



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT

*SCOA for MUNICIPALITIES- mSCOA*

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## Costing Segment

*September 2021 – mSCOA Version 6.5*

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# COSTING SEGMENT

## Background to the Costing Segment

### Relevance of Cost Accounting, Methodologies and the Application thereof within the Context of *mSCOA*

The content of this section needs to be read with the National Treasury Guideline on Costing Methodology. Furthermore, the purpose is not to provide comprehensive content on “costing methodologies and underlying principles” but rather to contextualise the classification included in the *mSCOA* Costing Segment.

Cost is an important element of the decision-making process for setting municipal tariffs. Information about costs is relevant even when the municipality provides goods and services for free or for a nominal consideration as a result of national/ municipal policy decisions, or when tariffs are set on the basis of market prices.

Cost information can be used for cost control and reduction; for example, with appropriate cost information, managers can:

- compare costs with known, or, assumed benefits of activities; identify value-added and non-value-added activities; and, make decisions to reduce resources devoted to activities that are not cost-effective;
- compare cost changes over time, identify their causes and take appropriate action; for example, take steps to improve efficiency;
- identify and reduce excess capacity costs;
- compare costs with similar benchmark activities; find the causes for cost differences; and, take appropriate action; for example, revise and improve business processes; and
- through the municipality's performance management systems, enforce a culture with managers to analyse cost behaviour. Every manager should after careful consideration of all the consequences of their cost behaviour, take appropriate action. Unless initiative is taken by managers to analyse cost behaviour, inefficiencies may emerge, continue, and grow for a long time before the need for action becomes obvious.

Interest in performance measures is increasing, resulting in municipalities establishing systems to better report this information. When measuring performance, both financial and non-financial

measures should be included. Performance measurement is generally more effective when these measures are interrelated. Cost itself is a measure of financial performance. It is important to note that the *m*SCOA tables and the content of this document only deals with financial information. Non-financial information currently falls outside the scope of the *m*SCOA project.

Managers of programs, (if they understand the managerial advantages of measuring their performance), are likely to put pressure on the organisation for increased performance monitoring. Program managers can improve their operational performance from three perspectives — quality/ productivity, cycle time, and cost. If a manager brings cost (in balance with the other measures) into the decision-making processes, better decisions can be made.

A municipality can evaluate its service efforts and accomplishments. For example, the municipality can combine cost with an effectiveness measure to assess the cost-effectiveness of its service/ goods. A municipality can also use the following measures:

- Measures of service efforts — these are resource costs and other measures of the inputs used to provide the services.
- Measures of accomplishments — these are outputs (the services provided) and outcomes (the effects of those services).
- Measures that relate efforts to accomplishments — these are, for example, the cost per unit of the various outputs.

The public and legislators can use the cost of services (combined with appropriate performance measurements) to evaluate the municipality's deliverables. Whether or not reported publicly, the cost of services is a factor in making policy decisions related to program authorisation, modification and discontinuation.

Accrual accounting forms the basis for municipal budgeting and management information. Recognition of the need for cost accounting in “right sizing, eliminating inefficiencies and privatisation” triggered the increased use of cost accounting and the development of systems to support cost accounting. This will also motivate municipalities to use cost accounting more, which will result in more cost accounting systems being developed.

When starting to implement a cost system, a municipality may initially choose to only maintain limited cost information. As the municipality gains knowledge of its exact requirements and the likely costs of gathering the additional data, it can progress to a more comprehensive system. The *m*SCOA classification enables exactly this, by providing for “minimum requirements”, but enough detail to accommodate more sophisticated costing applications. When comparing for

example, the *mSCOA* costing segment to the costing system of some of the municipalities, these municipalities have a far more advanced costing system (based on “activity-based costing”). *mSCOA* enables these municipalities to continue transacting on its advanced costing module yet meet the minimum requirements provided for in *mSCOA*.

When considering how to improve the quality of available information, the National Treasury (*mSCOA* Project Team) considered the advantages of using cost accounting for management purposes in addition to accrual accounting for financial reporting. In theory and research there are a number of approaches that governments in different circumstances can adopt to progressively implement cost accounting. This is a principle used to define the classification framework of the *mSCOA* Costing segment.

The municipality's financial accounting system usually provides the value of the resources used or sacrificed in relation to any particular cost objective. This is for two basic reasons:

- It improves understanding of cost data which is consistent together with financial accounting data; and
- the cost efficiency of generating the cost data (based on or integrated with an existing system of accounting).

Financial accounting standards govern the flow of costs into the operating statement. The following discussion of the Standard of GRAP is in terms of property, plant and equipment, inventory and costs related to these assets. It is however important to note that other standards also affect the flow of costs.

Determination of the values for inventory; property, plant and equipment; and in terms of the Standards of GRAP can briefly be summarised as follows:

Historical cost (incurred by the entity) is the general basis for the initial valuation of these assets to bring:

- inventories to their present location and condition; and
- property, plant and equipment to working condition for their intended use.
- Specific types of costs are excluded from these valuations. Administrative and selling costs, development and preproduction costs, and storage costs are excluded unless they are directly attributable to inventories or property, plant and equipment. Abnormal amounts of wasted material and labour and excess capacity costs are also excluded.

Costs resulting from related party transactions are reflected in inventories and property, plant and equipment based on the prices assigned to the transactions.

Under the Standards of GRAP 17 Property, Plant and Equipment allowed an alternative treatment for property, plant and equipment to be revalued regularly to fair value.

The Standards of GRAP do not deal comprehensively with the costs of deferred maintenance; the capital costs of holding inventory and property, plant and equipment; or, the values of natural resources.

Processing costing accumulates costs by individual processing “functions” and then finally by outputs of the municipality. The output of “sub-function” either becomes the input of the next “sub-function” in the production flow or becomes a part of the end product output. Normally, each “sub-function” reports its costs, the completed units, and the work-in-process volume for each reporting period. When completed units are transferred from a “sub-function” to the next “sub-function”, the costs of those units are also transferred and are eventually incorporated in the cost of the municipality’s end product, being a service.

In municipalities, process costing would typically be used by functions that involve repetitive processes to deliver services

Job order costing accumulates and assigns costs to projects or jobs. Resources consumed are identified with a job code rather than a process. This method is appropriate for functions that produce special-order products or perform projects and assignments that differ in duration, complexity or input requirements. Job-order costing may be used in connection with the servicing and maintenance of fleet or specialised vehicles, special requests for services such as site cleaning or repair work to infrastructure and other municipal properties.

Some municipalities may wish to set information requirements at the activity level, an even lower level than processes or jobs. The concept of “Activity Based Costing” is that activities consume resources, although activities may sometimes be congruent with processes, if processes are defined narrowly. “Activity Based Costing” can be used in conjunction with job-order costing or process costing to enhance the accuracy of these costing methods. This method is not encouraged by National Treasury due to the complexities involved, sophisticated system requirement and ultimately cost versus benefit considerations.

The cost system’s functionality needs to include a report generator with capacity to generate a variety of reports needed by management or to satisfy financial reporting requirements. To benefit from this capacity, the required data must be captured in the system and the rules for capturing, distributing, and calculating the information must be pre-defined.

Cost accounting explained in the cost of accrual accounting budgeting (with some examples):

- It is integral to an accrual-based budget, as it is combined with funds control in a budgetary system that focuses on both cost and cash,
- Cost containment measures are fundamental in setting municipal budgets and expected to gain more emphasis over the coming years.
- It redefines reporting, following the implementation of *mSCOA* within the Local Government to give justice to the implementation of cost-related information in the financial statements, budget tables and treasury-oversight reporting. A number of factors will affect the information to be included, including the degree of expected audit assurance; how much cost control National/ Provincial Treasury wants to exercise in overseeing municipal operations; and, the public's interest in the cost of functions and service delivery outputs.
- The "Cost" segment provides for the classification of indirect (secondary) costs that do not directly attribute to the output and are sometimes referred to as activity based recoveries, for example labour; vehicle; plant and equipment; internal service charges (internal billings), and, departmental charges - for example office rental; audit fees; and, procurement.
- Indirect cost (secondary cost) is initially recorded as primary cost within the "Item" segment and funded according to the indicator selected in the "Funding segment".
- The cost indicator within the "Costing" segment provides for the re-distribution of these primary costs between functions (no change in the funding source); together with indicators provided in the "Function" segment. The "Project" segment provides the classification link to these indicators and specific projects. The "Item" and "Fund" segment are recorded as "Default" in the case of cost distribution. The "Region" Segment can reflect Head office and Administration since there is no impact. As such the Costing segment facilitates management accounting and improved tariff modelling/ setting.

## Purpose of this Segment

**Management Accountants/ Tariff modelling. The Design Principles acknowledge a gradual approach, for example "administrative functions to commercial services" will suffice.**

The purpose for including this segment in *mSCOA* is to provide for the recording of full cost reflection for at least the four core municipal functions, being electricity, water, waste water and

waste management services, as a minimum requirement (for now). Focusing on these functions is essential for setting cost reflective tariffs as these four services are the most significant revenue generating functions within municipalities.

The direct (primary cost) is accommodated in the account set-up within the "Item" segment: Expenditure.

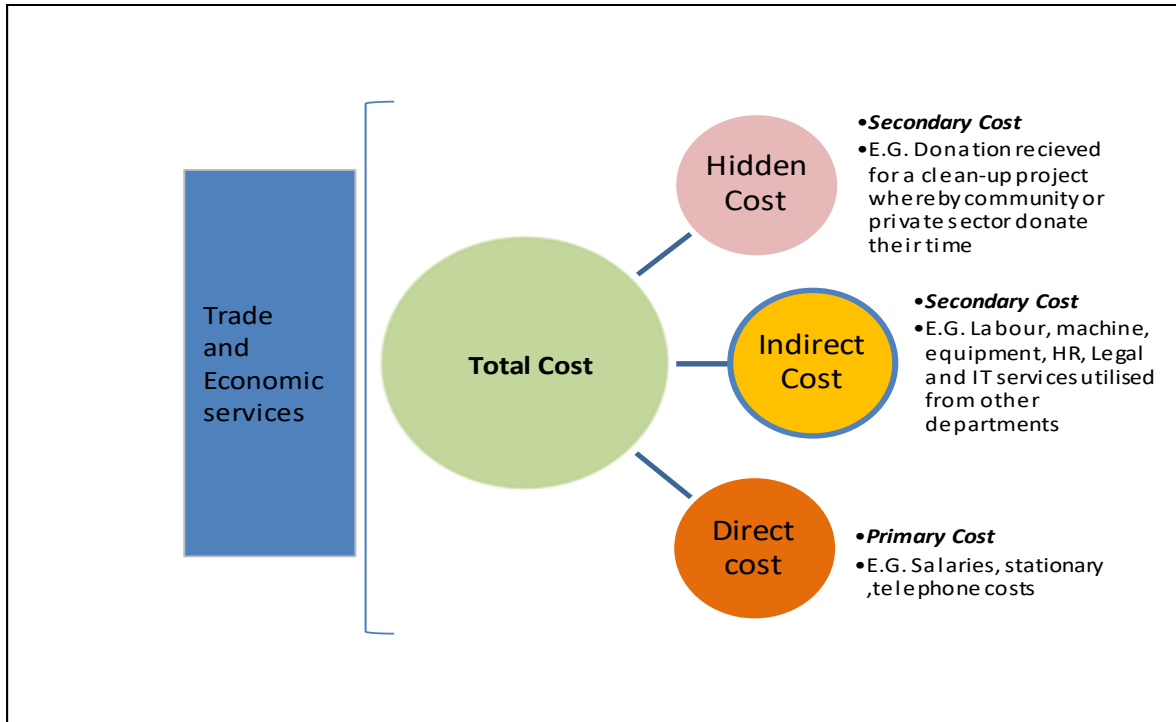
The introduction of the Costing segment is responding to the demand by local government practitioners for guidance and tools to identifying the cost (see the table below) of providing a service to their customers.

It addresses the gap within a sector and provides the functionality to produce consistent data on the actual cost of a service; with the added ability to benchmark with other municipalities with a better or improved degree of confidence.

## Elements of Accounting for Costs

In the table below, hidden costs are also reflected, these are typical costs whereby a donation or free time from the community is received to render a particular service. Should this goodwill gesture from the community cease then these costs to render the service should be factored in the tariffs to ensure continuity of the service.





The adopted principle on cost allocation in using the “Costing” segment and in the context of helping to promote a structured and consistent approach to allocating costs during the business process, will lead to improved cost reflected tariffs. This process will help the municipality to improve its understanding of the principles and techniques of cost allocation, across the municipality, functions, projects and so allow for cost comparison and benchmarking.

This classification framework provides to local government, “a common cost architecture approach” to ascertain costs, as this will enable the municipality to compare service costs by clarifying the actual cost drivers in the whole chain of events for the provision of a particular municipal service.

Extracting information from the “Cost” segment within *mSCOA* would thus provide approximate full cost information for the defined core municipal functions. Typically, the “Function” segment would identify the core service as being electricity, water, wastewater management and waste management. The “Costing” segment is used to derive the full cost dimension.

## Cost Recovery Approach

The typical “cost recovery approach” is explained in the table below. The National Treasury is not at present concerned with which method or even a combination of methods the municipality

adopts. National Treasury do however, at this stage suggest that the municipality use a hybrid approach, but if a municipality has the capacity and it is cost efficient, a simplified activity based (charges and recoveries) costing method (usage or benefit approach) is recommended.

Standardisation of “cost recovery approaches” will only be of concern once municipalities are able to meet “minimum classification requirements” in recording cost allocations within the general ledger accounts and *mSCOA* segments.

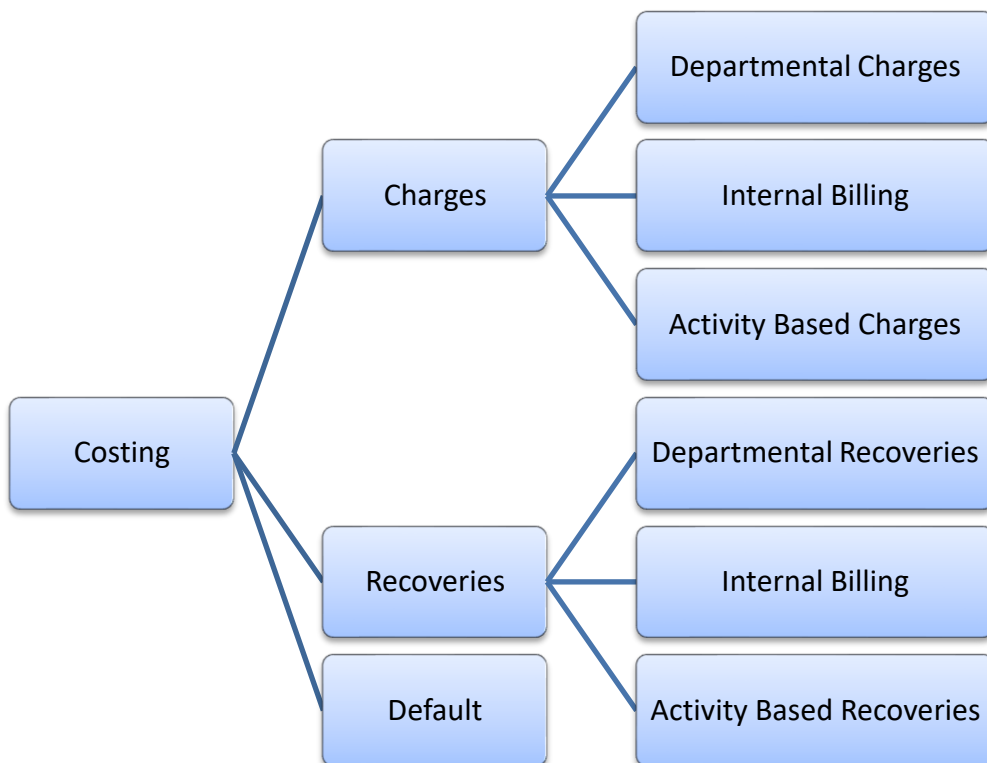
The table below presents a summary of the content contained in the National Treasury Guideline on the Costing Methodology. Please refer to the reference material for a more comprehensive discussion:

Classification	Definitions
<p><b>Pro Rata Approach</b></p>	<p>Use this approach where it is not possible or too costly to identify actual resource usage.</p> <p>The approach starts with the cost data as found in the municipality’s general ledger.</p> <p>In the context of <i>mSCOA</i> the function in combination with the primary cost depicted in the “Item segment: Expenditure” component.</p> <p>The costs are allocated on a proportionate allocation basis to outputs by using measures such as:</p> <ul style="list-style-type: none"> <li>• number of staff involved in production of the output as percentage of total staff;</li> <li>• direct resource use in the production of the output as a percentage of total resource use; and</li> <li>• the budget consumed for the output as a percentage of the total budget.</li> </ul>
<p><b>The “Usage” or “Benefit” Approach</b></p>	<p>The “usage” or “benefit” approach looks to build from the bottom up, starting with the activities themselves (for example, processing a service requirement) and calculating the resources they consume.</p> <p>Costs are then attributed to these activities, which in turn can be summed to calculate the cost to serve an end-to-end process. Actual resource usage may be estimated in several ways.</p>

Classification	Definitions
	<p>Examples of methods of apportioning the indirect cost pool include direct observation, time sheets (in the case of indirect staff costs) and log sheets (in the case of vehicle and plant and equipment).</p> <p>The method used must be well documented, verifiable and efficient.</p> <p>This type of indirect cost measurement can in practice be linked to an activity based costing method, but it needs to be adjusted for practical reasons.</p>

### Illustration - High-level Classification

At the highest level the Costing segment structure distinguishes between “Charges” and “Recoveries” followed by account groups for “Departmental Charges (Support Services), Internal Billing and Activity Based Recoveries”:



**Definitions:**

**Charges/ Recoveries:** Distinction is made between "charges to receiving departments and recoveries made by sending departments". The "sending department" provides goods or services to the "receiving department" based on rates/ tariffs determined internally by the municipality in terms of the municipality's costing methodology. Recording of the transaction in *mSCOA* thus impacts on the Function, Costing and Municipal Standard Classification segments. Default will be applicable within the, Project, Funding and Item segments. The illustration below attempts to explain the concept in a simplified version not dealing with specific accounts in *mSCOA*.

*Department providing the service/ goods: Debit to the "receiving department" by selecting the appropriate account from the Function and Municipal Standard Classification with the account from "Charges" for the Costing segment.*

*Department receiving the service/ goods: Credit to the "sender department" by selecting the appropriate account from the Function and Municipal Standard Classification with the account from "Charges" for the Costing segment.*

**Departmental Charges/ Recoveries (Support Services):** This refers to the allocation of overheads to a cost centre used by multiple functions, such as Information Technology; for example, pro rata allocations based on the number of service points or users such as the electricity department. Some applications refer to assessment charges. The "receiving department" is charged by the "department providing the support services".

- *Charges:* This classification provides for the recording of the "charge-out" recognised by the receiving department.
- *Recoveries:* The "provisioning department" effect a charge to the receiving department, resulting in a recovery to the department, classified as a recovery.

**Activity Based Charges/ Recoveries:** This refers to the actual allocation of resources (used or benefit method) used by various departments; for example, allocation of labour is based on time sheets, and the allocation of vehicles and plant equipment is based on log sheets. The "provisioning department" charges the user or receiving department and accordingly makes a recovery.

- *Charges:* This account provides for recording the "charge-out" to the receiving department.
- *Recoveries:* This account provides for recording the "recovery" made by the provisioning department.

**Internal Billing:** This refers to departmental use of internal services such as electricity, water, wastewater management and waste management, for example cost allocation for the electricity department's water. The services are measurable or quantifiable, for example a water meter at the electricity depot.

- *Charges*: The classification provides for the department receiving the service or goods.
- *Recoveries*: This classification provides for the department providing the service or goods.

**Default:** All transactions not relevant to the allocation of secondary cost (primary transactions) to be classified within this account.

## Design Principles

The following design principle(s) have been used in preparing the segment outline:

*Principle 1: mSCOA* - The segment outline and detail classification provide for all possibilities as a “master *mSCOA*” from which each municipality selects the accounts needed to “populate” their chart of accounts.

*Principle 2: Municipal Entities and Agencies* - Recording of transactions in this segment will be done according to the principles determined for municipalities. References made to “municipality” must be read as also referring to “municipal entity”, unless indicated otherwise.

*Principle 3: Legislative and Regulatory Requirements* - The research and development into the segment, categories and detail accounts were guided by the legislation and regulations read with circulars and guidelines issued by the National Treasury and summarised in the table below. Furthermore, brief comments on any changes to a circular or guideline (issued by the National Treasury) following the *mSCOA* Regulation are provided in the “Proposed Changes Column” of the table.

*Principle 4: Linking Transaction by Business Process to mSCOA* - 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 a source document from an activity within a business process initiates the activity to flow through a defined business process ultimately resulting in the transaction to be captured within a financial model in the system and updating the municipality’s general ledger. *mSCOA* provides a classification structure within the general ledger to “record” transaction information within “fields” within the database functioning in the background of the municipality’s financial application.

*Principle 5: Category Links and Programming 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. The considerations listed may not

be complete, considering the development stage of this project, and might need to be enhanced as the consultation with the various stakeholder groups evolves.

*Principle 6: mSCOA Detail Accounts* - Labels and accounts are defined to have readily available the information needed for local government budgeting (annual budgets, adjustment budgets and the service delivery- and budget implementation plans (SDBIP's)) and reporting (monthly, mid-year performance assessment and annual financial statements).

*Principle 7: mSCOA Definitions* - The master mSCOA provides definitions for all accounts and reporting levels, to assist practitioners in achieving consistency in recording transactions of a similar type or nature between municipalities, to enhance the comparability of information and report extraction.

*Principle 8: Annual Financial Statements and Budget Reporting Formats* - Alignment of budget and reporting formats with the Standards of GRAP applicable to the different categories of municipality, especially recognising that local government uniquely operates in an accrual accounting and accrual budgeting environment.

*Principle 9: The Standards of GRAP* - The mSCOA Classification provides for sufficient classification to, amongst other reporting requirements, present annual financial statements as required in terms of the Standards of GRAP Reporting Framework, outlined in Directive 5 determining the GRAP Reporting Framework<sup>1</sup> (2017/2018) issued by the Accounting Standards Board. The work plan of the mSCOA Technical Committee will be informed by the changes made to the Reporting Framework and resultant Standards of GRAP for annual consideration in updating the mSCOA Classification and Reports.

*Principle 10: Reporting* - The Position Paper on Reporting defines the phased approach envisaged for achieving the ultimate position on “seamless alignment” between the annual financial statements and Budget Reporting Tables as defined by the Municipal Budget and Reporting Regulations, 2009. This milestone will further enhance and be the final compliance check in ensuring that the mSCOA Classification provides for sufficient classifications to comply with the presentation requirements dealt with in the Reporting Framework. The collective reference made to “reporting” refers without exception to the Budget Reporting Tables (A & B Schedules), In-year Reporting (C-Schedules), and Annual Financial Statements.

*Principle 11: Economic Reporting Format* - The Economic Reporting Format of September 2009, identifies the categories for transfers as being transfers received from other

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<sup>1</sup> Compliance to the Standard of GRAP in terms of presentation to be confirmed through Phase 2 described in the Position Paper on Reporting.

governmental units (national, provincial and local government (specific in the context of municipalities, district municipalities)), higher educational institutions, foreign government and international organisations, public corporations, private enterprises, households and non-profit institutions. The Municipal Budget and Reporting Regulations, further distinguish between transfers recognised operational and capital, contributions and public donations and contributed assets replaced in *mSCOA* with these categories.

*Principle 12: NERSA Regulatory Reporting Requirements* - NERSA as explained in the *Regulatory Reporting Manual Volume 2: Electricity* prescribes and provides guidance to the regulated entities in the electricity Supply Industry on the format, content, preparation and submission to the Energy Regulator of required information to enable NERSA to perform its functions. NERSA is the custodian of the NERSA Regulatory Reporting Requirements, and this principle will oversee and enforce their requirements included in the relevant sets of legislation.

*Principle 13: Department of Water and Sanitation (DWS) Reporting Requirements* – The Department has been instrumental in guiding and informing the setting-up of the classification requirements for the water and wastewater functions municipalities provide. Important in the selection of accounts to be activated within the system application is the municipality's readiness to comply with the DWS Reporting Requirements. DWS is the custodian of the Reporting Requirements and thus will oversee and enforce their requirements included in the relevant sets of legislation.

*Principle 14: Level of Detail* – A municipality may add detail breakdown-levels in addition to that provided for in the *mSCOA* chart of accounts at their discretion. However, adding detail needs to be carefully considered, being the exception rather than the principle. The indicators provided to guide on the posting level and breakdown required 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 cannot be part of the string downloaded for upload by the National Treasury: 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.

The table below explains the indicators used in the columns provided for in the *mSCOA* Tables for the Regional segment:

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

*Principle 15: Charges and Recoveries* - Distinction is made between charges and recoveries in separate groups of accounts. Cost allocation transactions contain both these elements in processing the **debit and credit components of the transaction**. At any given point in time “recoveries and charges” must be equal in value (The nett of costing must always be zero and needs to be transacted in the same accounting period to avoid imbalances in the trail balance reporting for the period). Recoveries refer to allocation of cost by the sender to the receiving department, being the recipient of the service or allocation. Charges indicate the cost allocated to the recipient of the services by the sender department.

*Principle 16: National Treasury Costing Methodology Guideline for Local Government* - This Guideline addresses the gap in the local government sector in the ability to produce consistent data on the cost of rendering a trade service. It also provides the ability to benchmark a service against other municipalities with a certain degree of confidence. This section of the *mSCOA* Classification Framework provides for the cost elements to enable recording of the transactions inherent to reflecting the charge out to the receiving department and the recovery for the sender department. The content of the guideline serves as the basis for the design reflected in this segment.

*Principle 17: Secondary Costing* – The *mSCOA* Classification provides the “minimum requirements” for municipalities to do cost allocations or re-allocations between departments (municipal standard classification) and functions within the *mSCOA* Classification Framework.



National Treasury recognised the complex nature of cost allocation methodologies, inability of municipal systems pre-*m*SCOA in providing for costing methodology applications and the lack of uniform practices supported by reference material peculiar to the municipal environment offering practitioners support. Municipalities are in various stages of implementing the National Treasury Guidance and therefore the classification structure provides for municipalities to expand the account structure at own discretion to provide for specific peculiarities associated with the methodology adopted by the municipality. However, this is not for reporting to National Treasury, but only for internal municipal analysis and reporting.

*Principle 18: The Cost of Individual Service* – A key objective is to highlight the total cost of identifiable services. It is normal for overheads to be recharged to services and for these charges to be recorded by those services according to the origin of the recharge (for example the finance department recharge). Recharges typically come from support departments to trading operations but could also be between two front-line services within a municipality.

*Principle 19: Elimination of “Recharges” for Consolidation Purposes* – Basic principles of consolidation dictate that charges within the parent municipality should be eliminated leaving only the externally-raised income and expenditure with the outside world in the consolidated statements. The Standards of GRAP only require that for certain disclosures (for example staff costs), the true total of an item be shown, excluding recharges. *m*SCOA also aims to produce useful data for policy and national account purposes which require data in this format. For all these reasons, it is necessary that internal charges are disregarded in preparing annual financial statements and being accounted for in accordance with its expenditure nature. Therefore, internal cost recovery is dealt with in the “Function” and “Costing” segments, as not to interfere with the nature of spending for annual financial statement reporting purposes. At a posting level distinction is made between “charges and recoveries”.

*Principle 20: Customisation of Proposed Model* – Various methodologies exist for the apportionment of costs towards specific processes. A higher level of complexity does not automatically imply that the method is superior. A more complex system will yield more accurate results; however, a more granular approach may be more suitable. The argument between accuracy and complexity needs to be balanced through adopting an approach that is manageable, not over complicated and fit for the purpose. However, a trade-off needs to be struck between accuracy and the cost of collecting information. *m*SCOA does not favour any specific methodology but attempts to provide a classification conducive to multiple methodologies. The end-result is that the operation must be as simple as possible but still provide for maximum accuracy. The model as provided for in *m*SCOA provides a simple

classification to extract information on common areas but subject to “recharge” to functions within local government. The model is not necessarily complete and therefore this section of the classification provides for customisation according to the needs of the municipality

*Principle 21: Capitalisation of Cost Allocation to Fixed Assets* – The allocation of cost to self-constructed fixed assets needs to be done in accordance with the requirements as set-out in the Standards of GRAP relevant to the type of fixed asset and the recognition of cost to be included in “initial cost”. **Reallocation of primary cost to fixed assets is achieved with journal transactions and NOT the costing segment.**

*Principle 22: Application of Water inventory* - The fair value assessment of system input volume from Natural Sources and the Water treatment works for water inventory needs to be done in accordance with GRAP 12. The recognising of a gain must be included in recognising water volume and the costing segment cannot be used for this purpose.

*Principle 23: Account Number Structure* – The account structure comprises 13 levels of which the first level contains alphanumerical data to identify the Costing segment, followed by the identification of “charges” and “recoveries”, and the methodology which is being used, namely “Departmental Charges”, “Internal Billing”, and “Activity Based Costing”. The prefix “CO” identifies the Costing segment.

## 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 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 would provide a standardisation of specific transactional types for recording within the various segments of *mSCOA*.

The transaction types reflected here are based on the initial discussions of the *mSCOA* Project Steering Committee during October 2010, and again confirmed by the *mSCOA* Project Steering Committee (without making any changes) during October 2016. This classification applies to primary transactions and all secondary transactions, recorded in the “Costing” segment, are classified according to the costing methodology applied and not the nature of the related primary - or secondary transaction.

Transaction Type	Allocate Yes/ No	Comments
Assets	N/a	Costing transactions must only be reallocated using the Expenditure Default item segment.  This will ensure costing always balance to zero and the population of the MBRR schedules will remain in balance
Liabilities	N/a	
Revenue	N/a	
Net Assets	N/a	
Expenditure	Yes	

## 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. The considerations listed may not be complete, considering the development stage of this project and might need to be enhanced as consultation with the various stakeholder groups evolves.

Proposals that were considered in the design principles of *mSCOA* :

The “Costing” segment to default for all transactions, *other than* the allocation of secondary costing. For example, primary entries for expenditure, transactions in assets, liabilities and net assets, etc.

- Prevent cost allocation to a capital project if in contradiction with the requirements of the Standards of GRAP.

## Discussion of the Costing Segment

The classification provided in this segment is the minimum requirements for reflecting full cost for the four municipal trading functions being electricity, water, waste water management and waste management services. Should the municipality adopt a more sophisticated costing methodology such as activity-based costing, a request may be made to the *mSCOA* Technical Committee following the due process, to provide for the alternative structures in *mSCOA*.

Care needs to be taken when considering the addition of detail. It is the responsibility of the municipality to ensure that if detail is added below the posting level, that this classification complies with the definition of the higher-level account used as the parent. This is imperative to maintain the standard, data integrity and comparability throughout the sector envisaged in the prescribed standard classification. If in doubt, call on the *mSCOA* Technical Committee for guidance and assistance in this regard.

Distinction is made in *mSCOA* between "charges to receiving departments" and "recoveries made by sending departments". Earlier versions assumed "set-off" within the posting level accounts. In the table below, for the purpose of simplification "charge/ recoveries" are explained together, although distinction is made between "charges and recoveries", and the posting level accounts are separately coded.

## Internal Billing



## Departmental Charges/ Recoveries

### Charges / Recoveries

- Accounting
- Asset Management
- Audit Fees (External)
- Internal Audits, Investigation and Risks
- Budgets
- Cleaning Services
- Communication, Information and External Relations
- Communication
- Cross Subsidisation
- Democratic Process
- Directorate
- Employee Benefits
- Employee Equity
- Expenditure
- Event Management
- General Administration
- Green Electricity
- Human Resource Recruitment
- Insurance Fees
- Integrated Development Planning
- Indigent
- Insurance Assets
- Internal Interest
- Internal Laboratory Fees

### Charges / Recoveries

- Labour Relations
- Legal Services
- Management Support
- Meter Readers
- Municipal Management
- Occupational Health Safety and Employee Wellness
- Office Rentals
- Other Internal Billings
- Payroll
- Plot Cleaning
- Personnel Related Internal Insurance
- Postal Service
- Procurement
- Project Management
- Rates Charges
- Resource and Planning
- Revenue Management
- Security
- Specialist Financial Management
- Telephone
- Telephone: Maintenance
- Training and Development
- Valuations
- Internally Manufactured Materials

## Activity Based Recoveries

Charges / Recoveries

- *Contract and Project Management*
- Cultivation of Plants/Flowers and Compost
- Events and Filming
- Fire Brigade Charges
- Hire of Hall/Civic Recreation Centre
- Labour
- Office Rental
- Printing Service
- Printing/Reproduction and Postage
- Pumping Cost at Power Stations
- Scientific Services
- Security Services
- Specialised Electronics and Radio Services
- Telephone and Internet
- Training
- Vehicles, Plant and Equipment

## 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

No changes were made to the Costing Segment in the chart for version 6.5.

### Matters Pending

There were no 'matters pending' identified for the Costing Segment at the time of finalising the Project Summary Document (PSD) for Version 6.5.