

TOPIC 6.2: ACCUMULATED SURPLUS/DEFICIT

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

- 6.2.1 Overview of the accounting for accumulated surplus**
- 6.2.2 Introduction**
- 6.2.3 Disclosure of the accumulated surplus**
- 6.2.4 Accounting for internal funds and reserves**

6.2.1 OVERVIEW OF THE ACCOUNTING FOR THE ACCUMULATED SURPLUS/DEFICIT

Category	Section FSOP
Introduction. GRAP 1.111 requires municipalities to disclose the balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period.	Section 6.2.2
Disclosure of accumulated surplus/deficit A statement of changes in net assets must be included in the Annual Financial Statements that will disclose: <ul style="list-style-type: none"> the effect of changes in accounting policies and correction of errors the balance of retained earnings at the beginning of the period and at the balance sheet date, and the changes during the period; and a reconciliation between the carrying amount of each class of reserves at the beginning and the end of the period 	Section 6.2.3
Since fund accounting is not allowed in terms of GRAP / GAMAP / GAAP, internal funds and reserves should form part of Accumulated Surplus and should not be disclosed on the face of the Statement of Changes in Net Asset. Municipalities can however disclose in a note to the financial statements the internal funds and reserves that are ring-fenced within the accumulated surplus.	Section 6.2.4

6.2.2 INTRODUCTION

	Net assets are the residual interest of the owners in the assets of the entity after deducting all its liabilities. Net assets may be positive or negative.
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Although net assets are defined in the *Framework for the Preparation and Presentation of Financial Statements*, paragraph .66 as a residual, it may be sub-classified in the statement of financial position. Such classifications can be relevant to the decision-making needs of the users of financial statements when they indicate legal or other restrictions on the ability of the entity to distribute or otherwise apply its net assets.

In accordance with GRAP 1.86, an entity with no share capital, as in the case of a municipality, should separately disclose net assets, showing separately **accumulated surpluses or deficits** and reserves.

In addition, **GRAP 1.111** requires an entity to present, either on the face of the statement of changes in net assets or in the notes the balance of **accumulated surpluses or deficits** at the beginning of the period and at the reporting date, and the changes during the period.

6.2.3 DISCLOSURE OF THE ACCUMULATED SURPLUS/DEFICIT

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	<p>According to GRAP 1.110 an entity shall present a statement of changes in net assets, showing on the face of the statement:</p> <p>(a) the surplus or deficit for the period;</p> <p>(b) each item of revenue and expense that, as required by other Standards of GRAP, is recognised directly in net assets, and the total of these items;</p> <p>(c) total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to net assets holders of the controlling entity and to minority interest;</p> <p>(d) for each component of net assets, the effects of changes in accounting policies and the correction of prior period errors recognised in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.</p> <p>GRAP 1.111 also requires an entity to present, either on the face of the statement of changes in net assets or in the notes:</p> <p>(a) the amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;</p> <p>(b) the balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and</p>	<p>Statement of Changes in Net Assets</p> <p>A statement of changes in net assets must be included in the Annual Financial Statements that will disclose:</p> <ul style="list-style-type: none"> ▪ the effect of changes in accounting policies and correction of errors ▪ the balance of the accumulated surplus at the beginning of the period and at the reporting date, and the changes during the period; and ▪ a reconciliation between the carrying amount of each class of reserves at the beginning and the end of the period. 	AP	CFO	30 June each year

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
	(c) to the extent that components of net assets are separately disclosed, a reconciliation between the carrying amount of each component of net assets and each reserve at the beginning and the end of the period, separately disclosing each change.				