



**Annexure to Municipal SCOA Circular No. 7
Municipal Finance Management Act No. 56 of 2003**

Annexure to *m*SCOA Circular No. 7 on Construction Work in Progress (CWIP)

The National Treasury issued Municipal Standard Chart of Accounts (*m*SCOA) Circular No. 7 on 2 March 2020 to guiding municipalities on the use of the chart for the recording of transactions relating to capital work in progress (CWIP). This Annexure provides further guidance on the use of the chart for the recording of transactions relating to CWIP and must be read in conjunction with *m*SCOA Circular No. 7.

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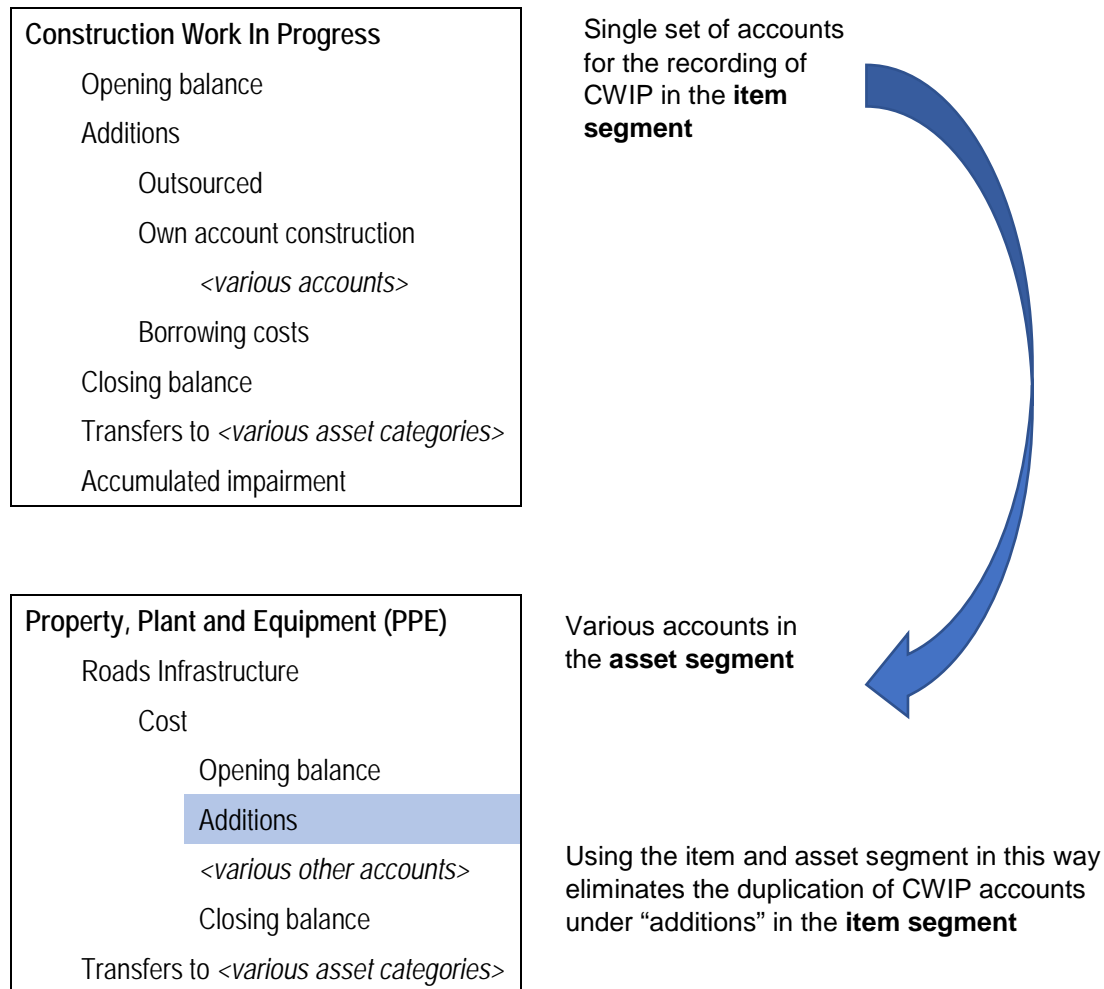
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Frequently asked questions on CWIP and the mSCOA

The responses to questions raised by municipal practitioners on the application of mSCOA Circular No. 7 on CWIP is set out below:

Why is there not a separate category for CWIP per asset class in the item segment?

The mSCOA in its design is 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. With regards to CWIP, municipalities undertake activities for the construction / development of tangible / intangible assets and for different classes assets within these. To minimise the number of duplicate accounts in the item segment, a decision was made to create a single set of accounts for the recording of CWIP. Municipalities will use the asset segment to identify spending per asset category / class.



The above illustrates the design and recording in the mSCOA as explained in the abovementioned mSCOA Circular. This design does not compromise reporting in terms of the accounting standards.

In preparing the annual financial statements a municipality will extract a report on the breakdown of CWIP per asset class and use this breakdown to assign values to the PPE, intangible asset, investment property, etc. Using the information in mSCOA Circular No. 7, the municipality will reflect the total spent on the construction of the road in Year 1 as follows in the PPE note to the financial statements (using the Illustrative Annual Financial Statements issued by the National Treasury):

R'000	2018/2019						
	Land and Buildings	Infrastructure Assets	Community Assets	Leased Assets	Transport Assets	Other Assets	Total
Opening Carrying Value at 1 July 2018							
Cost							
Accumulated Depreciation and Impairment							
Additions from Acquisitions							
Additions from Transfer of Functions / Mergers							
Revaluation Adjustments**							
Capitalised Costs (including WIP)		1 125					
Depreciation [Note 34]							
Carrying Value of Disposals / Transfers							
Cost							
Accumulated Depreciation and Impairment Losses							
Impairment Loss / Reversal Of Impairment Loss							
Foreign Exchange Translation Differences							
Other Changes							
Closing Carrying Value at 30 June 2019		1 125					
Cost		1 125					
Accumulated Depreciation and Impairment		-					

The figures as disclosed as follows in Year 2:

R'000	2018/2019						
	Land and Buildings	Infrastructure Assets	Community Assets	Leased Assets	Transport Assets	Other Assets	Total
Opening Carrying Value at 1 July 2018		1 125					
Cost		1 125					
Accumulated Depreciation and Impairment		-					
Additions from Acquisitions							
Additions from Transfer of Functions / Mergers							
Revaluation Adjustments**							
Capitalised Costs (including WIP)		375					
Depreciation [Note 34]							
Carrying Value of Disposals / Transfers							
Cost							
Accumulated Depreciation and Impairment Losses							
Impairment Loss / Reversal Of Impairment Loss							
Foreign Exchange Translation Differences							
Other Changes							
Closing Carrying Value at 30 June 2019		1 500					
Cost		1 500					
Accumulated Depreciation and Impairment		-					

How is an impairment of an asset under construction recorded in the mSCOA?

An impairment account has been created in the item segment for CWIP (see illustration above) and is used to record an impairment of an asset under construction in accordance with GRAP 21 on *Impairment of Non-cash-generating Assets* or GRAP 26 on *Impairment of Cash-generating Assets*.

Using the information in mSCOA Circular No. 7, assume that at the end of Year 1 the municipality determines that the road under construction has been impaired due to damage caused by hailstorms. The total calculated impairment is R91 000. The impairment will be recognised as follows in the mSCOA:

Project	Function	Item	Fund	Regional	Costing	Amount (R)	Vat
Capital: Infrastructure: new: Roads infrastructure: Roads (10005)	Road Transport: Core: Roads	Expenditure: Impairment loss: PPE: Road infrastructure	Capital: Transfers and Subsidies: Monetary Allocation: National Government: Municipal Infrastructure Grant	Regional Identifier: Local Government by Province: Name of Province: District Municipalities: Name of DM: Municipalities: Name of Municipality: Ward: Ward 1	Default	91 000	
Capital: Infrastructure: new: Roads infrastructure: Roads (10005)	Road Transport: Core: Roads	Item Asset: Non-current Assets: Construction Work in Progress: Accumulated impairment	Capital: Transfers and Subsidies: Monetary Allocation: National Government: Municipal Infrastructure Grant	Regional Identifier: Local Government by Province: Name of Province: District Municipalities: Name of DM: Municipalities: Name of Municipality: Ward: Ward 1	Default	(91 000)	

The impairment is reflected as follows in the Property, Plant and Equipment (PPE) note to the annual financial statements as follows:

R'000	2018/2019						
	Land and Buildings	Infrastructure Assets	Community Assets	Leased Assets	Transport Assets	Other Assets	Total
Opening Carrying Value at 1 July 2018							
Cost							
Accumulated Depreciation and Impairment							
Additions from Acquisitions							
Additions from Transfer of Functions / Mergers							
Revaluation Adjustments**							
Capitalised Costs (including WIP)		1 125					
Depreciation [Note 34]							
Carrying Value of Disposals / Transfers							
Cost							
Accumulated Depreciation and Impairment Losses							
Impairment Loss / Reversal Of Impairment Loss		-91					
Foreign Exchange Translation Differences							
Other Changes							
Closing Carrying Value at 30 June 2019		1 034					
Cost		1 125					
Accumulated Depreciation and Impairment		-91					

How should a municipality record the sale of an asset under construction?

When a municipality sells an asset prior to its completion it is recommended that the municipality first transfers the asset from CWIP to the relevant class in the item segment and thereafter records the disposal.

Using the information in *mSCOA Circular No. 7*, assume that at the end of Year 1 the municipality transfers the incomplete road to a neighbouring municipality. The municipality first transfers the CWIP to PPE road reserves and then records the disposal. The entry below illustrates the transfer to PPE.

Project	Function	Item	Fund	Regional	Costing	Amount (R'000)	VAT
Capital: Infrastructure: new: Roads infrastructure: Roads (10005)	Road Transport: Core: Roads	Item Asset: Non-current Assets: Property, Plant and Equipment: Cost Model: Roads Infrastructure: Cost: Acquisitions	Capital: Transfers and Subsidies: Monetary Allocation: National Government: Municipal Infrastructure Grant	Regional Identifier: Local Government by Province: Name of Province: District Municipalities: Name of DM: Municipalities: Name of Municipality: Ward: Ward 1	Default	1 125	
Capital: Infrastructure: new: Roads infrastructure: Roads (10005)	Road Transport: Core: Roads	Item Asset: Non-current Assets: Construction Work in Progress: Transfer to PPE	Capital: Transfers and Subsidies: Monetary Allocation: National Government: Municipal Infrastructure Grant	Regional Identifier: Local Government by Province: Name of Province: District Municipalities: Name of DM: Municipalities: Name of Municipality: Ward: Ward 1	Default	(1 125)	

The transfer and disposal is reflected as follows in the PPE note to the annual financial statements as follows:

R'000	2018/2019						
	Land and Buildings	Infrastructure Assets	Community Assets	Leased Assets	Transport Assets	Other Assets	Total
Opening Carrying Value at 1 July 2018							
Cost							
Accumulated Depreciation and Impairment							
Additions from Acquisitions							
Additions from Transfer of Functions / Mergers							
Revaluation Adjustments**							
Capitalised Costs (including WIP)		1 125					
Depreciation [Note 34]							
Carrying Value of Disposals / Transfers		(1 125)					
Cost		(1 125)					
Accumulated Depreciation and Impairment Losses		-					
Impairment Loss / Reversal Of Impairment Loss							
Foreign Exchange Translation Differences							
Other Changes							
Closing Carrying Value at 30 June 2019							
Cost							
Accumulated Depreciation and Impairment							

How should a municipality record the acquisition of an asset under construction?

The recording of the acquisition of an asset under construction should be done in the same way as for costs incurred on CWIP.

Conclusion

Any further and case specific queries on CWIP should be logged on the mSCOA Frequently Asked Questions (mSCOA FAQ) Database. The database can be accessed on the mSCOA website on the following link:

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

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