

**TOPIC 1.12: SUSPENSE ACCOUNTS**

This section of the manual sets out the FSOP's that need to be executed by the municipality regarding Suspense Accounts. The FSOP's are drafted in the following categories:

- 1.12.1 Overview of the accounting for suspense accounts**
- 1.12.2 Introduction**
- 1.12.3 Procedures during the existence of Suspense Accounts**
- 1.12.4 AFS disclosure requirements for Suspense Accounts**

### 1.12.1 OVERVIEW OF THE ACCOUNTING FOR SUSPENSE ACCOUNTS

When accounting for suspense accounts the municipality must ensure that the necessary finance standard operating procedures are executed to address the following issues, which are summarised here, but for which the detailed FSOP's are set out in the rest of this section.

Category	Section FSOP
<b>Introduction.</b> The acceptability of suspense accounts is discussed in this chapter.	<b>Section 1.12.2</b>
Suspense accounts can only be disclosed as an asset or liability on the Statement of Financial Position if they meet the definition of an asset or liability. Therefore municipalities should <b>identify and review all suspense accounts at year-end</b> to ensure that they fit the definition of assets or liabilities. If suspense accounts are found not to meet the definition, they should be cleared to income or expenses as the case may be.	<b>Section 1.12.3</b>
The municipality must ensure that all debit suspense accounts are <b>disclosed</b> as part of other debtors (if it meets the definition of an asset) and credit suspense accounts as part of other creditors (if it meets the definition of a liability).	<b>Section 1.12.4</b>

### **1.12.2 INTRODUCTION**

Municipalities use suspense accounts for various reasons, such as recording VAT input and output taxes, recording of unidentified receipts (such as direct deposits into the municipality's general bank account by unidentified parties) etc. At year end, typically these suspense accounts are accounted for as part of other debtors and/ or creditors and disclosed in the AFS as such. This practice is only allowed by GRAP if these debit and/ or credit balances are either assets or liabilities as defined by GRAP.

	<p>According to the <b>Accounting Framework paragraph 66</b>, assets and liabilities are defined as follows:</p> <p>(a) An <b>asset</b> is a resource controlled by the entity as a result of past event and from which future economic benefits are expected to flow to the entity.</p> <p>(b) A <b>liability</b> is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.</p>
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## 1.12.3 PROCEDURES DURING THE EXISTENCE OF SUSPENSE ACCOUNTS

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	<p><b>Classification of Suspense accounts</b> The Accounting Framework states that the expectation of <b>future economic benefits</b> flowing to or from an entity must be sufficiently certain to meet the probability criterion before an asset or liability is recognised.</p> <p>“A present obligation of the entity” implies that a third party exists (and has been identified) to whom the municipality is obligated to make a future payment to.</p>	<p>Suspense accounts can <b>only be disclosed</b> on the Statement of Financial Position of a municipality if they <b>meet the definition of an asset or liability</b>.</p> <p>Therefore, identify and review all suspense accounts at year-end to ensure that these accounts meet the definition of an asset or liability. If the suspense account is found not to meet the definition, clear these accounts to income or expenses as the case may be.</p>	AP	CFO	30 June each year
2	<p><b>Limitation of use of Suspense Accounts</b> Suspense accounts in the GL should not be used for the posting of bank reconciling items.</p>	Ensure that suspense accounts in the GL are not used for the posting of bank reconciling items.	AP	CFO	Continuous
3	<p><b>Identification of credits to the Municipal Bank Account</b> Consumers and all parties with whom the municipality transacts should be made aware/reminded that direct deposits/bank transfers to the municipality's bank account</p>	<p>Ensure that consumers and all parties with whom the municipality transacts are aware/reminded that direct deposits/bank transfers to the municipality's bank account have to be accompanied by identification (reference) of the party making the deposit/ transfer.</p> <p>(This could be facilitated by ways of municipal</p>	FCP	CFO	Continuous

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
	have to be accompanied by identification (reference) of the party making the deposit/ transfer.	publications/ notices/ letters/ website reminders or other forms of correspondence).			
4	<b>Municipal Bank Account Deposits, Direct Transfers and Electronic Banking</b> The CFO must: <ul style="list-style-type: none"> <li>▪ Identify all the direct credits on the bank statement, such as direct deposits by ratepayers, consumers and levy payers, subsidies and grants paid by National and Provincial Governments, interest on investments and miscellaneous credits. Process these credits by capturing to the respective votes on the system.</li> <li>▪ Identify full details of these credits timely to avoid having to account for these credits in the "Default Cash" (Unidentified Receipts) suspense account;</li> <li>▪ Record all unidentified credits (receipts) in a suitable register to facilitate future claims against the amount and follow up; and</li> <li>▪ Balance the unidentified receipts register to the "Default Cash" suspense account in the general ledger on a monthly basis.</li> </ul>	Ensure that the CFO: <ul style="list-style-type: none"> <li>▪ Identifies all the direct credits on the bank statement, such as direct deposits by ratepayers, consumers and levy payers, subsidies and grants paid by National and Provincial Governments, interest on investments and miscellaneous credits. Process these credits by capturing to the respective votes on the system.</li> <li>▪ Identifies full details of these credits timely to avoid having to account for these credits in the "Default Cash" (Unidentified Receipts) suspense account;</li> <li>▪ Record all unidentified credits (receipts) in a suitable register to facilitate future claims against the amount and follow up; and</li> <li>▪ Balance the unidentified receipts register to the "Default Cash" suspense account in the general ledger on a monthly basis.</li> </ul>	AP	CFO	Monthly

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
	Cash" suspense account in the general ledger on a monthly basis.				
5	<b>Clearing of Suspense Accounts</b> Items posted to a Suspense Account should be cleared regularly.	Ensure that items posted to a Suspense Account are cleared regularly (at least monthly).	AP	Manager: Budget Control	Monthly

**NOTE:** the section listed below (until the end of procedure 7) is applicable to Provincial Government Departments. Even though adherence to these Treasury Regulations is not compulsory for municipalities, the below-mentioned treatment should be viewed as a benchmark for municipalities.

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
6	<p><b>National Treasury Regulation 17.1.1</b> states that all the transactions of an institution must be supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation.</p> <p><b>National Treasury Regulation 17.1.2</b> states that should it be necessary, in exceptional cases, to account for revenue and expenditure transactions in a clearing or suspense account because the classification has not been resolved, the accounting officer must ensure that:</p> <ul style="list-style-type: none"> <li>a. the sources of the transactions are readily identifiable;</li> <li>b. amounts included in clearing or suspense accounts are cleared and correctly allocated to the relevant cost centres on a monthly basis;</li> <li>c. monthly reconciliation's are performed to confirm the balance of each account; and</li> </ul>	<p><b>Validity of suspense accounts</b></p> <p>The creation of suspense accounts should be prevented as far as possible. If suspense accounts exist at year-end that <b>fit the definition of an asset or liability</b>, the following have to be adhered to:</p> <ul style="list-style-type: none"> <li>• Suspense accounts (credits and debits) must be supported by supporting documentation and the sources of the transactions readily identifiable</li> <li>• Suspense accounts must be cleared on a monthly basis</li> <li>• Suspense accounts must be reconciled on a monthly basis</li> <li>• Reports must be provided to the accounting officer on a monthly basis about uncleared items on suspense accounts</li> </ul>	LCP	CFO	Monthly and annually

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	d. reports are provided to the accounting officer about uncleared items on a monthly basis.				
7	<b>National Treasury Regulation 17.1.3</b> states that in each month's section 40(4) report, the accounting officer must certify that the forecast/projection for the remainder of the financial year adequately makes provision for all amounts not yet cleared from clearing and suspense accounts.	<p><b>Monthly in-year reporting</b></p> <p>The CFO should take into account the future effect of amounts reflected on suspense accounts when the monthly in year reporting is compiled. If a debit suspense account in future will be cleared to an expense account, the future expense should be taken into account when producing the monthly reports.</p>	LCP	Manager: Budget Control	Monthly and annually

## 1.12.4 AFS DISCLOSURE REQUIREMENTS FOR SUSPENSE ACCOUNTS

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	Debit Suspense Accounts should be disclosed as part of Other Debtors on the Statement of Financial Position only if it meets the definition of an asset.	Disclose debit Suspense Accounts as part of Other Debtors on the Statement of Financial Position only if it meets the definition of an asset.	AP	Manager: Budget Control	30 June each year.
2	Credit Suspense Accounts should be disclosed as part of Other Creditors on the Statement of Financial Position only if it meets the definition of a liability.	Disclose credit Suspense Accounts as part of Other Creditors on the Statement of Financial Position only if it meets the definition of a liability.	AP	Manager: Budget Control	30 June each year.