



# STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT

*SCOA for MUNICIPALITIES-mSCOA*

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## Item Segment – Gains and Losses

*September 2021 (Version 6.5)*

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## ITEM SEGMENT- GAINS AND LOSSES

### Background to the Item Gains and Losses Segment

The *Standards of GRAP 1 Presentation of Financial Statements* determines that gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.

Accounts are defined within this Gains and Losses component of the “Item” segment, based on the above requirements from the Standard of GRAP. Accounts defined give consideration to separate reporting whether material or not. Consideration will be given to the separate disclosure of gains and losses if material in the setting up of reporting information and how this type of transaction will be dealt with in the preparation of annual financial statements.

The definition of revenue encompasses both revenue and gains. Revenue arises in the course of the operating activities of the municipality, and includes the items presented in “Item” segment Revenue. However, **gains are categorised in this Gains and Losses component separate from revenue**. The classification of accounts within the components of the “Item” segment does not drive the presentation in the budget reporting tables, in-year reporting and annual financial statements.

Gains represent other items that meet the definition of revenue and may or may not arise in the course of the operating activities of the municipality. Gains represent increases in economic benefits or service potential and as such are no different in nature from revenue.

Gains include for example those arising on the disposal of non-current assets. The definition of revenue also includes unrealised gains; for example, those arising on the revaluation of financial instruments and those resulting from increases in the carrying amounts of long-term assets.

When gains are recognised in the statements of financial performance or the statement of changes in net assets, they are usually displayed separately, because knowledge of them is useful for the making of economic decisions.

The definition of expenses includes losses as well as those expenses that arise in the course of the operating activities of the municipality. Expenses that arise in the course of the operating activities of the municipality include, for example, cost of sales or cost of services rendered, wages and depreciation refer to the “Item” segment: Expenditure. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents,

inventory, property, plant and equipment. However, losses are categorised in the Gains and Losses component separate from expenditure. The classification of accounts within the components of the “Item” segment does not drive the presentation in the budget reporting tables, in-year reporting and annual financial statements.

Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the operating activities of the municipality. Losses represent decreases in economic benefits or service potential and as such, they are no different in nature from other expenses.

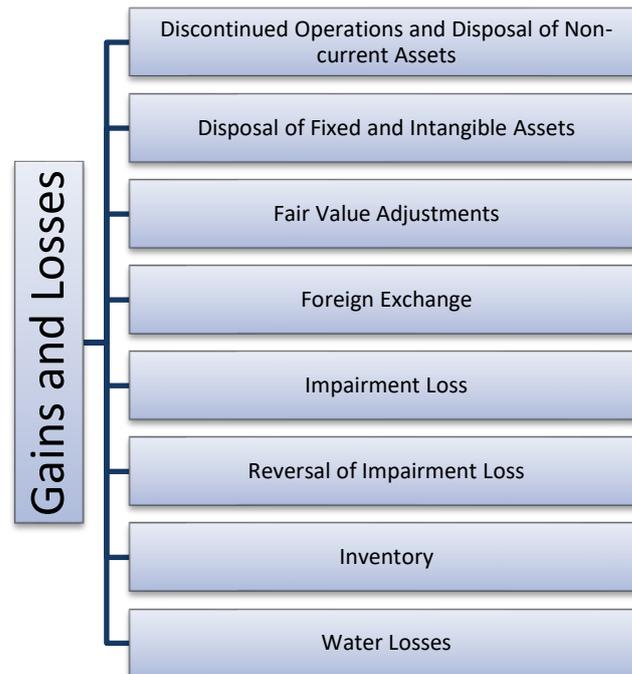
Losses include for example those resulting from disasters such as fire and flood, as well as those arising on the disposal of non-current assets. The definition of expenses also includes unrealised losses, for example, those arising from the effects of increases in the rate of exchange for a foreign currency in respect of the borrowings of the municipality in that currency.

When losses are recognised in the statement of financial performance, they are usually displayed separately because knowledge of them is useful for the making of economic decisions. Losses are often reported net of related revenue to reflect the substance of the transaction or event.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or the incurrence of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

## **Illustration: High-level Classification**

At the highest-level Item Segment: “gains and losses” provides for the following groups of accounts in the *mSCOA* classification:

**Definitions:**

**Gains and Losses:** Gains and losses are treated as a separate group of accounts due to the nature of these transaction. Gains arise from the proceeds of the transaction exceeding the recognised value and losses from the recognised value exceeding the proceeds realised from the transaction.

**Discontinued Operations and Disposals of Non-Current Assets:** The gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operations. [GRAP 100.10(a)(ii) and (b)(iii)]

**Disposal of Fixed and Intangible Assets:** The gain or loss arising from the derecognition of an asset determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in surplus or deficit when the asset is derecognised.[GRAP 16 ,17,31 and 103]

**Fair Value Adjustment:** The loss arising from the change in the fair value of a financial asset or liabilities measured at fair value recognised in surplus or deficit. Included in this account would be loss on financial instruments..[GRAP27,16, and 104]

**Foreign Exchange:** This item is for the recognition of gain/ loss incurred in foreign exchange transactions.

**Impairment Loss:** Impairment is a decrease in the value of an asset to an amount that is less than the amount under the cost basis.

**Reversal of Impairment Loss:** Reversal of impairment losses recognised in surplus/ deficit in accordance with the Standards of GRAP on Impairment of Non-cash-generating Assets and Impairment of Cash-generating Asset. [GRAP103.83(c)]

**Inventory:** The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs.

**Water Losses:** Water losses are calculated as the difference between the system input volume and the authorised consumption. Water losses are broken down into commercial or apparent and physical or real losses.

## Design Principles

The design principles below must be considered together with those defined for the Item Segment in the Item Segment: Introduction:

*Principle 1: Level of Detail* - Municipalities may add detail breakdown-levels in addition to that provided in the chart of accounts at their discretion. However, adding detail need to be carefully considered, being the exception rather than the principle. The indicators provided guide on the posting level and breakdown required and reflect the minimum requirements from the National Treasury’s perspective.

Discretionary breakdowns added by the municipality as explained ARE NOT INFORMATION National Treasury has an interest in and thus will not be part of the string downloaded for upload by the Local Government Database and Reporting System.

Breakdown required however, provides for information that MUST BE ADDED BY THE MUNICIPALITY and National Treasury has an interest therein.

Hence the table below explains the indicators used in the columns provided in the *mSCOA* Tables:

Indicator	Yes	No
<b>Posting Level</b>	Defines the level of capturing the transaction.	Not a posting level, therefore follows the guidance for breakdown required and the principle as explained for detail to be added.
<b>Breakdown Required</b>	The municipalities are required to define the level for capturing the transaction, expand the parent-child code	National Treasury is not interested in further detail, but the municipality may add detail at own discretion. This

	<p>structure and adopt the guide of the parent. .</p>	<p>will not be extracted for reporting to National Treasury.</p>
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*Principle 2: Applicability* - This column indicates the minimum requirements a municipality need to comply with in the implementation of this ‘Gains and Losses: Item segment’. Indication is further given for municipalities exceeding these minimum requirements based on more sophisticated costing modules in use. The use of these accounts is restricted to the municipalities as indicated. If more information is needed than currently provided, please consult with the mSCOA Technical Committee to expand the existing segment detail to accommodate specific needs in this regard.

*Principle 3: The Standards of GRAP 1 Presentation of Financial Statements* - Determines that gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material. The accounts defined for “gains and losses” thus provide separately for “gains and losses” to be recognised for the high-level groups as defined in paragraph 0.

*Principle 4:*

Municipalities must report on water inventory in accordance with GRAP 12 and non-revenue water losses, as defined by the Department of Water and Sanitation, in gains and losses. National Treasury previously developed a draft Position Paper on Water Balance reporting, but the position paper has subsequently been retired.

Guidance on water inventory has been provided in MFMA Circular No. 94, 98, 107 and 108.

## Legislative and Regulatory Requirements

For the legislative and regulatory requirements refer to Annexure A of the PSD.

## Transactions by Business Process to be allocated in this Segment

Business processes are the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting it is a source document from an activity within a business process initiating the activity to flow through a defined business processes ultimately resulting in the transaction being captured within a financial model in the system and updating the general ledger.

The *mSCOA* classification framework provides a classification structure within the general ledger to “record” transactional information within “fields” within the database functioning in the background of the municipality’s financial application.

Identification of transactions by typical business processes thus would provide a standardisation of specific transactional types for recording within the various segments of *mSCOA*.

The transaction types reflected below are based on the initial discussions of the *mSCOA* Project Steering Committee during October 2010. These were again confirmed by the *mSCOA* Project Steering Committee, without making any changes, during October 2020 meeting:

Transaction Type	Allocate Yes/ No	Comments
Net Assets	Yes	
Assets	Yes	
Liabilities	Yes	
Revenue	Yes	
Expenditure	Yes	

Pending the outcome of the Standard Operating Procedures Project undertaken by the National Treasury: Office of the Accountant General this table may need to be expanded to include business cycles and activities.

## Category Links and Business Rules

Category links and business rules refer to programming rules that system developers of financial and business applications for local government are required to provide for in their applications.

- “Fund” Segment: Gains and losses form part of the surplus and provides for working capital hence the correct fund must be identified and linked to the gain or loss.
- “Project” Segment: Gains will be Project Default and Losses will refer to Municipal Running cost as the use of this chart depends on whether the item relate to a revenue or an expense.
- “Regional” Segment: Gains and losses will be allocated to the relevant regional indicator as per the use of the transaction.
- “Costing” Segment: Gains and losses are primary transactions and will be “default” in the costing segment.
- “Function” Segment: Gains and losses need to be reflected within the function responsible for the event.

## Discussion of the Segment

### Discontinued Operations and Disposals of Non-Current Assets

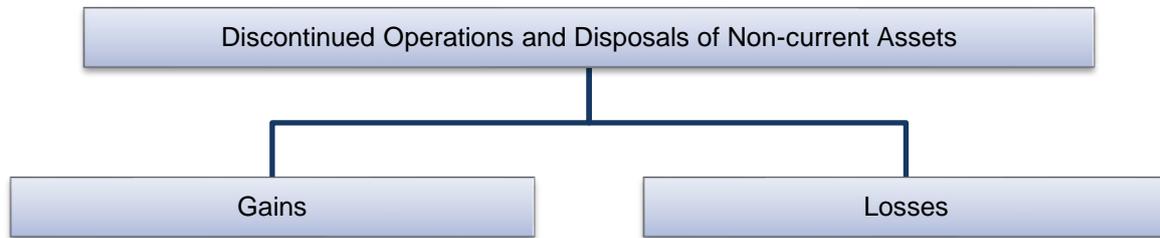
Discontinued operation is a component of the municipality/ municipal entity that either has been disposed of or is classified as held for sale, and:

- represents a distinguishable activity, group of activities or geographical area of operations,
- is part of a single coordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations, or
- is a controlled entity acquired exclusively with a view to resale?

This group of account provides for posting level accounts to recognise:

- the post-tax surplus or deficit of discontinued operations (See Item Segment Revenue); and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal of the assets or disposal group(s) constituting the discontinued operation (dealt with in this component).

The posting level accounts provides for:



## Disposal of Fixed and Intangible Assets

Disposal of a fixed asset is the withdrawal of a fixed asset/ intangible asset from use upon the completion of its useful life or due to lower productivity in its later life.

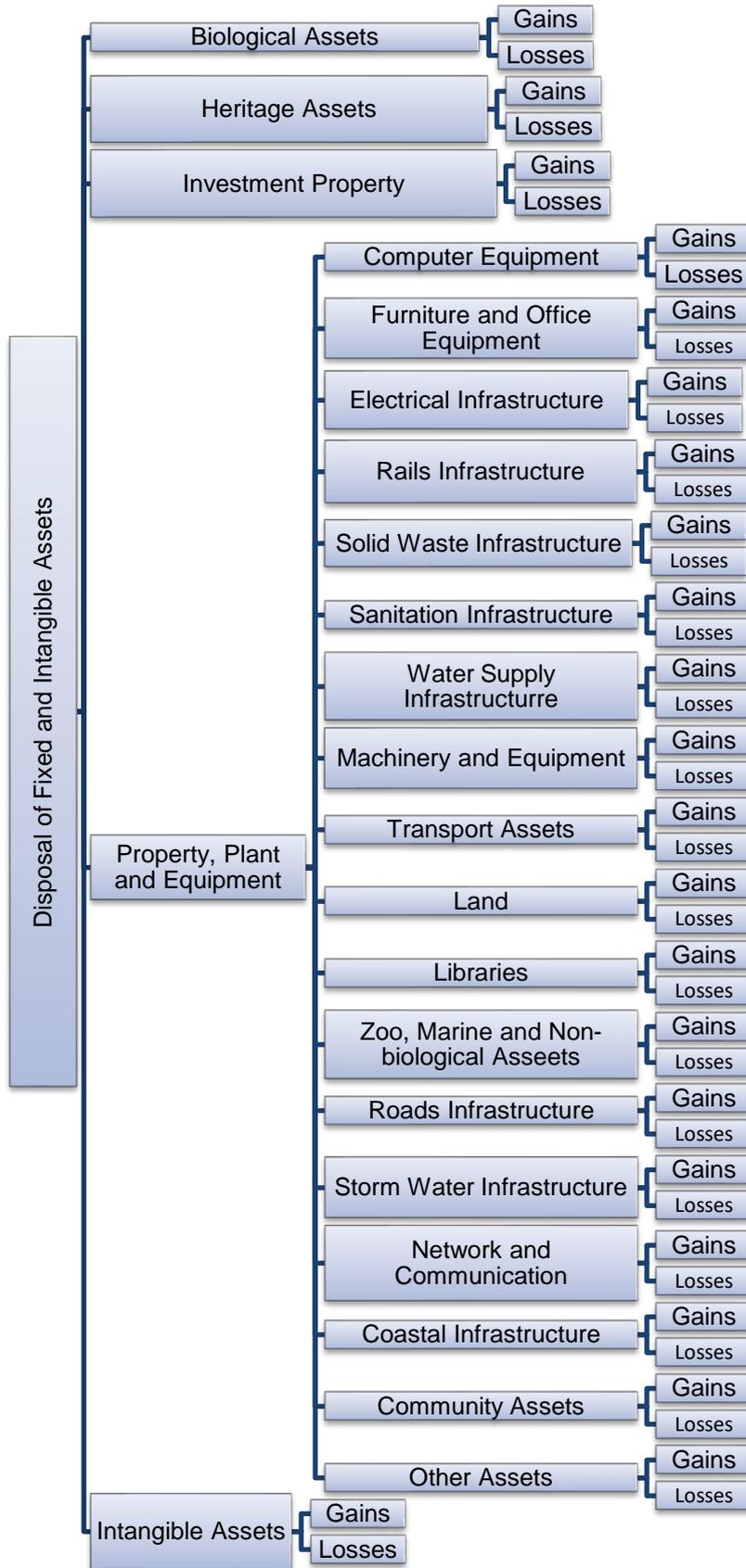
In a rare situation where the salvage value of the fixed asset/ intangible asset is zero, there will be no cash flow and no gain or loss. However, if an asset has a salvage value; it is likely that the disposal will cause a gain or a loss.

When a fixed/ intangible asset is sold at a price higher than its carrying amount at the date of disposal, the excess of sale proceeds over the carrying amount is recognised as gain.

If a fixed/ intangible asset is sold at a price lower than its carrying amount at the date of disposal, a loss is recognised equal to the excess of carrying amount over the sale proceeds.

If the carrying amount of a fixed/ intangible asset at the date of disposal is equal to the sale proceeds there is neither gain nor loss.

The following fixed/ intangible assets have been provided for with separate accounts for gains and losses:



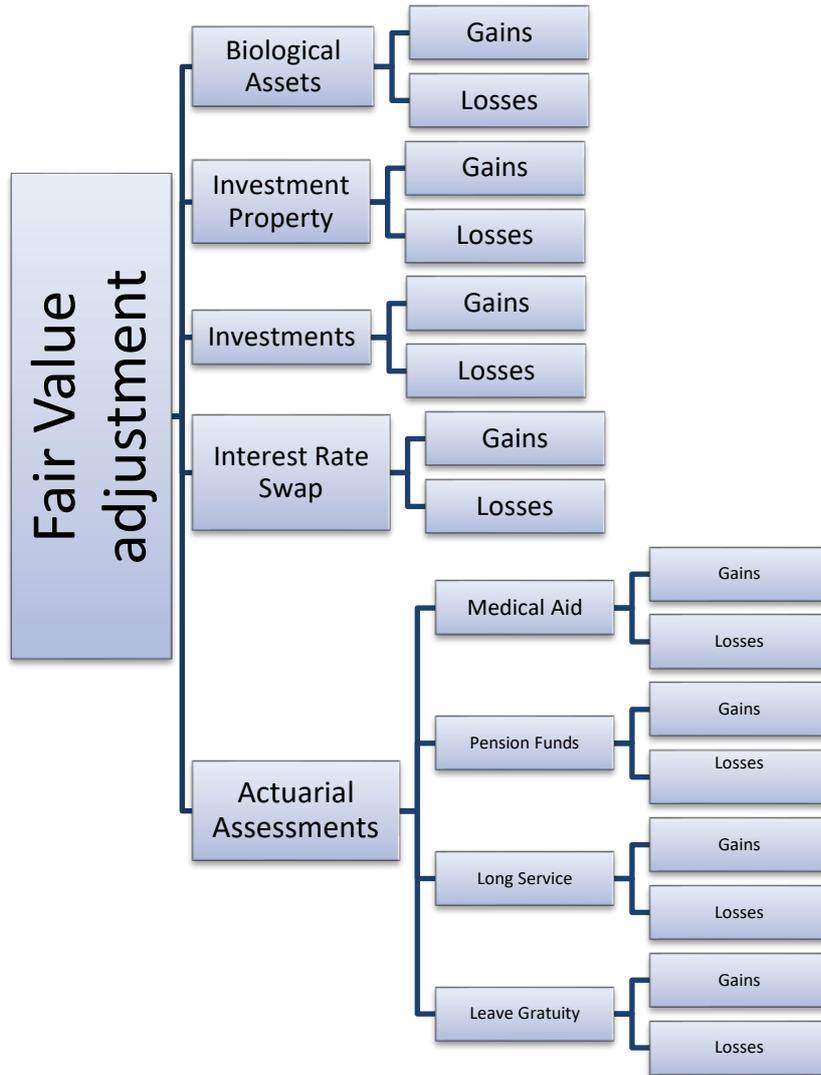
## Fair Value Adjustments

A fair value adjustment is a type of accounting process that makes it possible to reassess the fair value when there is a considerable difference between that figure and the current book value of an asset. Managing this type of adjustment requires taking some time to engage in what is known as revaluing in order to bring the two figures into closer harmony.

There are a number of reasons why a fair value adjustment may be necessary, including significant shifts in the market value of the assets involved, or when the assets are involved in a business acquisition.

**Actuarial Gains and Losses:** Actuarial gains/ losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. This was moved from Item Expenditure to the Gains and Losses chart in version 6.5 of the chart.

The following assets have been provided for with separate accounts for gains and losses:



## Foreign Exchange

Currency gains and losses are based on exchange rate fluctuations that occur on transactions that involve more than one currency. Two types of gains and losses exist:

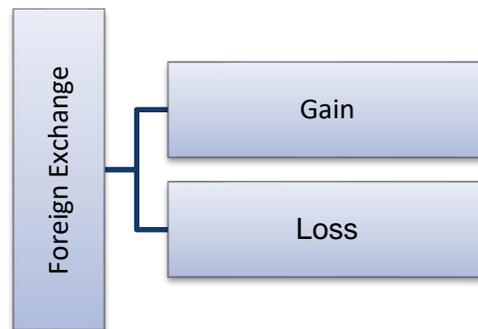
- Unrealised gains and losses; and
- Realised gains and losses.

Unrealised gains and losses are calculated on unpaid invoices the open portion of partially paid invoices at the end of a fiscal period, whereas realised gains and losses are calculated at the time of receipt.

Providing for “foreign exchange” gains and losses does not override the Municipal Finance Management Act, 2003 section 47(b) placing a condition to applying for short-term and long-

term debt that “the debt is denominated in Rand and is not indexed to, or affected by, fluctuation in the value of the Rand against any foreign currency”.

Posting level accounts have been created for recording gains and losses pertaining to foreign exchange in separate accounts.



## Impairment Loss

Impairment of an asset is an abrupt decrease of its fair value due to damage, obsolescence etc. When impairment of an asset occurs, the business has to decrease its value in the statement of financial position and recognise a loss in the statement of financial performance.

The following assets have been provided for at a posting level:

- Biological or Cultivated Assets
- Heritage Assets
- Intangible Assets
- Investment Property
- Property, Plant and Equipment
  - Other Assets
  - Computer Equipment
  - Furniture and Office Equipment
  - Electrical Infrastructure:
  - Rails Infrastructure:
  - Roads Infrastructure:
  - Solid Waste Infrastructure:

- Sanitation Infrastructure:
- Water supply Infrastructure
- Machinery and Equipment
- Transport Assets
- Community Assets
- Zoo, Marine and Non-Biological Assets
- Land
- Information and Communication Infrastructure
- Coastal Infrastructure
- Storm water Infrastructure
- Other Receivables from Non-Exchange Revenue
  - Non-specific Accounts
  - Property Rates
- Trade and Other Receivables from Exchange Transactions
  - Electricity
  - Non-specific Accounts
  - Waste Management
  - Waste Water Management
  - Water
- Construction Work in Progress

## Reversal of Impairment Loss

The municipality need to assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the recoverable service amount of that asset needs to be established.

An impairment loss recognised in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall be increased to its recoverable service amount. That increase is a reversal of an impairment loss.

The following assets have been provided for at a posting level:

- Biological or Cultivated Assets
- Heritage Assets
- Intangible Assets
- Investment Property
- Property, Plant and Equipment
  - Other Assets
  - Computer Equipment
  - Furniture and Office Equipment
  - Electrical Infrastructure:
  - Rails Infrastructure:
  - Roads Infrastructure:
  - Solid Waste Infrastructure:
  - Sanitation Infrastructure:
  - Water supply Infrastructure
  - Machinery and Equipment
  - Transport Assets
  - Community Assets
  - Zoo, Marine and Non-Biological Assets
  - Land
  - Information and Communication Infrastructure
  - Coastal Infrastructure
  - Storm water Infrastructure
- Other Receivables from Non-Exchange Revenue
  - Non-specific Accounts
  - Property Rates
- Trade and Other Receivables from Exchange Transactions
  - Electricity
  - Non-specific Accounts
  - Waste Management
  - Waste Water Management
  - Water
- Construction Work in Progress

## Inventory

The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of the future economic benefits or service potential expected to be realised from their sale, exchange, distribution or use.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs.

The following accounts have been provided for to record write down to net realisable values and any other gains/ losses:

- Decrease in net-realizable value
- Increase in

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## Water Losses

This group of accounts included in the *m*SCOA classification are informed by the reporting requirements of the Department of Water and Sanitation (DWS). As emphasised in Design Principle 4 the reporting of water losses must be included in the *m*SCOA reporting in accordance with GRAP12.

The following accounts have been provided for at the request of the Department of Water and Sanitation:

- Apparent Losses:
  - Unauthorised Consumption
  - Customer Meter Inaccuracies
- Real Losses:
  - Leakage on Transmission and Distribution Mains
  - Leakage and Overflows at Storage Tanks/ Reservoirs
  - Leakage on Service Connections up to the point of Customer Metering
- Data Transfer and Management Errors
- Unavoidable Annual Real Losses

## **mSCOA Implementation**

Municipalities by now, have progressively implemented the *mSCOA*.

The system developers responsible for applications commonly used by the municipalities are responsible for enhancing their software to be operated by business processes and are subject to customisation based on the unique requirements of client municipalities, with one of the primary objectives to assist municipalities in achieving compliance with the *mSCOA* classification framework.

National Treasury have provided comprehensive guidance in *mSCOA* Circular no.7 to 11 as implementation challenges have been identified.

## **Annual Maintenance and Matters Pending**

### **Annual Maintenance**

The changes made on the segment gains and losses for chart 6.5 is available on the National treasury website at [treasury.gov.za](http://treasury.gov.za).

### **Matters Pending**

The addition of fair value assessment of Water from Natural Sources and Water treatment Works is being considered as part of the change to Water inventory.