

# NATIONAL CIGFARO *m*SCOA WORKSHOP 2020

## DEBT IMPAIRMENT

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**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Background

- National Treasury issued several position papers in Nov 2016 to provide guidance on *mSCOA* related issues
- These position papers have been reviewed recently and with the exception of the Debt Impairment and Write Off position paper, these position papers have been retired due to subsequent chart version changes
- The Debt Impairment and Write Off paper was updated position paper and released on the National Treasury website on 28 September 2020.
- It should be noted that although these have been e retired position papers are still available on the National Treasury website but must only be used for historical purposes and are not relevant anymore.
- The link to the position paper is:

<http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx>

# Objective of the Position Paper

The objective of the position paper is to achieve the following:

- Recognition, measurement and disclosure of revenue and receivables in a consistent and transparent manner
- A standard approach in the accounting treatment in order to ensure a uniform classification of transactions.
- Improving the integrity of information collected and reported both internally and externally.
- Consistent accounting treatment also assists decision makers in the tariff setting process, allocation of external funding, and the monitoring of performance.

# Legislation & Regulations - GRAP

Paragraph .57 of **GRAP 104 (2019)** states the following with regard to the impairment and collectability of a financial asset or a group of financial assets (being accounts receivable):

*“An entity shall **assess** at the **end of each reporting period** whether there is any **objective evidence** that a financial asset or group of financial assets is **impaired**.*

*If **any such evidence** exists, the entity shall apply paragraphs .61 to .63 (for financial assets carried at amortised cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any **impairment loss**.”*

# Legislation & Regulations - GRAP

Paragraph .17 of **GRAP 108 (2019)** states the following with regard to impairment losses:

*“An entity shall **assess at each reporting date** whether there is an indication that a **statutory receivable**, or a **group of statutory receivables**, **may be impaired**. If any such indication exists, the entity shall apply paragraphs .22 - .29*

# Legislation & Regulations – Circular 71

## Collection Rate:

- The ratio indicates the collection rate, i.e. level of payments
- It measures increases or decreases in debtors relative to annual billed revenue
- To determine the real collection rate bad debts written-off is considered
- The norm is 95 per cent
- Assessing the collection ratio will provide an indication of the performance against a number of areas, for example
  - ✓ Quality of Credit Control – ensuring what is billed is collected
  - ✓ Quality of Revenue Management – the ability to determine affordable tariffs and bill correctly.

# Legislation & Regulations – Circular 71

## **Bad Debt Written-off as a percentage of Bad Debt Provision:**

- The norm is **100 per cent**.
- A municipality should only write-off debt already provided for
- Results of less than 100 per cent should ideally be due to recoverability of debtors.
- Results of above 100 per cent indicates that a municipality had not previously identified the debtors having the potential of defaults
- The later indicates weaknesses in the calculation of the provision for bad debt, the methodology used and/or poor credit processes.

# Problem Statement

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) while
- ✓ others recognise a debt write-off expense in the Statement of Financial Performance.

*In the context of mSCOA a standard approach in the accounting treatment is preferable in order to ensure a uniform classification of transactions. Thus improving the integrity of information collected and reported both internally and externally. Consistent application also assists decision makers in the tariff setting process, allocation of external funding, and the monitoring of performance.*



# mSCOA Position – Debt Write Off

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

Dr Bad debts written off (PER)	1 000 000
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Cr Accounts receivable- exchange (POS)	1 000 000
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Recognition of amounts written off via council resolution

# mSCOA Position – Debt Impairment

The impairment assessment, in terms of GRAP 104 and 108, should be conducted on an annual basis taking all debt written-off into account.

The assessment is therefore conducted on the remaining debtors and not those that are no longer recoverable.

An increase is recognized as an “impairment loss” and a decrease as “reversal of impairment loss”.

Dr Impairment loss/gain (PER)	2 500 000	
Cr Impairment allowance (POS)		2 500 000
Recognition of impairment		

# Illustrative accounting entries

The following example illustrates the application of the position paper:

**Year 1:** Revenue 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.

**Year 2:** Revenue 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

# Illustrative accounting entries

Year end X1	Dr	Cr
Dr Accounts receivable- exchange	10 000 000 `	
Cr Revenue from exchange transactions (water)		10 000 000
<i>Recognition of revenue from sales</i>		
Dr Bank	5 000 000	
Cr Accounts receivable- exchange		5 000 000
<i>Recognition of amounts received from consumers</i>		
Dr Impairment loss/gain (PER)	2 000 000	
Cr Impairment allowance (POS)		2 000 000

## Illustrative accounting entries

## Year end X2

Dr Accounts receivable- exchange	15 000 000
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Cr Revenue from exchange transactions (water)	15 000 000
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### *Recognition of revenue from sales*

Dr Bank	7 500 000
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Cr Accounts receivable- exchange	7 500 000
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### *Recognition of amounts received from consumers*

Dr Bad debts written off (PER)	6 000 000
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Cr Accounts receivable- exchange (POS)	6 000 000
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*Recognition of amounts written off via council resolution*

Dr Impairment loss/gain (PER)	2 500 000
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Cr Impairment allowance (POS)	2 500 000
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# Budgeting for Impairment in mSCOA

## Available accounts for the impairment of debt

The impairment assessment, in terms of GRAP 104 and 108, should be conducted on an annual basis taking all debt written-off into account.

Separate accounts are available within *mSCOA* for a municipality to recognise an increase and/or decrease in the impairment of debt per selected debt type.

An increase is recognised as an “impairment loss” and a decrease as “reversal of impairment loss”. These accounts are available under “gains and losses” in *mSCOA*.

# Available Accounts in mSCOA Charts

## Annexure B: List of accounts for bad debt written-off within current assets (POS)

ACCOUNTS ACCORDING TO MSCOA VERSION 6.4						GUID
Assets						4baceb49-4bf8-4a31-bcf4-234adc0ae8bd
	Current Assets					4994c30b-acb2-404a-9b8f-985c80b1e926
		Receivables from Non-exchange Transactions				4605e80f-59f2-41d4-a0ed-b8a0eff56ceb
			Insurance Claims			dfcdf374-b587-4893-bbc0-e7a90762b42a
				Debt Write-offs		5eef6db0-cf59-4181-9e47-5f394b4778c5
			Property Rates			1a1dd570-0f5a-45da-b841-dbd73683e88d
				Business and Commercial		15aca8ca-8485-4d3f-9f8d-c2a52a03dcbd
					Debt Write-offs	4aae65c5-afc9-4129-af85-18e0732d6125
				Communal Land		ff5c5a31-3711-47e4-8f31-d295690966a9
					Business and Commercial	f11c99fe-9640-475b-807e-acb234054314
					Debt Write-offs	5019c397-27d1-40be-8a44-13d2d75b20c5
					Farm Property	20a8ceab-7482-4f86-b81c-2af1b8e57afc
					Debt Write-offs	a2059dcd-182c-417b-80f9-2a147dcb1f6d
					Residential	d8198504-ba80-4379-a3db-09162901ad20
					Debt Write-offs	db0f83d5-c6a6-482c-b948-bde2f7555b08
					Small Holdings	c26d1d03-3131-41f8-bfae-b6f42808211f
					Debt Write-offs	928d73de-54fe-49b7-bbdc-6e10cf0246cc
					Other	5ae2a516-8b8a-4517-bc10-dbe82f131af3
					Debt Write-offs	47099d78-0213-42ba-a1eb-561c74ff6619
				Farm Properties		967d2498-23cd-4f84-a908-512c9893bb62
				Agricultural Purposes		b5719fb4-39d3-48a0-9d98-dad92d6edba5
					Debt Write-offs	af1174a4-4306-40c6-9d1d-bd95a4583083
				Business and Commercial Purposes		0c34dbdd-3a40-4676-a297-53e86b9a63d9
					Debt Write-offs	b3e5d114-0721-4ba1-af9b-ab2c605452ca
				Industrial Purposes		e3df1f56-9ddb-4f24-b4f4-3d78b031fec0

# Available Accounts in mSCOA Charts

ACCOUNTS ACCORDING TO MSCOA VERSION 6.4				GUID
			Restitution and Redistribution Properties	92a3c8e2-063d-48f5-90b5-c5a912f7cf9c
			Communal Property Associations Act	98bce220-518c-4b9e-a2a7-2580641ccfe5
			Debt Write-offs	6d1d3574-6f9c-4b6c-a7c7-e5a7436e71fd
			Land and Assistance Act or Restitution of Land Rights Act	63923b1c-a42f-4b80-859b-fc4582d723de
			Debt Write-offs	5d69e31a-70dd-4a07-8638-26b52052cdb5
			Small Holdings	eac081b0-e91c-45af-9ff4-3a3c8fa724ee
			Agricultural Purposes	96be10c7-4dfb-4b0d-b354-52b12f63ebc2
			Debt Write-offs	ac03347b-8e3d-471f-b789-c74fe6fa4924
			Business and Commercial Purposes	176cb8ab-0ed4-4776-aa88-2c9897b36dbd
			Debt Write-offs	6598824e-ea63-4147-9e3b-4c64b095fc9b
			Industrial Purposes	08cc8b2c-0035-4c12-9c37-3887def766e1
			Debt Write-offs	2707d6cd-fd2f-4535-ab1a-6e955e38ceef
			Residential Purposes	74b67aa0-dc91-4148-a319-4d406676ed8e
			Debt Write-offs	ff117582-5eaf-40f6-a796-0dc1730062a4
			Purposes other than the Above	e6607abf-5c35-42a6-89d3-6cecd9d5136a
			Debt Write-offs	6186ae3f-f99a-4152-9cde-5b3ceebedea7
			Special Rating Area	dada2d46-4a6c-46cf-9d97-48334fa72ed5
			Debt Write-offs	3036c590-84df-44a3-8212-78e11585a92b
			State-owned Properties	4b2c4d25-578e-42aa-80fa-ac0e4d8d28d3
			National Government	d32dbb0a-a73e-42c6-9e92-081b66b2a970
			Debt Write-offs	e5ff6602-b746-499a-b757-0daf8276463c
			Provincial Government	758e9898-a1d9-4b59-9069-091456b5343f
			Debt Write-offs	850057bb-dcc7-498d-bf78-91e3c9333aab
			State Trust Land	f3d3cc92-6c5d-4626-9255-e8787403ca8c
			Debt Write-offs	aa9ccfed-66aa-4227-94e8-157d69d87221
			Mining Properties	97d7bba2-eb02-47a1-811d-68f049c893da
			Debt Write-offs	8ccf6aae-bfc8-4d8d-bac9-cea63db4ccfa
			Agricultural Properties	26b2dd44-6163-4187-b859-f5a0aae268f3
			Debt Write-offs	b134065f-4f1f-41b5-bc01-3ce8ddb40a2
			Multiple Purposes	54fa191d-57ba-4db9-aa76-f8795933da46
			Debt Write-offs	f02f18f7-c3ab-4275-87f9-30698308fa7c
			LGSETA Interns	566cdad3-5bd3-4473-bc5e-2304579617a2
			Debt Write-offs	deb6b501-294b-4542-837d-068b38f1995c
			Fines	92a08a87-6ca7-4f9a-ab3d-dd295c50891a
			Debt Write-offs	3cf49ca7-725d-46cd-a38c-033d1a1c2366



# Available Accounts in mSCOA Charts

## Annexure C: List of accounts for impairment losses and reversals (PER)

ACCOUNTS ACCORDING TO MSCOA VERSION 6.4				GUID
Gains and Losses				1f2cbc33-d269-4c44-b37b-bbccdd14676d7
	Impairment Loss			5e16ed1e-eb84-40e2-9cab-119aacecaa7f
		Other Receivables from Non-exchange Revenue		0f6daf70-4f6b-4c61-8a4c-1efb60d65819
			Non Specific Accounts	d89ea294-7dcc-4778-858c-6fe538c12f2f
			Property Rates	9e82d266-bf51-4240-8d39-75464d4f8f0c
		Trade and Other Receivables from Exchange Transactions		70408566-2983-49be-ac82-b7e29a60f0a3
			Electricity	e0d7cb87-b691-47fb-a558-5c1ae12308d4
			Non Specific Accounts	65e766bf-5e46-479a-bf8a-739e7f38717d
			Waste Management	21639035-793f-4899-80fd-5ee80039c330
			Waste Water Management	8307f3f0-7172-4893-a7be-7bd84ca7efb8
			Water	7a7902c9-6ae2-43dc-9e6d-e5e5f478fcdf
	Reversal of Impairment Loss			7c381123-4c5d-4354-8052-05ae15270de6
		Other Receivables from Non-exchange Revenue		8875e8a5-921f-469c-8e25-13743b410ef7
			Non Specific Accounts	3be1764a-58d6-4095-9a6b-ce3c88820d89
			Property Rates	a3c0af65-a998-49d0-b9c3-2ec22ebf3f3a
		Trade and Other Receivables from Exchange Transactions		ab6c110f-4743-4f45-9488-9416502686b2
			Electricity	1548f9ec-d20a-4bb6-b28d-15cb972e5675
			Non Specific Accounts	d026276a-dddf-437b-9e4f-34f632fedd2b
			Waste Management	eb6a7add-aa34-4085-b11e-dfa55bf5ed39
			Waste Water Management	54d5b320-1a78-406e-88a3-3dca3681fb82
			Water	0e163e71-6d2a-4ca0-aba3-5db9bdfd2677

# Available Accounts in mSCOA Charts

## Annexure D: List of accounts for impairment losses and reversals (POS)

ACCOUNTS ACCORDING MSCOA VERSION 6.4				GUID
<b>Receivables from Non-exchange Transactions</b>				4605e80f-59f2-41d4-a0ed-b8a0eff56ceb
	Insurance Claims			dfcdf374-b587-4893-bbc0-e7a90762b42a
		Impairment insurance claims		7d89156b-c2d8-4038-a5b4-883285d663cb
			Opening Balance	90cef124-8572-4a04-a18f-716b7c8cd541
			Recognised	78fb04a7-2c26-465f-ab62-d3f5fd9ff521
			Reversal	ef03542d-6274-46ad-9c60-446b54b5a8b3
			Closing Balance	2b6adf9b-009d-4946-931d-79d5edc11a68
	Property Rates			1a1dd570-0f5a-45da-b841-dbd73683e88d
		Business and Commercial		15aca8ca-8485-4d3f-9f8d-c2a52a03dcbd
			Impairment	80509974-2188-4449-aa3d-72d697300642
			Opening Balance	b75a2f78-52ca-4c77-a48e-716b6519fd5f
			Recognised	e0d8e5d4-0a45-4070-8657-1669c7b9e562
			Reversal	1602cfea-6c53-4e36-8d65-071421e48eed
			Closing Balance	bd89ee93-d4e3-43aa-89b7-a6c246b39ea0
		Communal Land		ff5c5a31-3711-47e4-8f31-d295690966a9
		Business and Commercial		f11c99fe-9640-475b-807e-acb234054314
			Impairment	1ee963b1-8e77-4f38-b0c0-b43b0d713d99
			Opening Balance	cb8810ba-94d3-4645-9159-84194da77000
			Recognised	8f2227bc-7a40-442a-b89a-eea9f4108a44
			Reversal	420ae8c2-c6cf-4ad2-97f4-f6b1a0e0de3e
			Closing Balance	c7aab972-bb26-42cb-82dc-1152f42a30ba
		Farm Property		20a8ceab-7482-4f86-b81c-2af1b8e57afc
			Impairment	58c002fb-cc07-4bfa-8d2a-8f52e7a7429a
			Opening Balance	62263ce2-16c0-43bc-9636-576547ab14dd
			Recognised	06e08fc5-36df-4207-af8d-b6e094bf1a49
			Reversal	7f840013-0d60-4839-909e-8721193b3884
			Closing Balance	46c31a7f-be50-4871-99af-78e9818a46a9
		Residential		d8198504-ba80-4379-a3db-09162901ad20
			Impairment	d9fcea6f-0979-4bcd-9609-e96f4439af61
			Opening Balance	5cd8af26-77d4-4b83-87ec-15f3099d0629
			Recognised	eff69cab-c855-427f-b3d1-5ab9f9c9dbd1
			Reversal	546aca4f-622f-4508-898a-9f1d92fbc520
			Closing Balance	25a25633-3425-499a-91f9-5bff95788864

# mSCOA Budget for impairment

4. Based on historical trends Council budgets to impair R 15 000 000 Electricity debts for the Trade and other receivables irrecoverable for Electricity charges.

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
Funding	Fund:Non-Funding	Fund:Non-Funding
Region	<b>All Wards/per ward</b>	<b>All Wards/per ward</b>
Costing	Default	Default
Amount	R15 000 000	R15 000 000
Schedules	A4	A6

# mSCOA Budget for Debt Write Off

3 . The Municipal Council budget to write off R5 000 000 of Electricity irrecoverable debts.

Segment	Debit	Credit
<b>Project</b>	Municipal running Costs	Municipal running Costs
<b>Function</b>	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
<b>Item</b>	Expenditure: Bad Debts Written Off	Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Debt Write-off
<b>Funding</b>	Fund:Non-Funding	Fund:Non-Funding
<b>Region</b>	<b>Several</b> wards	<b>Several</b> wards
<b>Costing</b>	Default	Default
<b>Amount</b>	R5 000 000	R5 000 000
<b>Schedule</b>	A4	A6

# THANK YOU



For additional information on national and provincial budgets, please visit our new budget data portal: <https://vulekamali.gov.za>

[www.municipalmoney.gov.za](https://www.municipalmoney.gov.za)

open **local government budget** data portal

Explore easy-to-understand, verified financial information for **every single municipality** in South Africa in one place.



For information on local government finances, please visit: <https://municipalmoney.gov.za>



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA