



MBHASHE MUNICIPALITY
POLICY FOR THE MANAGEMENT OF ACCUMULATED
SURPLUS/DEFICIT AND BAD DEBTS

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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;

“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.
- [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 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

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

Approved by Council and Signed by:

07/08/17

Mr NAKO M
ACTING MUNICIPAL MANAGER

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DATE

Cllr. Janda S.N

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MAYOR

07/08/17

DATE

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and bad debit policy