



## **MBHASHE LOCAL MUNICIPALITY**

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All correspondence to be directed to the office of the Municipal Manager  
454 Streatfield Street, Dutywa, Eastern Cape Province  
Tel: 047 489 5864/34 • Email: [info@mbhashemun.gov.za](mailto:info@mbhashemun.gov.za)  
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# **POLICY FOR MANAGEMENT OF ACCUMULATED SURPLUS AND BAD DEBTS POLICY**

## **2018-2019**

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### 1. PURPOSES OF POLICY

The purpose of the policy is to –

- [a] provide guidelines for the management of the accumulated surplus/deficit and bad debt provision;
- [b] recommend corrective steps; and
- [c] record procedures for the writing-off of bad debts.

### 2. DEFINITIONS

In this policy –

**“Accounting Officer”** means the Municipal Manager acting in his or her capacity as accounting officer of the Municipality;

**“Council”** means mean the Council of the Municipality;

**“Current assets”** comprise debtors, cash, inventories and the short-term portions of investments and long-term debtors of the Municipality;

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“**Current liabilities**” consist of creditors, bank overdrafts and the short-term portion of long-term loans [liabilities] of the Municipality;

“**Net operating capital**” means the difference between current assets and current liabilities of the Municipality;

“**Unfunded funds, reserves and provisions**” mean those funds, reserves and provisions not represented by cash.

### 3. MANAGEMENT OF THE ACCUMULATED SURPLUS/DEFICIT

- [1] The surplus/deficit that arises annually in the appropriation account must be accrued in the accumulated surplus/deficit of the Municipality.
  - [2] The accounting officer must ensure that the funds in the accumulated surplus are at least equal to the net current assets, minus cash and the short-term portion of investments plus the bank **overdraft**.
  - [3] All unfunded funds, reserves and provisions may be transferred to the accumulated surplus/deficit of the Municipality.
  - [4] If an accumulated deficit exists, a contribution equal to three percent [3%] of the total trading income must be made in the operating budget of the Municipality until the deficit has been eliminated and the surplus meets the requirement referred to in subparagraph [2].
  - [5] If the funds in the accumulated surplus exceed the amount referred to in subparagraph [2], the balance of the accumulated surplus may be transferred to the provision for bad debts.
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- [6] If the Municipality has a bank overdraft, the accounting officer must indicate how and when the overdraft will be redeemed and which funds will be employed for this purpose.

## 4. MANAGEMENT OF BAD DEBTS

- [1] The accounting officer must make an annual contribution to the bad debts provision in the operating budget of the Municipality.
- [2] The total bad debts provision of the Municipality must be equal to A + B + C, where –
- [a] A is equal to 100% of all debts outstanding for longer than 36 months;
  - [b] B is equal to 50% of all debts outstanding for between 24 and 36 months; and
  - [c] C is equal to 10% of all debts outstanding for between 12 and 24 months.
- [3] If the total provision for bad debts as required in terms of subparagraph [2] exceeds ten percent [10%] of the operating budget of the Municipality, the accounting officer must submit a report to the Council in which he or she must report on how the net current assets of the Municipality are managed and therein pay special attention to –
- [a] the debtors turnover rate, inventories and creditors;
  - [b] credit management and debt collection; and
  - [c] the bank overdraft.
- [4] After the consideration of the report contemplated in subparagraph [3], the debt collection, credit management and indigent relief
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policies of the Municipality must be reviewed and new targets for debt collection must be determined by the Council.

- [5] The Council may approve the writing-off of bad debts after it has considered a report by the accounting office containing –
- [a] the steps taken to collect particular outstanding debts which must be listed;
  - [b] the success or otherwise of such steps;
  - [c] the solvency status of the listed debtor;
  - [d] the probability of a substantial dividend payment from the insolvent estate of a listed debtor;
  - [e] the possibility of payment from the estate of a deceased debtor; and
  - [f] that the outstanding amount is so insignificant that it is not worthwhile to take further steps to collect the outstanding debt concerned.

## 5. COUNCIL RESOLUTION

Any resolution by the Council to write-off debt must clearly state the account number, the name of the debtor and amount written off.

## 6. DELEGATION OF POWER

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The accounting officer may delegate his/her responsibilities in terms of this policy to the Chief Financial Officer of the Municipality.

## Adoption of policy

This reviewed policy was adopted by the Council in terms of resolution \_\_\_ dated 30 May and shall apply with effect 1 July 2018.

APPROVED BY THE COUNCIL AND SIGNED BY:

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MR NAKO M  
MUNICIPAL MANAGER

28 JUNE 18

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DATE

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CLLR JANDA S N

28 JUNE 2018

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DATE

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