

Treatment of Water Under Inventory

GRAP 12, paragraph .07 defines inventory as follows:

“Inventories are assets:

- (a) in the form of materials or supplies to be consumed in the production process,*
- (b) in the form of materials or supplies to be consumed or distributed in the rendering of services,*
- (c) held for sale or distribution in the ordinary course of operations, or*
- (d) in the process of production for sale or distribution.”*

In terms of this definition water should be treated as inventory and should be budgeted and accounted for accordingly. Annexure B to the National Treasury Circular 70, “Municipal Budget Circular for the 2014/14 MTREF” included guidance on the treatment of non-revenue water and electricity. To date the National Treasury has allowed municipalities to either budget for bulk purchasing of water as a direct expenses in the Statement of Financial Performance as an interim measure or to account for water under inventory.

Municipalities were cautioned in the 2019/20 NT Budget Circular that the A1 Schedule for the 2020/21 MTREF will be amended in line with the prescripts of GRAP12. The draft amendments to the A1 Schedule to cater for water under inventory in line with GRAP 12 is attached to the budget circular as Annexure **????**. The amendments are circulated for comments and will be implemented with effect from the 2021/22 MTREF.

In terms of the mSCOA definition **“Inventory consumed water”** water stock should be treated as follows:

Water stock must be accounted for as inventory. This will include water purchased and not yet sold at reporting date insofar as it is stored (controlled) in reservoirs and pipes at year end. Water stock also includes any water purification costs incurred for non-purchased water. Pre-purified, non-purchased water should not be capitalised as part of inventory. The cost of water purchased and not yet sold at reporting comprises the purchase price, import duties, and other taxes (other than those subsequently recoverable by the municipalities from the taxing authorities, such as VAT) and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Importantly, trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Substantial changes to the A1 schedule were required to accommodate the approach to account for water under inventory. The draft adjustment to the A1 Schedule (Excel version) is attached as Annexure A with amendments highlighted in light orange. The Excel document has been populated for one financial year to demonstrate the accounting treatment of the proposed changes. These changes are not for implementation during the 2020/21 MTREF but are included in the circular for comments prior to final implementation during the 2021/22 MTREF. The main changes were to Table SA3 that required further changes to some other worksheets as indicated below.

Table SA3

Changes to this table included the addition of water and other inventory items to enable municipalities to fully budget for the acquisition, issuing, adjustment, write-off, transfer and sale of all inventories. This will provide a detail reconciliation for the disclosure of inventory on the Statement of Financial Position (Table A6). This section has been aligned to the mSCOA chart - Item Assets – Inventory and, as it relates to water inventory, also to the IWA Modified Water Balance utilised by the DWS. The layout of the section includes the following inventory items:

- Water (separate item)
- Agricultural, Consumables, Finished Goods, Materials and Supplies (consolidated into one item)
- Work-in-progress (separate item)
- Housing Stock (separate item)
- Land (separate item)

It is important to note that, as a result of these changes, bulk purchasing of water will be processed as a cash transaction in the Statement of Financial Position – Acquisition of Inventory (Table A6). Acquisitions of water stock should include the following:

- Bulk purchases - Supply from bulk or other water service providers recognised by the amount paid.
- Water purified - Potable supply from Water Treatment Works. Value is to be determined by calculating primary and secondary cost components.
- Natural sources - Supply from boreholes, springs, fountain if not supplied through the water treatment plant. Value is to be determined by calculating primary and secondary cost components.

Currently the Statement of Financial Performance (Table A4) reflected the bulk purchasing of water as a cash expense. In terms of the change to treating water as inventory the cost of sales (water inventory consumed) is disclosed as a separate non-cash expense included under “Other materials & inventory consumed” on Table A4.

The cost of water losses and any write-down of inventory are expensed as a non-cash entry under “Expenditure by type Losses” on Table A4. When there is clear evidence of an increase in net realisable value of inventory adjustments are accounted for as a non-cash entry under “Revenue by source Gains” on Table A4.

Water Inventory consumed (cost of sales) included under “Other materials & Inventory Consumed” on Table A4 should include the following:

Billed Authorised Consumption

Billed Metered Consumption

- Free Basic Water
- Subsidised Water
- Revenue Water

Billed Unmetered Consumption

- Free Basic Water
- Subsidised Water
- Revenue Water

Un-Billed Authorised Consumption

- Unbilled Metered Consumption
- Unbilled Unmetered Consumption

The above-mentioned amendments to Table SA3 also necessitated adjustments to the following other tables as indicated below:

Table SA1

In order to adequately account for inventory, including water inventory, the following detail calculations were added on Table SA1:

Addition of Other materials & Inventory Consumed

- **Inventory Consumed - Water**
- **Inventory Consumed - Other material**
- **Other materials**

Total Other Material & Inventory Consumed

Bulk purchases: Electricity & Waste Water (previously Electricity & Water - now water changed to “Waste Water”)

The change of terminology

- Electricity Bulk Purchases (no change)
- **Waste Water Bulk Purchases (previously Water Bulk Purchases now water changed to “Waste Water”)**

Table A4

The change of terminology:

- Bulk purchases now ***“Bulk purchases: Electricity & Waste Water”***
- Gains on disposal of PPE now ***“Gains”***
- Loss on disposal of PPE now ***“Losses”***
- Other Material changed to ***“Other materials & inventory consumed”***

Table SA 30

The changes of terminology to cash payments by type:

- Bulk purchases - Electricity now changed to ***“Bulk purchases - Electricity & Waste Water”***
- Bulk purchases - Water & Sewer" now changes to ***“Acquisition Inventory - Water & other inventory”***