Current Assets: Trade and Other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Waste Water Management: Monthly Billing	Revenue: Exchange Revenue: Service Charges: Waste Water Management: Sanitation Charges
Fund	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water
Region	Ward 3	Ward 3
Costing	Default	Default
Amount	R15 000 000	R15 000 000

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Illustrative Accounting Entries

R7,5 million collected from debtors in the waste water function in Ward 3

Segment	Debit	Credit
Project	Default	Default
Function	Function: Waste Water Management: Core Function: Sewerage	Function: Waste Water Management: Core Function: Sewerage
Item	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Primary Bank account: Deposits	Assets: Current Assets: Trade and Other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Waste Water Management: Collections
Fund	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water
Region	Ward 3	Ward 3
Costing	Default	Default
Amount	R7 500 000	R7 500 000

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NATIONAL TREASURY 15		
mSCOA Position: Debt Written Off		
R6 million debtors written off by Council in the waste water function in Ward 3		
Segment	Debit	Credit
Project	Municipal Running Costs	Municipal Running Costs
Function	Function: Waste Water Management: Core Function: Sewerage	Function: Waste Water Management: Core Function: Sewerage
Item	Expenditure: Bad Debts Written Off	Assets: Current Assets: Trade and Other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Waste Water Management: Debt Write-off
Fund	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water
Region	Ward 3	Ward 3
Costing	Default	Default
Amount	R6 000 000	R6 000 000

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NATIONAL TREASURY 16		
Illustrative Accounting Entries		
An increase in impairment loss assessed at year-end at debtors in waste water function in Ward 3		
Segment	Debit	Credit
Project	Default	Default
Function	Function: Waste Water Management: Core Function: Sewerage	Function: Waste Water Management: Core Function: Sewerage
Item	Gains and Losses: Impairment Loss: Trade and Other Receivables from Exchange Transactions: Waste Water Management	Assets: Current Assets: Trade and Other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Waste Water Management: Impairment: Recognised
Fund	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water Management	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water Management
Region	Ward 3	Ward 3
Costing	Default	Default
Amount	R2 500 000	R2 500 000

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Bad Debts Written Off and Impairment Loss

What must municipalities do

- Budget for both bad debts written off and impairment loss for all types of services
- Transact correctly for bad debt written off and impairment loss respectively.
- Ensure that bad debt written off is only done after council approval.

What must PT's do

- Ensure that the data string consists of budgets for Bad Debts Written Off and Impairment Loss
- Confirm that the transactions are correctly captured for bad debts written off and impairment loss, respectively.
- Recommend that incorrect budgeting be corrected in the next budget (Main Adjustment or Tabled budget)
- Recommend that the correct information be captured under the two items, respectively.

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