



Guide on Construction Work in Progress (CWIP)

This circular provides guidance on how municipalities should budget, transact and report for Construction Work in Progress (CWIP) in the *m*SCOA chart. Any further and case specific queries on CWIP should be logged on the *m*SCOA Frequently Asked Questions (*m*SCOA FAQ) Database. The database can be accessed on the *m*SCOA website on the following link:

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

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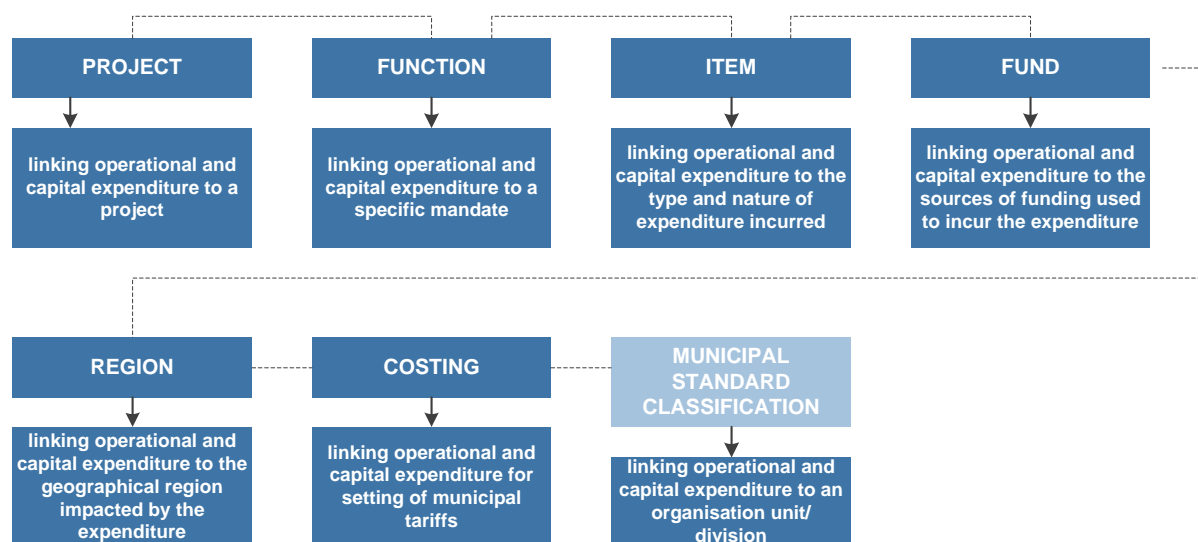
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1. Introduction

The Municipal Standard Chart of Accounts (*m*SCOA) Regulations was promulgated on 22 April 2014 and prescribes the uniform recording and classification of municipal budget and financial information at a transaction level. All municipalities and municipal entities had to comply with the Regulations by 01 July 2017.

The *m*SCOA chart is multi-dimensional and therefore it is a requirement that all regulated segments must be used to create a complete data string. Six of the *m*SCOA segments are regulated. The seventh segment is the Municipal Standard Classification (MSC) which is the unique classification used by the municipality specific to the organisational structure. Municipalities only use the MSC segment for internal reporting purposes.

The data string follows a specific order of relevance, as indicated below:



*** Note:** *the focus above is on expenditure for the purpose of this circular only.*

Construction Work in Progress (CWIP) arises as and when the municipality undertakes activities for the construction of an asset. A municipality should consider the principles in the relevant Standards of Generally Recognised Accounting Practice (GRAP) in developing an accounting policy for the recognition and measurement of assets under construction.

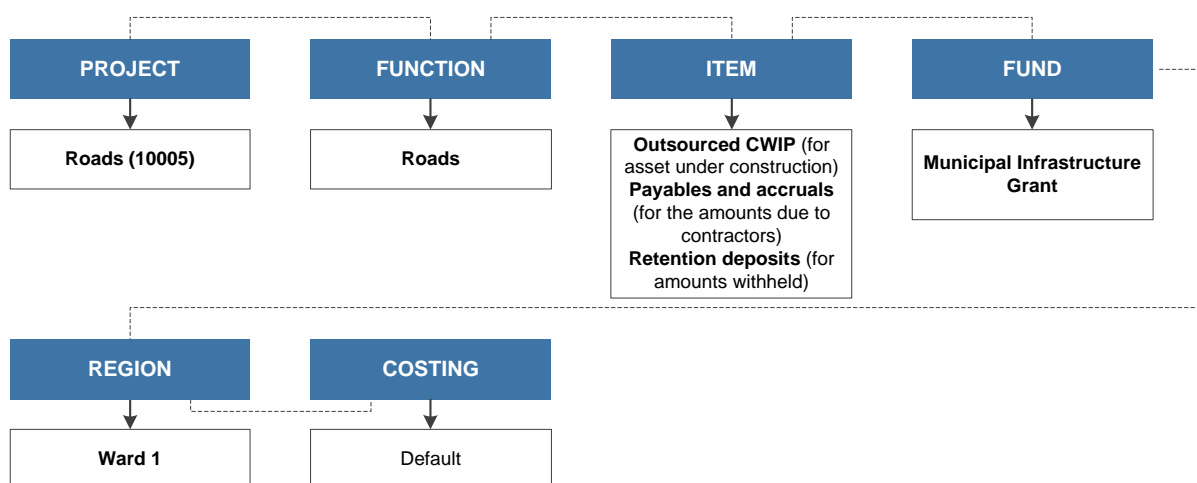
This circular will provide guidance on how CWIP is classified in the *m*SCOA and how it should be reported in the Annual Budget and Financial Statements (AFS) of a municipality until such time as the construction is completed. Refer to the AFS specimen on additional disclosures in line with GRAP 16 and 17 for Construction work in progress.

2. How to treat CWIP in the mSCOA environment

The Batho Pele Municipality included a project in their Integrated Development Plan (IDP) in Year 1 to build a new tarred road in Ward 1 that would be entirely funded by the Municipal Infrastructure Grant (MIG).

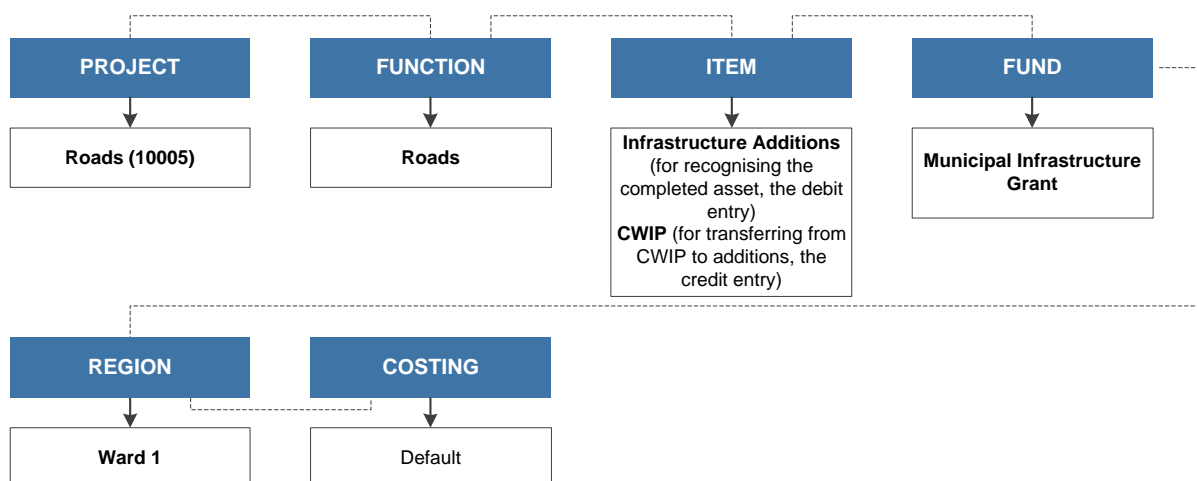
The project number is 10005. The municipality plans to outsource the construction of the road. The road was planned for completion in Year 1 at an estimated total cost of R1.75 million (including VAT). The funding source of this project is MIG.

The data string for **budgetary purposes** is as follows:



Refer to **Table A** for the detailed breakdown of mSCOA accounts and amounts.

The data string for **recognising the completed asset (capitalisation)** is as follows:



Refer to **Table B** for the detailed breakdown of mSCOA accounts and amounts.

Table A: Data String for Budgeting

Project	Function	Item	Fund	Regional	Costing	Amount (R)	VAT (R)
Capital: Infrastructure: new: Roads infrastructure: Roads (10005)	Road Transport: Core: Roads	Item Asset: Non-current Assets: Construction Work in Progress: Acquisitions: Outsourced	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	1 500 000	225 000
Capital: Infrastructure: new: Roads infrastructure: Roads(10005)	Road Transport: Core: Roads	Item: Current Liabilities: Trade and Other Payable Exchange Transactions: Payables and Accruals: Deposits	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	(1 350 000)	(202 500)
Capital: Infrastructure: new: Roads infrastructure: Roads(10005)	Road Transport: Core: Roads	Item: <i>Current Liabilities: Trade and Other Payable Exchange Transactions: Retentions: Deposits</i>	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		(150 000)	(22 500)

Table B: Capitalisation Data String

Project	Function	Item	Fund	Regional	Costing	Amount (R)	VAT (R)
Default	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	1 500 000	225 000
Capital: Infrastructure: new: Roads infrastructure: Roads (10005)	Road Transport: Core: Roads	Item Asset: Non-current Assets: Construction Work in Progress: Acquisitions: Outsourced	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	(1 500 000)	(225 000)

The Outsourced Service provider is a VAT registered Vendor. The Municipality pay VAT to SARS on a cash basis. All payments will attract VAT that will be allocated in the Financial System to Input VAT Capital (VAT on Retention will be accrued in the accrued Input VAT accrual account).

For illustration purposes: The construction will not be completed, and the road is only expected to be completed in the Year 2. The cost in Year 1 amounts to 75 per cent of the total cost. As per the Service Level Agreement determined using the SCM processes a 10 per cent Retention is withheld on all invoices provided for the project.

Although the project was part of Year 1 IDP and budget, it was not completed in Year 1. The Municipality managed to get approval for a roll over and finished the project in Year 2.

The remaining 25 per cent of the project is illustrated as completed and paid at the end of September (in Year 2), at this date the asset will be capitalised, available and ready for use.

The asset will be depreciated on a straight-line basis over 20 years with no residual value as aligned with the accounting policy of the Municipality.

The subsequent sections provide details of how the transactions are reflected by the municipality.

Total MIG Grant (including VAT)			R1 725 000
VAT			(R225 000)
Value of the asset constructed and revenue to be recognised			R1 500 000
Spending on capital construction	Excluding VAT	Including VAT	Total Spent at year end R1 293 750 (incl VAT) R1 125 000 (excl VAT)
Month 1	55 000	63 250	
Month 2	70 000	80 500	
Month 3	120 000	138 000	
Month 4	125 000	143 750	
Month 5	115 000	132 250	
Month 6	160 000	184 000	
Month 7	170 000	195 500	
Month 8	150 000	172 500	
Month 9	34 000	39 100	
Month 10	40 000	46 000	
Month 11	55 000	63 250	
Month 12	31 000	35 650	
Application for roll-over (25 %)		431 250	

Receiving the Grant

The Municipality receives a R10 million allocation for the MIG in 4 equal transfers per annum.

Project	Function	Item	Fund	Regional	Costing	Amount (R)	MSC
Default	Finance: Core: Finance	Item Asset: Current assets: Cash and Cash Equivalent: Bank (Primary Bank Account): Deposits*	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: Admin & HO	Default	2 500 000 X 4	CFO Office
Default	Finance: Core: Finance	Item Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies Unspent: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant: Receipts	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: Admin & HO	Default	(2 500 000) X 4	CFO Office

****Note:** depending on the terms of the grant the municipality may have recognised a receivable prior to the actual transfer and receipt of the funds.

The Conditional Grant is initially recognised as a *Liability: Transfer and Subsidies: Unspent Grant* (this is assuming that it meets the requirements in GRAP 23 in respect of conditions). The Municipality recognises revenue as and when it satisfies the conditions (i.e. incurring costs towards the construction of the asset). This exercise should be done on a monthly basis for the purpose of completing the monthly and quarterly Grant spending report.

Recognising revenue on a monthly basis

As mentioned above, the municipality recognises revenue as and when it meets the condition of the grant. Using the spending information provided above, the revenue allocated in **Month 1** is as follows:

Project	Function	Item	Fund	Regional	Costing	Amount (R)
Default	Finance: Core: Finance	Item Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies Unspent: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant: Recognised	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: Head Office and Admin	Default	63 250
Default	Finance: Core: Finance	Item: Revenue: Non-exchange Revenue: Transfers and Subsidies: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant	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	Default	(63 250)

Recognising the CWIP on a monthly basis

The municipality recognises the costs incurred as part of CWIP for **Month 1** as follows:

Project	Function	Item	Fund	Regional	Costing	Amount (R)	VAT (R)
Capital: Infrastructure: new: Roads infrastructure: Roads (10005)	Road Transport: Core: Roads	Item Asset: Non-current Assets: Construction Work in Progress: Acquisitions: Outsourced	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	55 000	8 250 Vat Input Capital
Capital: Infrastructure: new: Roads infrastructure: Roads (10005)	Road Transport: Core: Roads	Item: Current Liabilities: Trade and Other Payable Exchange Transactions: Payables and Accruals: Deposits <i>and Current Liabilities: Trade and Other Payable Exchange Transactions: Retentions: Deposits</i>	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	R63 250 in total of which (56 925) is trade payable (6 325) is recognised as a retention	(7 425) VAT Input Capital (825) VAT Input Accrual

The CWIP will accumulate in the CWIP account until the project is completed and the Certificate of completion is received. Upon the finalisation of the Project, the Assets will be capitalised according to the components i.e. Roads infrastructure. A reconciliation of what is not complete will be done at year end.

Payment of Trade and Other payables

Project	Function	Item	Fund	Regional	Costing	Amount (R)
Default	Finance: Core: Finance	Current Liabilities: Trade and Other Payable Exchange Transactions: Payables and Accruals: Withdrawals	Capital: Transfers and Subsidies: Monetary Allocation: National Government: Municipal Infrastructure Grant	Regional Identifier: Local Government by Province: Head Office and Administration of Batho Pele Municipality	Default	56 925
Default	Finance: Core: Finance	Item Assets: Current assets: Cash and Cash Equivalents: Bank: Withdrawals	Capital: Transfers and Subsidies: Monetary Allocation: National Government: Municipal Infrastructure Grant	Regional Identifier: Local Government by Province: Head Office and Administration of Batho Pele Municipality	Default	(56 925)

* *Systems may handle this differently:*

Retention should be allocated to the Contractor's Account in the subsystem for Creditor Payment but not released or (blocked) to be released upon finalisation of the Retention period and conditions. VAT on Retention withheld will be allocated to the Input Vat accrual account.

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