

TOPIC 1.3: PREPARING A GRAP COMPLIANT CHART OF ACCOUNTS

The municipality's chart of accounts (COA) should be investigated in depth to determine all the accounts which are not yet fully GRAP compliant. The necessary adjustments and re-allocation of accounts should then be done.

It might be found that currently various GRAP accounts that would be required are not provided for as of yet in the municipality's accounting system. These accounts need to be identified and created accordingly ensuring that the COA addresses all the disclosure requirements of GRAP to enable the compilation of GRAP compliant annual financial statements. This can be done by identifying the accounting treatment and disclosure requirements of all relevant GRAP standards and ensuring that the COA is set up in such a way that it can collect and provide this information for accounting and financial statement purposes.

The **following serve as examples of changes that should have been made during the implementation of GRAP** and the COA would then further be amended as the variety of transactions increases or as the GRAP statements are adapted in future:-

- Assets by class or departmental function. Classification by class is recommended as depreciation rates are linked to class of assets and budget formats require information in this format. Most assets should be recorded at historical costs with accumulated depreciation recorded in separate general ledger accounts. It is recommended that the classifications in the Budget Reform Formats be used for identifying the general ledger accounts required for asset categories.
- Creditor and deferred revenue accounts may be kept for each type of grant and contribution. Based on the disclosure requirements in the MFMA, it is recommended that this approach be adopted to facilitate reporting requirements.
- A Non-Distributable Reserve (NDR) (Revaluation of Land) needs to be created if the municipality wishes to adopt a policy of revaluing land.
- Convert CLF to EFF. Keep advances to and from CLF, but change name to advances to and from EFF.
- Convert CDF to CRR by rationalising existing statutory funds.
- Appropriation Accounts for transfers between the Accumulated surplus and Funds and reserves on the statement of changes in Net Assets.
- Asset disposal account.
- Additional Bank Accounts (and cash books) to maintain separate accounts for EFF, CRR and Unutilised Conditional Grants and Contributions.
- Depreciation expense accounts.
- New inventories accounts such as inventories: water; inventories: game or other agricultural assets.

- Operating lease payments.

Accounts relating to finance leases if the municipality acts as a lessor. The accounts required are Gross Investment Outstanding (GIO) and Unearned Finance Income (UFI). The net of these two accounts is disclosed as Net Investment Outstanding on the Statement of financial position.

- Various provisions never raised before such as provision for cleaning illegal dumping, provision for environmental rehabilitation, provision for grant-in-aid contributions and provision for clearing alien vegetation.

The following accounts **should be removed during the conversion of IMFO to GRAP:**

- Advances to/from CDF.
- Redemption (internal & external) expense accounts.
- Interest (internal only) expense accounts.
- Contributions to Funds and to Capital expense accounts.
- Reserves, Funds and provisions not permissible in terms of GRAP. Provisions are only permissible if they meet the definition of a provision as per GRAP. The only funds and reserves that are allowed are the following:-
 - Revaluation Reserve

Internal reserves shown as part of accumulated surplus on the statement of Financial Position

- Self Insurance Reserve.
- Government Grant reserve and Donations and Public Contributions reserve.
- NDR Revaluation of capital assets.
- Housing Development Fund.
- Accumulated surplus.
- Capitalisation Reserve.
- Compensation Commissioner for Occupational Injuries and Diseases (COID) Reserve.
- Capital replacement reserve
- Remove Statutory Funds which are consolidated into the CRR.

The above-mentioned process would also incorporate an inspection to determine if the municipality's in-house accounting software package is fully GRAP compliant. The accounting software needs to be updated in accordance with the disclosure requirements of GRAP financial statements.