TOPIC 1.4: ACCOUNTING FOR CHANGES IN ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

This section of the manual sets out the FSOP's that need to be executed by the municipality regarding accounting for changes in accounting policies, changes in accounting estimates and errors. The FSOP's are drafted in the following categories:

1.4.1 Overview of the accounting for changes in accounting policies, changes in accounting estimates and errors
1.4.2 Introduction / background
1.4.3 Accounting for changes in accounting policies
1.4.4 Accounting for changes in accounting estimates
1.4.5 Accounting for the correction of errors
1.4.6 AFS disclosure requirements
1.4.7 Exemptions related to the implementation of GRAP 3

1.4.1 OVERVIEW OF THE ACCOUNTING FOR CHANGES IN ACCOUNTING POLICIES, CHANGES IN ACCOUTING ESTIMATES AND ERRORS

When accounting for changes in accounting policies, changes in accounting estimates and errors, 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
Introduction / background. GRAP 3 sets out the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of prior period errors.	**Section 1.4.2**
Accounting policies can only be changed if accounting standards are changed or if a change in accounting policies will result in more reliable and relevant financial statements. When a municipality changes an accounting policy it shall apply the change **retrospectively**.	**Section 1.4.3**
As a result of the uncertainties inherent in delivering services many items in financial statements cannot be measured with precision but can only be estimated. The use of reasonable **estimates** is an essential part of the preparation of financial statements and does not undermine their reliability. The effect of a change in an accounting estimate shall be recognised **prospectively**.	**Section 1.4.4**
Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Standards of Generally Recognised Accounting Practice if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of a municipality's financial position, financial performance or cash flows. Material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period. Material prior period errors are therefore corrected **retrospectively**.	**Section 1.4.5**
The municipality must ensure that all **disclosure requirements for changes in accounting policies, changes in accounting estimates and errors as listed in GRAP 3** are met.	**Section 1.4.6**
Exemptions related to the implementation of GRAP 3. A number of exemptions from the requirements of GRAP 3 have been offered to high capacity municipalities (HCM), medium capacity municipalities (MCM) and low capacity municipalities (LCM) by NT. These requirements have been discussed in full from section 1.4.2 onward, but the exemptions are listed here to provide guidance to municipalities implementing this standard on a piecemeal basis: **EXEMPTIONS – 30 JUNE 2008** ➢ Any HCM that prepares its AFS in accordance with GRAP for the year ending 30 June 2008, need not disclose the GRAP standards that have been issued but are not yet effective and the impact of those standards on the municipality's AFS (GRAP 3.30 - 31).	**Section 1.4.7**

Category	Section FSOP
➢ MCM and LCM can prepare IMFO AFS for 2008, and therefore ignore GRAP 3 in totality, but if they prepare GRAP AFS the same exemptions listed in the bullet point above apply to them. **EXEMPTIONS – 30 JUNE 2009** ➢ All HCM and MCM must for the year ending 30 June 2009 comply with all the requirements of GRAP 3. ➢ LCM can prepare IMFO AFS for 2009 and therefore ignore GRAP 3 in totality. If however the LCM opts to prepare GRAP AFS for 30 June 2009, it must comply with all the requirements of GRAP 3.	

1.4.2 INTRODUCTION / BACKGROUND

The objective of GRAP 3 is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The Standard is intended to enhance the relevance and reliability of the municipality's financial statements and the comparability of those financial statements over time and with the financial statements of other municipalities.

Prospective application of a change in an accounting policy and of recognising the effect of a change in an accounting estimate, respectively, means:-

(a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and

(b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

1.4.3 ACCOUNTING FOR CHANGES IN ACCOUNTING POLICIES

	Accounting policies are the specific principles, bases, conventions, rules and practices applied by a municipality in preparing and presenting financial statements. Any changes to these accounting policies should be applied retrospectively unless it is impracticable to do so.

Applying a change to an accounting policy retrospectively is **impracticable** when the municipality cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively if:

(a) the effects of the retrospective application are not determinable;

(b) the retrospective application requires assumptions about what management's intent would have been in that period; or

(c) the retrospective application requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

   (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and

   (ii) would have been available when the financial statements for that prior period were authorised for issue from other information.

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	**According to par 13 of GRAP 3**, an entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a Standard or an Interpretation specifically requires or permits categorisation of items for which different policies may be appropriate. An example of this is where an entity may use different measurement bases for different types of PPE. It may for example decide to account for land at fair value and all other items of PPE at cost less accumulated depreciation/impairment. **According to par 14 of GRAP 3** an entity shall change an accounting policy only if the change: (a) is required by a Standard or an Interpretation; or (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows	**Changes in accounting policies** A municipality must apply its accounting policies consistently from one year to the other to ensure comparability of figures. Accounting policies can only be changed if accounting standards are changed or if a change in accounting policies will result in more reliable and relevant financial statements. If accounting policies are changed, the financial statements must be restated as is outlined above. Disclosure of the change in accounting policy should be as set out in section 1.4.6 below. The application of the accounting principles outlined above is best illustrated by an example. (Refer to the Annexure - **example 1** below)	**AP**	**CFO**	Change in accounting policy is applied throughout the year, disclosure of the change at 30 June.

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
	According to par 19 of GRAP 3: (a) an entity shall account for a change in accounting policy resulting from the initial application of a Standard or an Interpretation in accordance with the specific transitional provisions, if any, in that Standard or Interpretation; and (b) when an entity changes an accounting policy upon initial application of a Standard or an Interpretation that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change **retrospectively.** **Retrospective application** means that the municipality adjusts the opening balance of each affected component of net assets for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.				

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
2	**Limitations on retrospective application** According to GRAP 3.23 a change in accounting policy shall be applied retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.	When it is impracticable to determine the cumulative effect of changing an accounting policy, the "new' accounting policy should be applied prospectively from the start of the earliest period practicable. The portion of the cumulative adjustments to assets, liabilities and net assets arising before that date may be disregarded.	**AP**	**CFO**	30 June each year

1.4.4 ACCOUNTING FOR CHANGES IN ACCOUNTING ESTIMATES

The use of accounting estimates is an essential part of the in the preparation of financial statements on the **accrual basis** of accounting. Examples of where estimates may be required include:

- calculation of the impairment of debtors;
- inventory obsolescence
- the useful lives or expected pattern of consumption of economic benefits or service potential of assets;
- the percentage of completion of a project, e.g. the construction of a road; or
- warranty obligations.

The use of accounting estimates in the preparation of financial statements is necessary as a result of uncertainties inherent in delivering goods, services and conducting trading activities. These uncertainties can not be measured with precision and are therefore estimated. The use of estimates in the preparation of the financial statements does not undermine the reliability of the information presented as the estimate is made based on the latest available and most reliable information. Estimates therefore enhance the relevance of the information presented in the financial statements.

As and when the information on which the estimate is based changes it also becomes necessary to revise the previous estimate. By nature, the revision of an estimate does not affect prior periods and is therefore not a correction of a prior period error. A revision of an accounting estimate can not be seen to be a correction of an error provided the estimate was based on the latest and most reliable information available at the time that the estimate was made. An example of this would be the reassessment of the prior period provision for doubtful debts based on information available in the current financial period.

Change in accounting estimate versus a change in accounting policy

A change in accounting policy results from a change in the underlying measurement basis of the item while a change in an accounting estimate results from a change in the information on which the estimate was based. In some cases it may be difficult to distinguish whether the change is a change in accounting policy or a change in accounting estimate. In such cases GRAP 3 requires the change to be treated as a change in accounting estimate.

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	**According to par 32 of GRAP 3**, as a result of the uncertainties inherent in business activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgements based on the latest information available. Estimates may be required, for example, of bad debts, inventory obsolescence or the useful lives or expected pattern of consumption of economic benefits of depreciable assets. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. **According to par 34 of GRAP 3**, an estimate may have to be revised if changes occur regarding the circumstances on which the estimate was based or as a result of new information, more experience or subsequent developments. By its nature, the revision of the estimate does not bring the adjustment within the definitions of an extraordinary item or a fundamental error.	**Changes in accounting estimates** Due to the nature of estimates, estimates must be revised from one financial year to the next financial year. The effect of changes in estimates must be accounted for **prospectively** in accordance with the prescripts of GRAP 3. The application of the accounting principles on changes in estimates is best illustrated by an example. (Refer to the Annexure **- example 2** below)	**AP**	**CFO**	30 June each year

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
	According to par 36 of GRAP 3 the effect of a change in an accounting estimate shall be recognised prospectively by including it in surplus or deficit in: (a) the period of the change, if the change affects that period only, or (b) the period of the change and future periods, if the change affects both.				
2	According to **GRAP 3.38**, **prospective recognition** of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of change in estimate.	The effect of a change in an accounting estimate shall be recognised **prospectively**.	**AP**	**CFO**	30 June each year

1.4.5 ACCOUNTING FOR THE CORRECTION OF ERRORS

Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. These errors may occur as a result of:

- mathematical mistakes,
- mistakes in applying accounting policies,
- mistakes in the interpretation of facts,
- fraud, or
- oversights

On rare occasions an error in one or more prior periods, discovered in the current period has a **significant effect on the financial statements**, and results in the **financial statements** being **unreliable**.

Prior period errors are omissions from, and misstatements in, the municipality's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

The correction of these errors that relate to prior periods only requires the **restatement of the comparative information**, and not the republishing of prior period financial statements. The financial statements, including the comparative information for prior periods, **should be presented as if the error had been corrected in the period in which it was made**. Therefore, the amount of the correction that relates to each period presented is included within the net surplus or deficit for that period. The amount of the correction relating to periods prior to those included in the comparative information in the financial statements is adjusted against the opening balance of accumulated surpluses in the earliest period presented. Any other information reported with respect to prior periods, such as historical summaries of financial data, is also restated.

Applying a requirement retrospectively is **impracticable** when the municipality cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to make a retrospective restatement to correct an error if:

(a) the effects of the retrospective restatement are not determinable;

(b) the retrospective restatement requires assumptions about what management's intent would have been in that period; or

(c) the retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

   (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and

   (ii) would have been available when the financial statements for that prior period were authorised for issue from other information.

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	In accordance with **GRAP 3.42 and GRAP 3.43** a prior period error shall be corrected by **retrospective restatement** except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error. When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).	**Accounting for Errors** If management identifies errors in financial statements that have already been published, the effect of the errors must be accounted for in accordance with the prescripts of GRAP 3. The application of the accounting principles on prior period errors is best illustrated by an example. (Refer to the Annexure **- example 3** below)	**AP**	**CFO**	30 June each year

1.4.6 AFS DISCLOSURE REQUIREMENTS

The disclosure requirements for changes in accounting policies, changes in estimates and the correction of errors is dealt with as follows in GRAP 3.

Changes in accounting policies

GRAP 3.28 When **initial application** of a Standard of Generally Recognised Accounting Practice has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(a) The title of the Standard;

(b) When applicable, that the change in accounting policy is made in accordance with its transitional provisions;

(c) The nature of the change in accounting policy;

(d) When applicable, a description of the transitional provisions;

(e) When applicable, the transitional provisions that might have an effect on future periods;

(f) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected; and

(g) The amount of the adjustment relating to periods before those presented, to the extent practicable; and

(h) If retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat the above disclosures.

GRAP 3.29 When a **voluntary change in accounting policy** has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(a) The nature of the change in accounting policy;

(b) The reasons why applying the new accounting policy provides reliable and more relevant information;

(c) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;

(d) The amount of the adjustment relating to periods before those presented, to the extent practicable; and

(e) If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat the above disclosures.

GRAP 3.30 When a municipality **has not applied a new Standard of Generally Recognised Accounting Practice that has been issued but is not yet effective**, it shall disclose:

(a) This fact; and

(b) Known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the municipality's financial statements in the period of initial application.

GRAP 3.31 In complying with paragraph .30, a municipality **considers disclosing**:

(a) The title of the new Standard of Generally Recognised Accounting Practice;

(b) The nature of the impending change or changes in accounting policy;

(c) The date by which application of the Standard of Generally Recognised Accounting Practice is required;

(d) The date as at which it plans to apply the Standard of Generally Recognised Accounting Practice initially; and

(e) Either:

  i. A discussion of the impact that initial application of the Standard is expected to have on the municipality's financial statements; or

  ii. If that impact is not known or reasonably estimable, a statement to that effect.

Changes in accounting estimates

GRAP 3.39 A municipality shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

GRAP 3.40 If the amount of the effect in future periods is not disclosed because estimating it is impracticable; a municipality shall disclose that fact.

Correction of errors

GRAP 3.49 The municipality shall disclose the following regarding the correction of errors:

(a) The nature of the prior period error;

(b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;

(c) The amount of the correction at the beginning of the earliest prior period presented; and

(d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat the above disclosures

1.4.7 EXEMPTIONS RELATED TO THE IMPLEMENTATION OF GRAP 3

Refer to section 1.4.1: Overview of the accounting for changes in accounting policies, changes in accounting estimates and errors, for a discussion on the exemptions related to the implementation of GRAP 3.

For **municipalities making use of the exemptions** granted for GRAP 3, the interim requirements applicable during the exemption period are as follows:

- Information need not be disclosed about GRAPs that have not been Gazetted for implementation by the Minister.
- Accounting policies may be changed prospectively in respect of the exemptions in Gazette no. 30013 of 29 Jun'07.
- Because accounting policies related to exemptions may be changed prospectively, both the accounting policy applied in 2006/07 and the policy applied in 2007/08, together with the related disclosures for both 2006/07 and 2007/08, must be included in the financial statements where an exemption has been adopted.
- Any other accounting policy changes must be done in accordance with GRAP 3.14 – 29.

ANNEXURE 1 – Illustrative examples

Example 1: Change in accounting policy

The following is an extract from the financial statements of the South African Municipality for the year ended 30 June 2008.

South African Municipality:
Statement of Financial Performance for the year ended 30 June 2008:

	2008	2007
	R	R
Net surplus for the year	4 145 000	2 150 000

Statement of Changes in Net Assets for the year ended 30 June 2008:

	Accumulated Surplus R
Balance at 1 July 2006	**2 000 000**
Net Surplus for the year	2 150 000
Transfers to/ from reserves	(100 000)
Balance at 30 June 2007	**4 050 000**
Net Surplus for the year	4 145 000
Transfers to/ from reserves	(200 000)
Balance at 30 June 2008	**7 995 000**

Additional information:

The municipality has run a production facility for the mass production of refuse bags for the last several years. Council has decided to change the basis of valuing inventories of the refuse bags for resale from the first in first out (FIFO) method to weighted average cost as it will result in a more appropriate presentation of events for the municipality.

Summary of closing inventories is provided:

	2008	2007	2006
FIFO method	4 800 000	2 700 000	1 950 000
Weighted average	5 100 000	3 480 000	2 290 000
	300 000	780 000	340 000

Disclosure of the change in accounting policy
Calculations (not to be disclosed in the financial statements):

Inventories

	2008	**2007**	**2006**
FIFO	4 800 000	2 700 000	1 950 000
Weighted average	5 100 000	3 480 000	2 290 000
	300 000	780 000	340 000
Cumulative effect			340 000
Annual movement – 2007		440 000	
Annual movement – 2008	(480 000)		

South African Municipality
Statement of financial performance for the year ended 30 June 2008

	Note	**2008 R**	**2007 R**
Net surplus for the year	18	3 665 000	2590 000

Statement of Changes in Net Assets for the year ended 30 June 2008:

	Note	**Accumulated Surplus Rand**
Balance at 1 July 2006		**2 000 000**
Change in accounting policy	18	340 000
Restated balance at 1 July 2006		**2 340 000**
Net Surplus for the year	18	2 590 000
Transfers to/ from reserves		(100 000)
Balance at 30 June 2007	18	**4 830 000**
Net Surplus for the year	18	3 665 000
Transfers to/ from reserves		(200 000)
Balance at 30 June 2008		**8 295 000**

South African Municipality
Notes to the financial statements for the year ended 30 June 2008.

Note 18: Change in accounting policy

During the year the Municipality changed its accounting policy for the valuation of refuse bags for resale from the first in first out (FIFO) method to the weighted average cost method as this leads to a better presentation of the closing value of this type of inventory.

The comparative amounts have been appropriately restated. The effect of this change in accounting policy is as follows:

- The increase/(decrease) in Net Surplus for the year is:

	2008	**2007**
Gross effect	(480 000)	440 000

- The restatement of the accumulated surplus at the beginning of the year is:

Gross effect	780 000	340 000

- Total effect at the end of each year is:

Cumulative effect	300 000	780 000

Example 2: Change in accounting estimate

South African Municipality had the following transactions during the financial year ended 30 June 2008, relating to a change in accounting estimate:

The municipality's provision for bad debts of R100 000 at the end of the financial year is regarded as inadequate and is increased to R150 000. This change in accounting estimate must be processed in the year ended 30 June 2008.

The municipality has a depreciable asset (equipment) with a book value of R75 000 at 30 June 2007. The asset initially cost R100 000 and had an estimated useful life of four years. On 1 July 2007 the asset's remaining useful life is re-estimated at a total of two years, which implies that the depreciation charge for this year and next year will be R37 500, calculated as follows:

1 July 2006	Cost Price	100 000	
	- depreciation	(25 000)	[100 000/4 years]
1 July 2007	Book value	75 000	
	- depreciation	(37 500)	[75 000/2 years]
1 July 2008	Book value	37 500	
	- depreciation	(37 500)	
1 July 2002	Book value	0	

The journal entries relating to the above will be as follows:

	Debit **R**	**Credit** **R**
Provision for bad debts expense	50 000	
Provision for bad debts (Balance sheet)		50 000
Being additional provision for bad debts (R150 000 – R100 000)		
Depreciation: equipment	37 500	
Accumulated depreciation: equipment		37 500
Being provision for depreciation on equipment		

Notes to the financial statements for the year ended 30 June 2008

Note 5. Change in estimate: useful life of asset reviewed

A change in the estimated useful life of an item of equipment has resulted in the following change in depreciation for the year:

Depreciation: equipment	
- According to initial estimated useful life	25 000
- According to re-estimated useful life	37 500
- Additional depreciation provided	12 500

Example 3: Correction of errors

The following is an extract from the financial statements of the South African Municipality for the year ended 30 June 2008, which aims to illustrate the accounting treatment and disclosure requirements relating to the correction of a prior period error.

South African Municipality:
Statement of Financial Performance for the year ended 30 June 2008:

	2008	**2007**
	R	**R**
Net surplus for the year	4 145 000	2 150 000

Statement of Changes in Net Assets for the year ended 30 June 2008:

	Accumulated Surplus R
Balance at 1 July 2006	**2 000 000**
Net Surplus for the year	2 150 000
Transfers to/ from reserves	(100 000)
Balance at 30 June 2007	**4 050 000**
Net Surplus for the year	4 145 000
Transfers to/ from reserves	(200 000)
Balance at 30 June 2008	**7 995 000**

Additional information:

During the financial year ended 30 June 2008 the municipality discovered that the following fundamental error occurred in the financial year ended 30 June 2007. An amount of R1 000 000, for the purchase of software was treated as a repairs and maintenance expense. The software was purchased on 1 July 2006 and had an estimated useful life of four years from that date.

Disclosure of the correction of the error
Calculations (not to be disclosed in the financial statements)

CALCULATION C1:	**R**
Net Surplus – previously determined	2 150 000
Net adjustment (fundamental error)	**750 000**
Add: Software costs incorrectly expensed	1 000 000
Less: Depreciation on software (R1 000 000/4)	(250 000)
Adjusted Net Surplus	**2 900 000**
CALCULATION C2:	**R**
Net Surplus – previously determined	4 145 000
Less: Depreciation on software (R1 000 000/4)	(250 000)
Adjusted Net Surplus	**3 895 000**

The effect of the correction for the current year is that the net surplus is R250 000 less than previously reported, as a result of the depreciation provided. The effect on the prior year's net surplus is that it is R750 000 more than previously reported (R1 000 000 expense reversed less R250 000 depreciation). The individual expense items of repairs and maintenance and depreciation will have to be restated.

South African Municipality
Statement of financial performance for the year ended 30 June 2008

	Note	**2008 R**	**2007 R**
Net surplus for the year	18	3 895 000	2 900 000

Statement of Changes in Net Assets for the year ended 30 June 2008:

	Note	**Accumulated Surplus Rand**
Balance at 1 July 2006		**2 000 000**
Net Surplus for the year	18	2 900 000
Transfers to/ from reserves		(100 000)
Balance at 30 June 2007	18	**4 800 000**
Net Surplus for the year	18	3 895 000
Transfers to/ from reserves		(200 000)
Balance at 30 June 2008		**8 495 000**

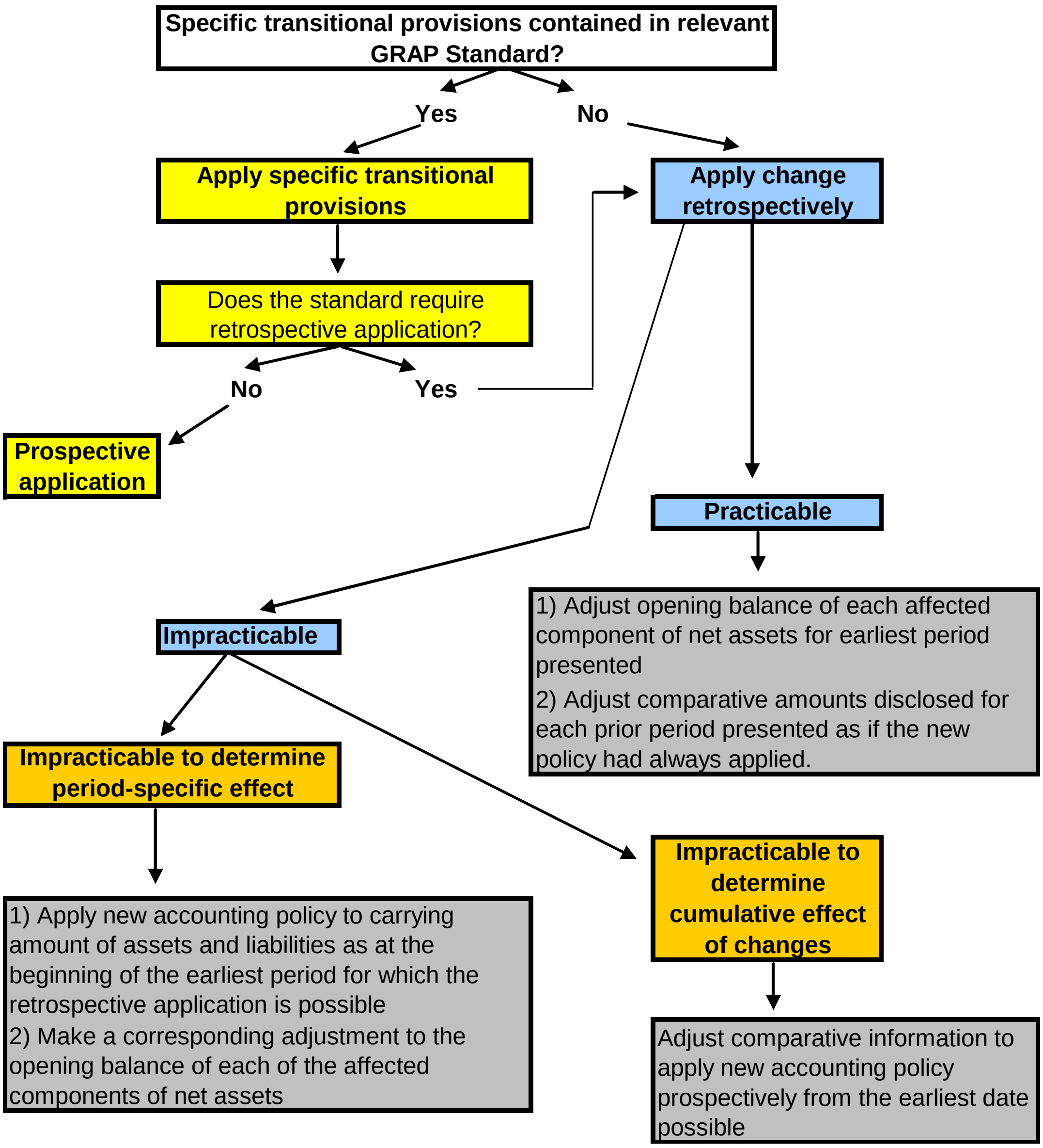
South African Municipality
Notes to the financial statements for the year ended 30 June 2008

Note 18: Correction of an error:

During the current financial year the municipality corrected a fundamental error. An amount of R1 000 000 relating to the purchase of software was incorrectly treated as a repairs and maintenance expense in the financial statements for the year ended 30 June 2007. The amount should have been capitalised as an asset with only R250 000 of the total being written off as depreciation for that financial year and the following three years. The opening balance on the Accumulated surplus account as at 1 July 2007 is restated at R 4 800 000. It was previously shown at R 4 050 000. The difference of R 750 000 is as a result of the reversal of the repairs and maintenance expenditure of R 1 000 000 and the recording of the depreciation of R 250 000.

ANNEXURE 2: APPLYING CHANGES IN ACCOUNTING POLICIES

Applying changes in accounting policies



ANNEXURE 3: CORRECTION OF ERRORS

Correction of errors