

PROVINSIALE TESOURIE • PROVINCIAL TREASURY •
UNONDYEBO WEPHONDO



Verwysing
Reference
Isalathiso PT/19/1/12

Navrae
Enquiries
Imibuzo N Oliphant

TREASURY CIRCULAR MUN 9-2008

THE MAYOR, CITY OF CAPE TOWN: MS H ZILLE
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THE MAYOR, OVERSTRAND MUNICIPALITY: MR T BEYLEVELDT
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THE MAYOR, MOSSEL BAY MUNICIPALITY: ALDERMAN M FERREIRA
THE MAYOR, GEORGE MUNICIPALITY: MR BH DE SWART
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THE MAYOR, BITOU MUNICIPALITY: MR LL MVIMBI
THE MAYOR, KNYSNA MUNICIPALITY: MS E BOUW-SPIES
THE MAYOR, CENTRAL KAROO DISTRICT: MR T PRINCE
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THE MAYOR, PRINCE ALBERT MUNICIPALITY: MS M BENJAMIN
THE MAYOR, BEAUFORT WEST MUNICIPALITY: MS J JONAS

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THE MUNICIPAL MANAGER, BITOU MUNICIPALITY: MR L NGOQO
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THE MUNICIPAL MANAGER, PRINCE ALBERT MUNICIPALITY: MR D ROSSOUW
THE MUNICIPAL MANAGER, BEAUFORT WEST MUNICIPALITY: MR J BOOYSEN

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THE CHIEF FINANCIAL OFFICER, CITY OF CAPE TOWN: MR M RICHARDSON
 THE CHIEF FINANCIAL OFFICER, WEST COAST DISTRICT: MR J KOEKEMOER
 THE CHIEF FINANCIAL OFFICER, MATZIKAMA MUNICIPALITY: MR LJ BRUWER
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 THE CHIEF FINANCIAL OFFICER, GEORGE MUNICIPALITY: MR LH FOURIE
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 THE CHIEF FINANCIAL OFFICER, BITOU MUNICIPALITY: MR D LOTT
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 THE CHIEF FINANCIAL OFFICER, CENTRAL KAROO DISTRICT: MR CJ KYMDELL
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 THE CHIEF FINANCIAL OFFICER, PRINCE ALBERT MUNICIPALITY: MR GS BOTHMA
 THE CHIEF FINANCIAL OFFICER, BEAUFORT WEST MUNICIPALITY: MR D LOUW

THE HEAD OFFICIAL: PROVINCIAL TREASURY (DR JC STEGMANN)
 THE HEAD: SUSTAINABLE RESOURCE MANAGEMENT (MR A PHILLIPS) (ACTING)
 THE HEAD: ASSET MANAGEMENT (MR TD PILLAY)
 THE HEAD: FINANCIAL GOVERNANCE (MR TC ARENDSE)
 THE HEAD: PUBLIC FINANCE (MR H MALILA)
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 THE SENIOR MANAGER: ENTERPRISE RISK MANAGEMENT AND GOVERNANCE SYSTEMS (MR B VINK) (ACTING)
 THE CHIEF AUDIT EXECUTIVE (MS H ROBSON) (ACTING)
 THE SENIOR MANAGER: INTERNAL AUDIT (MS B CAIRNCROSS)
 THE SENIOR MANAGER: ECONOMIC ANALYSIS (MS W MAPIRA) (ACTING)
 THE SENIOR MANAGER: FISCAL POLICY: PROVINCIAL GOVERNMENT (MS A PICK) (ACTING)
 THE SENIOR MANAGER: FISCAL POLICY: LOCAL GOVERNMENT (MR G PAULSE) (PRO TEM)
 THE SENIOR MANAGER: BUDGET MANAGEMENT (MR PP PIENAAR) (ACTING)
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 THE SENIOR MANAGER: LOCAL GOVERNMENT FINANCE (MR G PAULSE)
 THE SENIOR MANAGER: IMMOVEABLE ASSET MANAGEMENT (MR NB LANGENHOVEN)
 THE SENIOR MANAGER: MOVEABLE ASSET MANAGEMENT (MS N EBRAHIM)
 THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)
 THE HEAD: OFFICE OF THE MINISTRY (MR G GESWINDT)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: FINANCIAL MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT AND HOUSING

ACCOUNTING STANDARDS BOARD: GRAP 23 READINESS ASSESSMENT

1. Purpose

1.1 To inform municipalities of a GRAP Standard on Revenue from Non-exchange Transactions (Taxes and Transfers), which was published by the Accounting Standard Board (ASB) in March 2008. The ASB has drafted a series of questions to assess the readiness of municipalities to implement the Standard.

- 1.2 Once the Minister of Finance has determined an effective date for this Standard, it will replace the current guidance for revenue from non-exchange transactions in GAMAP 9.

2. Questionnaire

- 2.1 Refer to the attached GRAP 23 Readiness Assessment issued by ASB.
- 2.2 The questionnaire is to be completed by the Chief Financial Officer, Director/Head of Finance, or a Senior person in the Finance function who is responsible for preparing Financial statements, and/or is responsible for accounting for revenue from non-exchange transactions.

3. Request

- 3.1 Kindly complete the questionnaire attached electronically in Microsoft Word and e-mail the completed document Ms Jeanine Poggiolini: jeaninep@asb.co.za and also fax a hardcopy to (011) 697 0666 not later than 30th of June 2008. Any queries regarding the completion of the questionnaire should be made to Ms Jeanine Poggiolini using the e-mail address, or on telephone number: (011) 697 0660.
- 3.2 Provincial Treasury, Directorate: Accounting would appreciate if a copy of the completed questionnaire could also be forwarded to the following officials, per districts:
- Cape Winelands: Ms Nontobeko Manyathi: Nmanyath@pgwc.gov.za
 - Central Karoo: Mr C Le Roux: Cwleroux@pgwc.gov.za
 - Overberg: Mr S Matayi: Smatayi@pgwc.gov.za
 - West Coast: Ms M Fortuin: Mifortuin@pgwc.gov.za
 - Eden and Metro: Mr Thobelani Madondile: Tmadondi@pgwc.gov.za
4. Your inputs will be highly valued.


SENIOR MANAGER: ACCOUNTING

DATE: 26 May 2008



Accounting Standards Board

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Departments of Finance
Municipalities
May 2008

GRAP 23 READINESS ASSESSMENT

The Board published a Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)* in March 2008. The Standard deals with the recognition, measurement and disclosure of revenue generated from non-exchange transactions.

Non-exchange transactions are those transactions where the public sector entity receives resources from another party, without directly giving approximately equal value in exchange. Typical examples of non-exchange revenue in the municipal environment include:

- Equitable share allocations and conditional grants received from provincial government.
- Assessment rates levied by the municipality.
- Fines.
- Donations, in cash, or through the receipt of goods and/or services.

One of the responsibilities of the Board is to determine transitional provisions for Standards of GRAP once the Minister of Finance has determined an implementation date. In developing transitional provisions the Board considers the current accounting framework used by entities to prepare their financial statements as well as the capacity of entities to implement the Standard.

The Board has drafted a series of questions to enable it to assess how entities currently account for various non-exchange revenue transactions. The responses to those questions will highlight to the Board what areas are problematic, and determine whether or not transitional provisions could alleviate some of those problem areas.

It would be greatly appreciated if you could complete the attached questionnaire and return it to us by the 30th of June 2008. Your inputs into this process are highly valued.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Erna Swart', is written in dark ink.

Erna Swart, Chief Executive Officer



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GRAP 23 READINESS ASSESSMENT

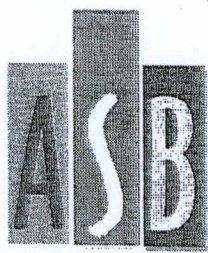
Outline and purpose of the questionnaire	
What is the purpose of questionnaire?	<p>The Board published a Standard of GRAP on <i>Revenue from Non-exchange Transaction (Taxes and Transfers)</i> in March 2008. The purpose of this questionnaire is to assess the readiness of municipalities to implement the Standard.</p> <p>Once the Minister of Finance has determined an effective date for this Standard, it will replace the current guidance for revenue from non-exchange transactions in GAMAP 9.</p>
By when should the questionnaire be completed?	<p>It would be appreciated if the questionnaire could be completed and sent back to the ASB by no later than the 30th of June 2008.</p>
Who should complete the questionnaire?	<p>Ideally the questionnaire should be completed by the chief financial officer, director/head of finance, or a senior person in the finance function who is responsible for preparing the financial statements, and/or is responsible for accounting for revenue from non-exchange transactions.</p>
How should the questionnaire be completed?	<p>The questionnaire can be completed as follows:</p> <ul style="list-style-type: none">electronically in Microsoft Word and the completed document mailed to jeaninep@asb.co.zain hardcopy and faxed to 011 697 0666
To whom should the completed questionnaires be sent?	<p>Jeanine Poggiolini.</p> <p>Any queries regarding the completion of the template should be made using the e-mail address above, or on 011.697 0660.</p>



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Basic information	
Name of municipality	
Name and contact details of person completing this questionnaire	Name: Position: Telephone: e-mail:
What accounting framework do you apply (e.g. GRAP/GAAP, IMFO)? Please provide specific details.	



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Questionnaire		
Ref.	Area	Response
1.	What are non-exchange transactions?	
	<p><u>Non-exchange transactions</u> are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.</p> <p>Revenue from non-exchange transactions arise where an entity receives resources (cash, goods or services) from another party, and provides no or only nominal consideration, directly to the other party in return.</p> <p>Typical examples include:</p> <ul style="list-style-type: none"> • Equitable share allocations and conditional grants received. • Fines. • Assessment rates levied. • Donations received. 	
1.1	<p>What revenue does your municipality generate from non-exchange revenue transactions?</p> <p>Please provide specific examples.</p>	
2.	Recognition and measurement of revenue from non-exchange transactions	
	<p><i>Recognition – When should an asset and revenue or a liability be recognised in the statement of financial position</i></p> <p>The Standard of GRAP on <i>Revenue from Non-exchange Transactions (Taxes and Transfers)</i> follows an assets and liabilities approach to recognising revenue (this approach is different from GRAP 9 on <i>Revenue from Exchange Transactions</i>).</p> <p>This approach means that the following process should be followed:</p> <p><i>Debit leg</i></p> <ul style="list-style-type: none"> • Has an entity physically received an asset (cash, other monetary assets, physical assets, or services), or does it have an enforceable claim to receive an asset? For example, an entity has an enforceable claim over an asset when it signs a contractual agreement with a donor to receive a certain amount of money on a certain date or for a period of time. 	



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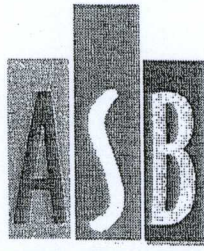
- If yes, does it control that asset?
- An entity controls an asset if:
 - It can regulate and access the benefits to that asset e.g. an entity can say who, when and how an asset is used, and the entity benefits from the cash or service potential generated by the asset.
- If an entity controls an asset, can it reliably measure the fair value of the asset?
- If the fair value of the asset can be reliably measured, the asset is recognised.

Credit leg

- An entity must decide whether the credit leg is:
 - A contribution from owners
 - A liability, or
 - Revenue.
- If the receipt of an asset means that the party transferring the asset (the transferor) receives a residual interest in the net assets of the entity receiving the asset (recipient), then the credit leg is deemed to be a contribution from owners (and credited to the statement of changes in net assets).
- Entities often receive assets subject to stipulations. Stipulations impose certain limitations on how an asset may be used. Stipulations can either require that:
 - An entity uses an asset in a specific way (restrictions)
 - An entity uses an asset in a specific way or returns it to the transferor (conditions).
- If the receipt of an asset means that the recipient has an obligation to act/perform in a certain way or give back the asset to the transferor under certain conditions, the credit leg is a liability (recognised in the statement of financial position).
- Conditions give rise to obligations if:
 - They are enforceable;
 - They are sufficiently specific (e.g. specific quantity of goods and services to be provided, or the nature of assets to be acquired) and are monitored over the period of the grant; and
 - The transferor has a past history of requiring the assets to be returned if not used as specified.
- If an obligation exists, an entity decreases the obligation as and when it fulfills the conditions of the arrangement and recognises revenue of the same amount.
- Where no obligation exists, an entity recognises revenue in the statement of financial performance.

Measurement – At what amount is the asset, liability or revenue recognised

Asset



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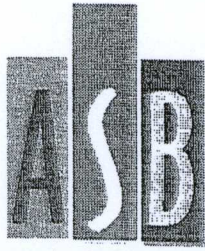
	<ul style="list-style-type: none"> • The asset is measured at fair value. • Fair value is the amount that would be paid between a willing buyer and a willing seller as part of an arm's length transaction. • Fair value can be determined by: A price in an active market; a recent transaction price for a similar asset (taking into account any economic or other factors that may have changed since that transaction took place; using a valuation model (cash flow and probability analysis). <p><i>Liability</i></p> <ul style="list-style-type: none"> • Measured at the best estimate of the amount required to settle the obligation. 						
	<p><i>The sections that follow deal with application issues that may arise when applying the Standard to specific non-exchange revenue transactions.</i></p>						
<p>2.1</p>	<p>Equitable share allocation</p>						
	<p>Equitable share allocations represent the municipality's share of revenue raised at a national level. These allocations are set out in the schedules to the Division of Revenue Act.</p> <p>In accounting for equitable share allocations, the municipality should consider:</p> <ol style="list-style-type: none"> When it has an enforceable claim to receive the allocation i.e. does the announcement of the allocations in the DORA give rise to an enforceable claim? (The fact that these allocations are paid over a period of time does not mean that an entity is not entitled to them.) Can the entity measure the allocation (asset) reliably? Are there any <u>conditions</u> attached to the allocation? If no conditions exist, recognise an asset at fair value, and a corresponding amount of revenue. <p>For example:</p> <p>An entity is allocated R50m in an appropriation act, which it will receive quarterly in accordance with a payment schedule agreed with the relevant treasury. Entities are entitled to their annual appropriations at the start of the financial year. There are no stipulations as to how the entity should use the allocation or that the money should be returned if not used. The entity processes the following entries at the beginning of the financial year:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 60%;">Dr Allocation to be received</td> <td style="text-align: right;">R50m</td> </tr> <tr> <td style="padding-left: 20px;">(or Bank, if the cash is received)</td> <td></td> </tr> <tr> <td>Cr Revenue</td> <td style="text-align: right;">R50m</td> </tr> </table>	Dr Allocation to be received	R50m	(or Bank, if the cash is received)		Cr Revenue	R50m
Dr Allocation to be received	R50m						
(or Bank, if the cash is received)							
Cr Revenue	R50m						
<p>2.1.1</p>	<p>How do you currently account for equitable share allocations at the municipality? Please provide a detailed accounting policy, dealing with when an asset, liability or revenue is recognised and at</p>						



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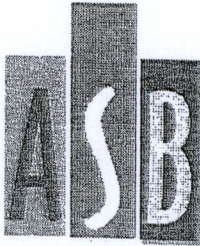
	what amount.	
2.1.2	Would applying the requirements of the Standard, as described above, result in different accounting to what you currently apply? Please provide specific details.	
2.1.3	Would you be able to apply the requirements of the Standard in accounting for equitable share allocations? If no, please provide details of why, and what areas of application or interpretation may be difficult.	
2.2	Conditional grants	
	<p>Conditional grants are specific purpose allocations made to entities. The accounting for conditional grants and equitable share allocations are similar, except that it is more likely that conditions will be attached to grants rather than equitable share allocations. <u>Municipalities therefore need to examine the terms of each allocation carefully to determine whether conditions exist.</u> Where conditions exist, a liability should be recognised.</p> <p>In accounting for conditional grants, the municipality should consider:</p> <ul style="list-style-type: none"> (a) When it has an enforceable claim to receive the grant i.e. does the announcement of the grant in the DORA give rise to an enforceable claim? (b) Can the entity measure the grant (asset) reliably? (c) Are there any <u>conditions</u> attached to the allocation? Conditions mean that the grant must be used in a certain way, or it must returned (i.e. it is probable that an entity will incur an outflow of resources – either by using the grant in a certain way, or by returning it to the transferor). (d) If yes, recognise an asset at fair value, and a liability at the best estimate of the amount required to settle the liability (which equals the fair value of the asset on initial recognition). As and when the conditions are satisfied, reduce the liability and recognise revenue. (e) If no conditions exist, recognise an asset at fair value, and a corresponding amount of revenue. <p>For example:</p> <p>An entity is allocated a R60m conditional grant in the DORA. The entity believes it has an enforceable claim at the beginning of the financial year, based on legislation. The terms of the grant state that it must be used in a specific manner or returned to the transferor (assume that this meets the definition of a condition). At each quarter, the entity assesses that it has used the grant as follows: Q1: 10%; Q2: 15%; Q3: 15%; Q4: 40%</p> <p>The accounting entries would be as follows:</p> <p>At the beginning of the financial year:</p>	



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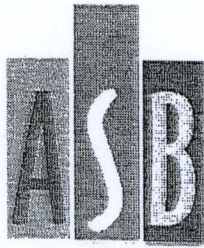
	<p>Dr Grant to be received R60m (reduce as and when cash received)</p> <p>Cr Liability R60m</p> <p>At the end of each quarter:</p> <p>Dr Liability (R60mX%conditions met)</p> <p>Cr Revenue (R60mX%conditions met)</p> <p>At year end, R16m remains as a liability.</p>	
2.2.1	How does the municipality currently account for conditional grants? Please provide a detailed accounting policy, dealing with when an asset, liability or revenue is recognised and at what amount.	
2.2.2	Would applying the requirements of the Standard, as described above, result in different accounting to what you currently apply? Please provide specific details.	
2.2.3	Would you be able to apply the requirements of the Standard in accounting for conditional grants? If no, please provide details of why, and what areas of application or interpretation may be difficult.	
2.3	Assessment rates (taxes)	
	<p>Municipalities levy assessment rates on the value of ratepayers' property. Municipalities use the same criteria in accounting for assessment rates as for equitable share allocations and grants, except that assessment rates (which are essentially taxes levied on individuals or entities), are unusually not conditional on the entity performing any service directly in return.</p> <p>In accounting for assessment rates, the municipality should consider:</p> <p>(a) When it has an enforceable claim to receive the rates. This may be prescribed in legislation. (The fact that these rates may be collected over a period of time might not mean that an entity is not entitled to them.)</p> <p>(b) Can the entity measure the assessment rates to be collected (asset) reliably?</p> <p>(c) Are there any <u>conditions</u> attached to the allocation?</p> <p>(d) If no, recognise an asset at fair value, and a corresponding amount of revenue.</p> <p>For example:</p> <p>An entity levies property taxes on the market value of all ratepayers' property in terms of Act X. In terms of</p>	



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	<p>the Act, entities should levy and is entitled to these taxes at the start of each financial year. The entity determines that it should levy R750m in property taxes at the start of the financial year.</p> <p>The accounting entries are as follows:</p> <p>Dr Property taxes to be received R750m (split between individual ratepayers accounts)</p> <p>Cr Revenue R750m</p>	
2.3.1	<p>How does the municipality currently account for assessment rates? Please provide a detailed accounting policy, dealing with when an asset, liability or revenue is recognised and at what amount.</p>	
2.3.2	<p>Would applying the requirements of the Standard, as described above, result in different accounting to what you currently apply? Please provide specific details.</p>	
2.3.3	<p>Would you be able to apply the requirements of the Standard in accounting for assessment rates? If no, please provide details of why, and what areas of application or interpretation may be difficult.</p>	
2.4	<p>Fines</p>	
	<p>Fines are levied by municipalities because specific laws have been breached. It is unlikely that conditions exist for a fine, as government is not required to provide anything in return for receiving the fine. Municipalities should not recognise as revenue those fines that it collects on behalf of another party.</p> <p>In accounting for fines, municipalities should consider the following:</p> <ul style="list-style-type: none"> (a) When it has an enforceable claim to receive the fine? This may depend on the type of fine, and whether or not it is subject to further legal processes, such as trial/appeal in court. (b) Can the entity measure the fine reliably? An entity may need to make an estimate of the amount of revenue to be collected based on past experience. (c) Are there any <u>conditions</u> attached to the allocation? (d) If no, recognise an asset at fair value, and a corresponding amount of revenue. 	



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2.4.1	How does the municipality currently account for fines? Please provide a detailed accounting policy, dealing with when an asset, liability or revenue is recognised and at what amount.	
2.4.2	Would applying the requirements of the Standard, as described above, result in different accounting to what you currently apply? Please provide specific details.	
2.4.3	Would you be able to apply the requirements of the Standard in accounting for fines? If no, please provide details of why, and what areas of application or interpretation may be difficult.	
2.5	Donations	
	<p>Donations of assets may include physical assets such as inventories, items of property, plant and equipment being donated to a municipality, or it may include free services that are provided to the municipality e.g. technical assistance.</p> <p>For goods received by the municipality, it must consider the following:</p> <ul style="list-style-type: none"> (a) When it has an enforceable claim to receive the asset? This may be prescribed in an agreement between the municipality and the donor. (b) Can the entity measure the asset reliably? (c) Are there any <u>conditions</u> attached to the receipt of the asset? (d) If yes, recognise an asset at fair value, and a liability at the best estimate of the amount required to settle the liability (which equals the fair value of the asset on initial recognition). As and when the conditions are satisfied, reduce the liability and recognise revenue. (e) If no, recognise an asset at fair value, and a corresponding amount of revenue. <p>Municipalities are not required to recognise the value of services received in the statements of financial position and performance. It must however disclose the fair value of the services received in the notes to the financial statements.</p>	
2.5.1	How does the municipality currently account for donations (separate between goods and services received)? Please provide a detailed accounting policy, dealing with when an asset, liability or revenue is recognised and at what amount.	



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2.5.2	Would applying the requirements of the Standard, as described above, result in different accounting to what you currently apply? Please provide specific details.	
2.5.3	Would you be able to apply the requirements of the Standard in accounting for donations? If no, please provide details of why, and what areas of application or interpretation may be difficult.	
2.6	General	
2.6.1	Does your municipality have any other types of non-exchange revenue not specifically dealt with in this document? If yes, please provide details of the transactions, as well as how you currently account for them.	
2.6.2	Would you be able to comply with the requirements of the Standard immediately, or would a period of time be required to make any necessary changes to systems etc.? If yes, what period of time?	

Disclaimer: The examples and discussions in this document are used for illustration purposes only and may not reflect actual circumstances and events. In determining the appropriate accounting treatment for revenue from non-exchange transactions, entities should examine each transaction on its merits using the using the principles in the Standard of GRAP on Non-exchange Revenue (Taxes and Transfers).