Departmental Guide

Accounting for Library Material

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1. **Purpose**

The purpose of this guidance is to provide clarity on recognition and measurement of library materials in the financial records of the department. This guidance applies to all National Departments and Provincial Departments. It relates to the treatment of any library materials under the control of the Department, regardless of the method of acquisition.

2. **Background**

Some departments have a mandate to run public libraries and/or departments have in-house libraries for use by employees. Through consultation, it was established that most departments have in-house libraries for use by employees. However, departments have various methods of accounting for library material. National Treasury conducted research on a number of departments to gain an understanding of the types of library material controlled by the various departments. Further research was conducted to establish best practice and consider accounting implications to enable National Treasury to provide appropriate guidance to departments. The Standard Chart of Accounts (SCOA) is updated to ensure alignment to this guidance.

3. **Guidance**

A department that controls library material must have a library policy and/or procedures in place.

3.1 **Types of Library material**

Types of library material referred to in this guide are listed below:

- Books, fiction and non-fiction, that can be borrowed by users,
- Reference books, for example encyclopaedia,
- Journals,
- Reports,
- Manuscripts,
- Heritage books and documents,
- Audio visual material, for example CD’s,
- Toys, puzzles, electronic devices and building blocks,
- Posters, for example maps,
- Periodicals, magazines, newspapers,
- Educational material,
- Electronic books.

Furniture, audio visual equipment, subscriptions and licences are not covered in this guide. These are covered in *Chapter 9 of the Departmental Financial Reporting Framework Guide*. 
3.2 Control

The starting point to determine if the department should account for library material is to determine if it controls the library material. The right of ownership is not essential when control is determined, but that the substance, rather than the form of the arrangement will have to be assessed. Hence, the entity does not have to be the legal owner of the item to satisfy the requirement for control. However, the entity should be able to control the rights or the access to the future economic benefits or service potential of the item.

The following, individually or in combination, could indicate the entity that controls library material:

- The entity is mandated by law to manage library activities,
- The entity sets the policies and procedures for the management of the library material,
- The entity maintains the books, for example, ensures the damaged books are brought to a good condition,
- The entity has a budget to manage and maintain the library activities,
- The entity makes demand assessments,
- The entity makes replacement decisions,
- The entity bears the loss for missing or lost books,
- The entity collects and records fees for library material,
- The entity is directly accountable to its oversight structure for the delivery of library services,
- There is an expectation by the community that the entity will deliver the library services.

3.2.1 Community library

Some departments have arrangements with other entities, mainly municipalities, for the running of community libraries. Every arrangement has to be assessed to determine which entity controls the library material. The entity that controls the library material must account for the library material. Control means that an entity has the ability to exclude or regulate the access of others to the benefits of an asset. In assessing control, an entity would consider, amongst others, legislation or any other binding arrangement.

3.2.2 Departmental library

A department that has an in-house library at a central location for use by employees must account for the library material acquired. Acquisition can be in a form of purchase, donation, bequest and so on.

3.2.3 Mini-libraries

The acquisition of library material isn’t limited to the library only. Other units within a department can purchase their own library materials. For example, legal services may purchase work-related books for the employees and keep the books in the unit. In instances where a mini-library consists of
periodicals or similar documents and books that are updated in a period less than a year such library material are likely not meet the definition of an asset.

Mini-libraries also include mobile libraries controlled by a department. This guidance is applicable to such library material as well.

3.2.4 Interlending

Some departments use the inter-lending service. Inter-lending is a process where library material is loaned between various libraries in the provinces, Southern Africa or globally. A subscription fee is paid to the company facilitating the inter-lending process, such as Sabinet. A department that owns the book will continue to account for the book even when the book is lent to another entity.

<table>
<thead>
<tr>
<th>Example: Control</th>
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<tbody>
<tr>
<td><strong>Scenario 1</strong></td>
</tr>
<tr>
<td>Department A is mandated to provide library services to the community. A budget is allocated to Department A. Department A enters into an agreement with Municipality Z to provide some library services to the community. Municipality Z claims the amount for library books acquired from Department A. In terms of the agreement the Municipality Z acts as an agent for Department A and Department A still controls library services. Department A must account for the books acquired.</td>
</tr>
<tr>
<td><strong>Scenario 2</strong></td>
</tr>
<tr>
<td>Department B employee requires a specific book to conduct research for official purposes. Department B library does not have the book. The book is classified as a capital asset by Department B. The librarian determines that Department C’s library has the book and makes a request for an inter-lend. Inter-lending is the temporary borrowing or lending of library material between libraries. The book received by Department B will neither be added to the additions section of Department B’s asset register nor shown as disposal in Department C’s asset register. Record of the book inter-lent must be maintained for control purposes.</td>
</tr>
<tr>
<td><strong>Scenario 3</strong></td>
</tr>
<tr>
<td>Provincial library D allows for some library material to be borrowed by certain users for long periods limited to a year. These are “long term loans”. “Loan-term loans” are not a disposal or a lease. Assuming the library material is a book which is classified as a capital asset, the disposal section of Provincial library D’s asset register will not be updated. Record of the “long-term loan” must be maintained for control purposes.</td>
</tr>
</tbody>
</table>

3.3 Classification

When classifying library material the nature, (such as periodicals versus reference books), and use, (i.e. for own use or for distribution to others), should be considered. The department will consider the following to determine appropriate classification of library material:

- Does the library material meet the definition of an asset?
- Is the intention to distribute the library material to users?
• Is the intention to lend library material to the public or employees for a specified period?
• Is it the intention to use the library material for own consumption in the delivery of services (such as for research purposes)?

In considering the nature and use, the department will also consider its unique situations. For example, there are instances where periodicals or journals can meet the definition of an asset, particularly in a legal environment. In these instances the periodicals or journals will be accounted for as capital assets.

3.3.1 SCOA classification

The SCOA Items to be used when classifying library material are as follows, (departments to refer to the latest SCOA chart for the details):

a) **Tangible assets - machinery or equipment – library books**

   This item is used when the materials are to be used for more than one reporting period, is held for lending to the employees or public, in the case of the public library.

b) **Tangible assets heritage assets - other antique and collectables**

   The item is used when the materials are to be used for more than one reporting period and is held for rental to the employees or public, in the case of the public library. Included in this category are materials that have cultural, environmental or historical significance.

c) **Intangible capital assets**

   Entities may sometimes acquire books in digital form. This category does not cater for subscriptions to the e-learning channels as these are catered for separately under subscription fees.

| The capitalisation threshold of R5,000 should be applied to determine if the capital item classified as (a) Tangible assets - machinery or equipment – library books, (b) Tangible assets heritage assets - other antique and collectables or (c) Intangible capital assets is a major asset or a minor asset. |


d) **Operating payments: library materials**

Library materials falling in this category would typically be annual publications, magazines, periodicals that will be used for less than one reporting period.
e) **Inventory: Learning and teaching support material**

Some library materials are purchased to be distributed to external parties; for example textbooks bought for immediate distribution to schools. The department must apply the inventory policy and procedures in accounting for these items.

### 3.4 Valuation

The valuation of library material should be consistent with those used for major or minor capital assets.

#### 3.4.1 Where cost cannot be determined

Library material is recorded at cost. Where cost information cannot be determined accurately, fair value can be used to value the library material. Departments are to note that section 17.2 of the *Treasury Regulations* states the requirements of retaining financial information. The *Departmental Framework* provides guidance on how to determine fair value using the open market value, market-based value and depreciated replacement cost. Examples of avenues that can be used to obtain values of books is *Kalahari.com*, *Exclusive books website*, *van Schaik website* or other relevant indices for library material. The source of information must be credible and evidence of information obtained from the source must be maintained.

#### 3.4.2 Donations

It is common for books to be donated to public and in-house libraries. Legislation may compel authors or publishers to donate books to certain libraries, organisations, members of the public, inmates and employees may donate library material, e.g. the public library receiving books as per the Legal Deposit Act. If the donor does not specify the market value of the library material donated, fair value of the donated library material must be determined and recorded by library staff.

**Example: Donations**

External parties donate 5 new books to the library of Department E. The donor does not furnish details of the value of the books. The librarian searches 3 booksellers’ websites on the internet to determine the cost of the books. The average cost of books from the 3 booksellers is R5,800. The books meet the definition of capital assets. Each book will be captured in the major asset register at R5,800.

#### 3.4.3 Sets of books

A library can account for a set of books, such as a set of encyclopaedia, as one asset or each book making up the set as an asset. The option selected by the department must be stated in the policy
that deals with library material. The following guidance assumes that the set of books meets the definition of capital asset.

**a) Accounting for a set of books as one asset**

The disadvantage of recording the set as one asset is that if one book of the set is lost while the other books in the set are still in use, derecognising the whole set does not provide a true reflection of existence of the books in use. Showing the original cost of the set in full is also not a true reflection of the books that exist.

**b) Accounting for each book making up a set as one asset**

If each book in a set is recorded as an individual asset, it eases the identification, recognition and derecognition of the each book. An individual book might cost less than R5,000, a minor asset whereas the set cost might be greater than R5,000, a major asset. Thus each book will be recorded as a minor asset.

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**Example: Sets of books**

**One set, one asset**

Department F acquires one set, (a volume), of 12 encyclopaedia. The cost of the set is R24,000. The policy of Department F states that "a set of books acquired must be recorded as one asset."

The set of encyclopaedia is recorded as one Major Capital Asset costing R24,000

**One set of 12 books, 12 assets**

Department G acquires one set, (a volume), of 12 encyclopaedia. The cost of the set is R24,000. The policy of Department G states that "each book making up a set of books acquired must be recorded as one asset."

Each encyclopaedia making up a set is recorded as one Minor Asset costing R2,000

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If one book in a set cannot be replaced individually but only as a set, then the Department can consider a policy of recording such books as one capital asset. This is where the books meet the definition of a capital asset.

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### 3.5 Managing library material

Library material that meets the definition of an asset on acquisition must be recorded in the department's register. Manual or computerised systems that meet the minimum requirements of an asset register set by the Office of the Accountant-General, can be used as the asset register for those library material contained therein. Some departments manage existence of certain library material using an accession register. The accession register is an administrative document listing all library material in the possession of a library in date and/or reference number sequence. The accession
register has information that can be used to compile an asset register where one does not exist. The accession register has the following columns:

Date, Accession Number, Author, Title, Class, Catalogue, Publisher, Price, Source and Remarks

If the accession register meets the minimum requirements of an asset register set by the Office of the Accountant-General, it can be used as the asset register for the library material contained therein.

3.5.1 Internal controls to be considered

Libraries must have a system of internal controls such as controls relating to access. Consultation on internal controls with the department's internal auditors is advised. The arrangements of libraries differ. Thus, the intention of this section is not to provide an exhaustive list of the controls that must be in place.

Motivation for the acquisition of library material can be in a form of employees giving input on books required which informs the demand plan, employees motivating to acquire work-related library material or library staff will acquire library material. It is good practice for library services to provide recommendations for all library material requested by employees of departments that have in-house libraries. When an employee leaves the department, library services can indicate if the individual has returned all library material borrowed from the library. If not, the cost of the outstanding library material can be recovered from the employee using the departmental debt recovery procedures. The budget can also be centralised with library services to further promote controls on acquisition of books, provided such centralisation does not result in significant delays of acquiring the library material. Magazines and newspapers may be acquired through subscription and supplied by external service providers.

3.5.2 Library material count

The department's policies and procedures must state the process of counting library material. The department's policy must state the frequency of the counts such as once a year or on a rotational basis. In most cases the process is similar or the same as the capital asset count or the inventory count. Periodical spot-checks are encouraged.

3.5.3 Lost books

The department's procedures must specify the processes to be followed to recover lost books. These procedures generally involve the services of a loss control officer. The entity must demonstrate that they make efforts to recover lost books. Lost library material that meet the definition of a capital asset must be removed from the asset register.
3.5.4 Damaged books

The department must have their own policy to manage damaged books. The extent of damage to library material can be determined during stock counts or spot checks. The following table may assist to inform the department's policy for managing damaged books:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Description</th>
<th>Condition Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Very Good</td>
<td>New, appears new, well maintained. Continue with planned maintenance.</td>
</tr>
<tr>
<td>2</td>
<td>Good</td>
<td>Condition acceptable with minor deterioration (&lt;5%). Normal maintenance continues.</td>
</tr>
<tr>
<td>3</td>
<td>Fair</td>
<td>Clearly evident deterioration (10-20%). Significant maintenance required.</td>
</tr>
<tr>
<td>4</td>
<td>Poor</td>
<td>Significant deterioration. Significant impairment of performance. Significant maintenance required.</td>
</tr>
<tr>
<td>5</td>
<td>Very Poor</td>
<td>Unsound, does not perform. Reconstruction or replacement required (&gt;50% needs replacement).</td>
</tr>
</tbody>
</table>

4. Effective date

Where a department treated all library material that met the definition of a capital asset as inventory it may continue to do so for the 2011/2012 financial year ONLY. Departments must however disclose the nature, quantity and value of such library material on hand at year-end in the Inventory Annexure including narrative thereof. Departments are expected to account for the library material in accordance with this guide from 1 April 2012. Early adoption of this guide is encouraged.
Appendix A: Decision tree for recognition of library material

Does the Department control the library material (LM)?

- Yes: Department must account for the LM
  - Yes: Does LM meet the definition of an asset?
    - Yes: Is the intended purpose to distribute LM to users?
      - Yes: Allocate to inventory
      - No: Other purpose
        - No: Consider if the Department continues to control LM which meet the definition of an asset
        - Yes: Does LM meet the definition of an asset?
          - Yes: Is the intended purpose to lend the LM to the public or employees?
            - Yes: Work-related books bought and immediately distributed to employees i.e. no control by dept.
              (Internal controls must be in place)
            - No: Department continues to control LM which meet the definition of an asset
              - Nature and use of LM
                - Yes: Is it a Heritage Asset?
                  - Yes: Value <R5,000?
                    - Yes: Classify as: Heritage asset, Asset <R5,000
                    - No: Tangible?
                      - Yes: Value <R5,000?
                        - Yes: Classify as: Intangible Asset
                        - No: Classify as: Machinery & Equipment, Asset <R5,000
                      - No: Classify as: Machinery & Equipment, Capital Asset
                - No: Classify as: Intangible Asset