



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Accounting Manual for Departments

Concepts and Principles

Chapter Content

1	Overview	3
2	Key Learning Objectives	3
3	Introduction to Accounting	4
4	Basic Accounting Equation and the Double Entry System	4
	4.1 Accounting rules for recording of transactions	6
	4.2 Accounting classification	6
5	Basis of Accounting	7
	5.1 Cash basis of accounting	7
	5.2 Accrual basis of accounting	8
	5.3 Modified cash basis of accounting	9
	5.4 Modified accrual basis of accounting	10
6	The Departmental Financial Statements	10
	6.1 Composition of financial statements	11
	6.2 Qualitative characteristics and fair presentation	11
	6.3 Elements of financial statements	12
	6.4 Recognition and recording of the elements of financial statements	14
	6.5 Measurement of the elements of financial statements	16
7	Summary of Key Principles	17
	7.1 Basic accounting equation and the double-entry system	17
	7.2 Basis of accounting	17
	7.3 The departmental financial statements	17





1 Overview

The purpose of this Chapter is to provide a basic understanding of the fundamental accounting concepts required for maintaining accounting records and preparing departmental financial statements.

The Office of the Accountant-General has compiled a Modified Cash Standard (MCS) and this manual serves as an application guide to the MCS which should be used by departments in the preparation of their financial statements.

Any reference to a "Chapter" in this document refers to the relevant chapter in the MCS and / or the corresponding chapter of the Accounting Manual.

Explanation of images used in the manual:

	Definition
	Take note
	Management process and decision making
	Example

2 Key Learning Objectives

- Understanding the accounting equation
- Understand basic accounting principles
- Understanding the reporting framework for departments
- Understand the elements of the financial statements

- How and when to recognise and measure the elements of financial statements

3 Introduction to Accounting

Accounting can be described as the systematic recording, reporting and analysis of financial transactions of a department in accordance with a set of rules or principles that govern accounting practices.

Financial transactions involve the inflow or outflow of cash in exchange for goods or services where the “cash inflow” is termed income or revenue generation and “cash outflow” is termed expenditure.

The purpose of accounting is to provide information that is useful, relevant and comparable to interested parties who make decisions about the department. It provides information on the department’s revenue, expenditure, cash flow, etc.

The accounting system commonly used by government departments is Basic Accounting System (BAS) which is the general ledger. It is the main source of financial information for management and annual reporting.

For the purpose of this introduction to accounting the basic accounting information provided is applicable to the modified cash basis of accounting presently applied by national and provincial departments.

4 Basic Accounting Equation and the Double Entry System

The basic accounting equation is simply the statement of financial position of a department. The statement of financial position represents the financial health of the department at a point in time, usually at the end of the financial year, but it can also be used monthly, quarterly or half-yearly.

$$\text{Assets (A) - Liabilities (L) = Net Assets (NA)}$$

Assets: what the department has or owns or is owed by others e.g. cash in bank, receivables.

Liabilities: what the department owes others e.g. payables.

Net Assets: the residual that remains after deducting all of a department’s recognised liabilities from its recognised assets. Net Assets may be positive or negative. Net Assets are represented by the following:

- ✓ capitalisation reserve
- ✓ recoverable revenue
- ✓ retained funds
- ✓ revaluation reserve




The capitalisation reserve comprises of financial assets and/or liabilities originating in a prior reporting period but which are recognised in the statement of financial position for the first time in the current reporting period. Amounts are recognised in the capitalisation reserve when identified in the current period and are transferred to the National/Provincial Revenue Fund when the underlying asset is disposed and the related funds are received.

Amounts are recognised as recoverable revenue when a payment made in a previous financial year becomes recoverable from a debtor in the current financial year. Amounts are either transferred to the National/Provincial Revenue Fund when recovered or are transferred to the statement of financial performance when written-

	<p>off. Recoverable revenue does not only relate to staff debt. It may also relate to the recovery of expenditure from an entity or an individual other than a staff member of a department.</p> <p>The <u>revaluation reserve</u> comprises of increases in the value of housing stock owned by the department of housing.</p> <p>This account should only be used by the national and provincial departments of housing.</p>
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For more detail refer to the **Chapter on Financial Statement Presentation** and the Specimen AFS.

	<p>Note that the accounting equation is fundamental to the double-entry bookkeeping system of accounting i.e. every transaction has a debit and a credit that keeps the accounting equation balanced at all times.</p> <p>This forms the basis of the statement of financial position and all other parts of the financial statements.</p>
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In the double-entry bookkeeping system every transaction or event impacts at least two different accounts (one account is debited and the other credited). It serves as a kind of error-detection system: if, at any point, the sum of debits does not equal the corresponding sum of credits, then an error has occurred.

In summary:

Assets			Liabilities			Net assets	
Debit	Credit	=	Debit	Credit	=	Debit	Credit
<i>Increase</i>	<i>Decrease</i>		<i>Decrease</i>	<i>Increase</i>		<i>Decrease</i>	<i>Increase</i>

The difference between revenue and expenditure normally goes to liabilities (funds to be surrendered)

Revenue		Expenditure	
Debit	Credit	Debit	Credit
<i>Decrease</i>	<i>Increase</i>	<i>Increase</i>	<i>Decrease</i>

An increase in assets: Normally results in either -

Increase in revenue

Increase in liabilities

A decrease in assets: Normally results in either -

	Increase in expenditure
	Decrease in liabilities
An increase in liabilities:	Normally results in either -
	Increase in expenditure
	Increase in assets
A decrease in liabilities:	Normally results in either -
	Increase in revenue
	Decrease in assets

4.1 Accounting rules for recording of transactions

The following accounting rules and principles must be applied:

- The principle of double entry i.e. each transaction debit has a corresponding credit.
- The accounting equation must always be in balance regardless of the nature of the financial transaction. The total value of debit entries must therefore be equal to the total value of credit entries.
- Transactions must be recorded / recognised measured, and presented and disclosed in accordance with the accounting policies derived from the MCS.
- Transactions must be categorised in accordance with the Standard Chart of Accounts (SCOA) and coding structures in BAS or the relevant accounting system used (discussed in **Chapter on The Standard Chart of Accounts and Systems**).
- All account balances should agree to and must be substantiated by supporting documentation and / or systems. Reconciliations should be performed for any differences between supporting documentation and the relevant financial transactions captured.

4.2 Accounting classification

Accounting transactions are classified in accordance to the nature and characteristics of the transaction. For example, all accounting transactions displaying the nature and characteristics of a capital asset will be classified as such, i.e. a vehicle purchased will be classified as a capital asset since the asset is purchased to be kept for a long period of time from which the department expects to generate future economic benefits or service potential.

Transactions are classified in main categories – revenue, expenditure, assets and liabilities. These main categories are then divided into sub-categories which are set out in SCOA. The data elements defined by the accounting classification structure allows for meaningful reporting of financial information.

The SCOA is a comprehensive structure for government accounts. The purpose of the latter is to harmonise the budgeting and accounting reporting definitions of items of payments, receipts, assets, liabilities and net assets so that useful and reliable government financial information can be developed. SCOA also ensures consistent classification of transactions in the government sphere.

SCOA is a combination of the reporting requirements of the Economic Reporting Format (ERF) and the departmental financial statements and is designed to comply with the accounting and classification principles contained in the MCS.

The **Chapter on The Standard Chart of Accounts and Systems** explains this in more detail.

5 Basis of Accounting

The basis of accounting refers to the method of accounting employed for recognising / recording and measuring transactions and balances such as the accrual basis or cash basis of accounting. The distinctions between the two are the timing of when transactions are accounted for and the extent to which transactions are recognised. The accrual basis of accounting includes all transactions whereas the cash basis of accounting is limited to transactions that give rise to cash inflows or outflows. These are discussed in greater detail below.

5.1 Cash basis of accounting

The transaction is recorded at the time that money changes hands i.e. when money is paid or received. In the cash system of accounting expenditure is referred to as “*payments*” because the expenditure is only recorded when the payment is made and “*revenue*” is referred to as receipts because the receipt is only recorded at the time when the actual money is received and not when the goods or services are provided.



Example: Payment transaction

Department ABC buys twenty motor vehicles at a cost of R1,500,000 on 3rd April. The motor vehicles are delivered on 15th April. The department pays for the motor vehicles at month end, on 30th April.

The transaction for the purchase of twenty motor vehicles is only recorded in the general ledger on 30th April when Department ABC pays over the money for the purchase of the motor vehicles.

Accounting entries in the books of Department ABC at 30th April when the department pays for the motor vehicles:

30 April	Debit	Credit
	R	R
Expenditure for capital assets	1,500,000	
Bank		1,500,000



Example: Receipt transaction

The local government office collects motor vehicle licence fees, an amount of R55,000 on behalf of Department ABC. The money collected on 31 March, is deposited in the Department's bank account three days after it is collected by the local government office i.e. 3rd April.

The transaction for the receipt of money is only recorded in the general ledger on 3rd April when Department ABC receives the money for the motor vehicle licence fees collected.

Accounting entries in the books of Department ABC when the motor vehicle licence fees collected is deposited in the department's bank account:

3 April	Debit	Credit
	R	R
Bank	55,000	
Motor Vehicle Licence Tax		55,000

When applying the cash basis of accounting, transactions are only reflected in the general ledger when cash changes hands; and this means that there is no indication of cash that must still be paid to suppliers, or of revenue that is due to the department. Therefore the general ledger does not provide a realistic view of the financial position of the department. Advantages of the cash basis of accounting is that it is easy to understand; quick to prepare and less subjective than accrual accounting. Disadvantages of the cash basis of accounting are that it ignores future cash flows and does not allow for the assessment of the management of all assets and liabilities.

5.2 Accrual basis of accounting

In terms of the accrual basis of accounting transactions are recorded in the general ledger at the time that it happens regardless of whether cash exchanges hands. This means that the general ledger reflects monies that the department must pay to suppliers (creditors) and monies due to the department (debtors). The advantages of the accrual basis of accounting are that it provides better management information and it makes it easier to assess performance and position of the department. The disadvantages of accrual accounting are that it is complex, costly and more subjective than cash accounting.



Example: Accrual payment transaction

Department ABC orders twenty motor vehicles at a cost of R1,500,000 on 3rd April. The motor vehicles are delivered on 15th April. Department ABC pays for the motor vehicles at month end, on 30th April.

The transaction for the purchase of twenty motor vehicles is recorded in the general ledger at the time that the motor vehicles are delivered.

Accounting entries in the books of Department ABC on 15th April when the Department takes ownership of the motor vehicles and a creditor is raised i.e. the Department owes money to the motor vehicle supplier:

15 April	Debit	Credit
	R	R
Expenditure for capital assets	1,500,000	
Creditor: Motor Vehicle Supplier		1,500,000

Accounting entries in the books of Department ABC on 30th April when the department pays for the motor vehicles:

30 April	Debit	Credit
	R	R
Creditor: Motor Vehicle Supplier	1,500,000	
Bank		1,500,000

**Example: Accrual receipt transaction**

The local government office collects motor vehicle licence fees, an amount of R55,000 on behalf of Department ABC. The money collected on 31st March is deposited in the Department's bank account three days after it is collected by the local government office, i.e. 3rd April.

The transaction for the collection of motor vehicle licence fees is recorded in the general ledger at the time that the motor vehicle licence fees are due to the department.

Accounting entries in the books of Department ABC when the motor vehicle licence fees are due to the department:

On the day that the licence fees are due:

31 March	Debit	Credit
	R	R
Debtor: Licence holders	55,000	
Motor Vehicle Licence Tax		55,000

On the day that the money is received:

3 April	Debit	Credit
	R	R
Bank	55,000	
Debtor: Licence holders		55,000

5.3 Modified cash basis of accounting

Departments' financial statements are prepared on a **modified cash basis of accounting**.

This is the cash basis of accounting as discussed above, with supplementary accrual information provided in the notes to the financial statements. For the purposes of the MCS (and this Accounting Manual), the recognised assets, liabilities, revenue and expenditure are presented as primary financial information, whereas the supplementary information is presented as secondary information in the notes. Secondary information includes certain important information that provides additional information to the users of the financial statements on what other assets and liabilities would have been recognised had an accrual basis of accounting been applied as discussed above, and is consequently deemed to be of equal importance and an integral part of the financial statements.

**Example: Payment transaction under modified cash basis**


Department ABC buys twenty motor vehicles at a cost of R1,500,000 on 3rd March. The motor vehicles are delivered on 15th March. The department pays for the motor vehicles only on 2nd April.

The transaction for the purchase of twenty motor vehicles is only recorded in the general ledger on 2nd April when Department ABC pays over the money for the purchase of the motor vehicles. In addition, at year end (31 March), the department records an **accrual** for the amount due to the supplier in the **notes to the financial statements**. This is therefore not accounted for in the general ledger of Department ABC, but only disclosed in the notes to the financial statements. Since the assets were

received by the department at year end they should also be recorded in the asset register by 31 March. Therefore R1,500,000 will be shown under the “*received current, not paid (Paid current year, received prior year)*” column of the asset additions note titled “*Additions to movable tangible capital assets per asset register for the year ended 31 March 20ZZ*”.

Accounting entries in the general ledger of Department ABC at 30th April when the department pays for the motor vehicles:

2 April	Debit	Credit
	R	R
Expenditure for capital assets	1,500,000	
Bank		1,500,000

	<p>Example: Receipt transaction under modified cash basis</p> <p>The local government office collects motor vehicle licence fees, an amount of R55,000 on behalf of Department ABC. The money collected on 31st March, is deposited in the Department’s bank account three days after it is collected by the local government office i.e. 3rd April.</p> <p>The transaction for the receipt of money is only recorded in the general ledger on 3rd April when Department ABC receives the money for the motor vehicle licence fees collected. In addition, at year end, the department records a receivable for revenue for the amount due license holders in the notes to the financial statements. This is therefore not accounted for in the general ledger of Department ABC, but only disclosed in the financial statements.</p>
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5.4 Modified accrual basis of accounting

Under the modified accrual basis of accounting most of the accrual accounting principles are applied. The modified accrual basis of accounting is a step closer to applying full accrual accounting. For example, non-monetary assets such as property, plant and equipment or inventories will be recognised as assets in the general ledger and recognised in the statement of financial position. There will be a move from the modified cash basis of accounting presently in use to modified accrual accounting before full accrual accounting is applied.

6 The Departmental Financial Statements

The purpose of the financial statements is to present a true and fair view of a department’s financial performance, financial position, changes in net assets and cash flows and other disclosures that is useful to a wide range of users, and to provide additional information that would be useful in decision-making. Financial statements also reflect the results of the stewardship of management, and the accountability of management for the resources entrusted to it. As such, they are an important means of demonstrating how the public sector meets its financial management responsibilities.

Financial statements prepared for this purpose meet the common needs of most users. However, financial statements do not provide all the information that users may need to make decisions since they largely portray the financial effects of past events and do not necessarily provide prospective information or non-financial information.

6.1 Composition of financial statements

The financial results of a department consist of economic and service potential activities which are mainly measured in two ways:

- ✓ the **financial performance** for a particular period, i.e. 1 April to 31 March
- ✓ the **financial position** at a particular point in time, i.e. 31 March

both of which is supplemented with information disclosed in the notes

The financial performance of a department reflects the surplus made or the deficit incurred over a particular period of time. The statement of financial performance reports two elements of financial performance, cash that was received and cash that was expended for the period under review. The difference between the revenue and the expenditure results in the surplus or deficit for that specific period.

The financial position of a department is determined at the end of the financial period, i.e. 31 March.

The components of financial statements are discussed in more detail in the **Chapter on Financial Statement Preparation**.

6.2 Qualitative characteristics and fair presentation


For the financial statements to present a fair and true view of the department's financial performance, financial position, changes in net assets and cash flows, information in the financial statements must have certain qualitative characteristics, which are discussed below.




Understandability


The information contained in the financial statements must be understandable to the average user who has a reasonable knowledge of government, the department's activities and environment, accounting and a willingness to study the information with reasonable diligence.

This does not imply that information should be excluded from the financial statements simply because it may be too complex for certain readers to understand.

	<p>Relevance</p> <p>Relevant information is information that is decision useful and can therefore influence stewardship by helping users to evaluate past, present or future events, or confirming or correcting their past evaluations.</p>
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Relevance is driven by the nature and the materiality of the information concerned.


	<p>Reliability</p> <p>Information is reliable when it does not contain material errors and is free from bias. The users of the financial statements should be able to rely on the information as a faithful representation of the transactions, balances and events that it purports to represent. The term “reliability” does not mean “absolute accuracy”, but rather refers to information that the users can trust.</p>
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	<p>Comparability</p> <p>Information should be comparable to enable users to identify trends and to assess performance over time and between similar entities. One of the main reasons for the disclosure of accounting policies in the financial statements is to assist users in comparing the financial statements of different departments.</p>
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Similar transactions must be disclosed consistently in a department from one period to another. In addition different departments must disclose similar transactions in a similar way for comparison purposes.

For this reason, the accounting policies used in the preparation of the financial statements should be disclosed. Users must be able to identify differences between policies followed by a department for similar transactions from one period to another.

The application of the abovementioned qualitative characteristics along with the accounting policies contained in the MCS should result in financial statements that convey what is generally understood as fair presentation.


	<p>The fair present concept first appeared in 1939 and can be defined as “presenting information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information.”</p>
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It is important to note that the MCS sets out the minimum requirements necessary to achieve fair presentation. In some instances management may identify and include information in addition to the minimum requirements. This should be done only after due consideration of the qualitative characteristics and the objective of the financial statements.

In other, and extremely rare instances, management concludes that compliance with a specific requirement in the MCS will result in misleading financials. In order to make them true and fair, management disregards what the MCS requires and uses an alternative methodology which in the



opinion of management is essential to achieve fair presentation. In such instances, the following disclosure should be made in the accounting policies and notes to the financial statements:




- that management has concluded that the financial statements present fairly the department's primary and secondary information;
- that the department complied with the MCS in all respects except that it has departed from a particular requirement to achieve fair presentation; and
- the accounting policy from which the department has departed, the nature of the departure and the reason for departure.

	<p>Departure</p> <p>A departure described in the MCS could still result in the financial statements fairly presenting the results of operations where the requirements mentioned in the preceding paragraph are met.</p> <p>Exemption</p> <p>The National Treasury may exempt an entity from full compliance with the standard or part/s thereof. An exemption implies that information required by the standard is left out and can consequently impact the fair presentation assumption.</p> <p>The National Accountant-General, as delegated by the Accounting Officer, administers the process of applying for exemptions.</p> <p>Exemptions previously granted by the National Accountant-General were factored into the Modified Cash Standard and will thus not affect fair presentation.</p>
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6.3 Elements of financial statements

The financial statements portray the financial effects of specific transactions and events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements.

Element	Definition	Comment	Primary information	Secondary information
Asset	 <p>A resource controlled by the department as a result of past events and from which future economic benefits or service potential is expected to flow to the department.</p>	Assets are utilised in a number of ways, but all will lead to the generation of future economic benefits (i.e. cash flowing to the department) or the delivery of services to the community.	Prepayments, receivables, advances, cash, etc.	Receivables for departmental revenue; capital assets, etc.
Liability	 <p>A present obligation of the department arising from past events, the settlement of which is expected to</p>	An obligation is a duty or responsibility to act or perform in a certain way. For it to be recognised it must be a present obligation and	Payables, bank overdraft, voted funds to be surrendered, etc.	Provisions, accruals, contingent liabilities, etc.

Element	Definition	Comment	Examples	
			Primary information	Secondary information
	result in an outflow of resources embodying economic benefits or service potential.	not a future commitment. In other words, the department should have no realistic alternative to avoid the outflow of resources to another party.		
Net assets	 <p>The residual after deducting all of a department's liabilities from its assets.</p>	Net assets are sub-classified based on relevance to the decision-making needs of the users of the financial statements.	Recoverable revenue, retained funds, reserves.	N/A
Revenue	 <p>The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to capital contributions to net assets.</p>	Revenue arises from the department's normal operating activities.	Appropriated funds, departmental revenue, interest, etc.	N/A
Expenses	 <p>Decreases in economic benefits or service potential during the reporting period in the form of outflows or incurrences of liabilities that result in decreases in net assets, other than those relating to capital distributions from net assets.</p>	Expenses arise from the department's normal operating activities. Expenses include losses, for example debt write-off.	Payments for goods and services, compensation of employees, transfer payments, etc.	N/A

The disclosure of elements in the financial statements will require sub-classification in most cases, for example assets and liabilities will be classified as non-current or current, depending on whether it meets any one of the criteria to be classified as current. These elements are discussed in detail in individual chapters.

6.4 Recognition and recording of the elements of financial statements

Recognition is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element and satisfies the criteria for recognition.

**Example: Recognising a transaction**

Department ABC buys and pays for twenty motor vehicles at a cost of R1,500,000 on 3rd March.

Accounting entries in the general ledger of Department ABC at 3rd March when the department pays for the motor vehicles:

3 March	Debit	Credit
	R	R
Expenditure for capital assets	1,500,000	
Bank		1,500,000

Therefore an amount of R1,500,000 will be recognised in the statement of financial performance as an expense (expenditure for capital assets) and in the statement of financial position an outflow of cash.

Recording is the process of capturing the financial information relating to a particular transaction, event, asset or liability in the electronic or manual accounting records of the department for the purposes of disclosure as secondary financial information.

**Example: Recording a transaction**

Department ABC buys twenty motor vehicles at a cost of R1,500,000 on 3rd March. The motor vehicles are delivered on 15th March. The department pays for the motor vehicles only on 2nd April.

No accounting entries are made in the general ledger of Department ABC for the financial year end since there has been no cash outflow.

However Department ABC will record the R1,500,000 as an accrual in the notes to the financial statements at year end.

Disclosure is the depiction of a recognised and/or recorded item of information in the notes to financial statements in accordance with the requirements of the MCS, whereas **presentation** refers to the layout and positioning of the item within the primary financial statements.

**Example: Disclosing a transaction**

Department ABC buys and pays for twenty motor vehicles at a cost of R1,500,000 on 3rd March.

Department ABC will disclose information as required by the MCS with regards to the motor vehicles purchased in the expenditure for capital assets note to the financial statements.

The recognition criteria are:

- It is probable that there will be an inflow (**asset**) or outflow (**liability**) of economic benefits or service potential associated with the asset or liability. Therefore the asset or liability will result in an immediate cash in- or outflow respectively or the asset or liability will be readily convertible to known amounts of cash or claims to cash respectively; **or**
- Revenue is earned (and a cash inflow or related asset is recognised) (**revenue**); **or**
- Expenditure is incurred (and a cash outflow or related liability is recognised) (**expenses**); **and**

- The amount, i.e. cost or value, can be measured reliably, (**all elements**). The fact that cost or value must sometimes be estimated reasonably will not undermine reliability.

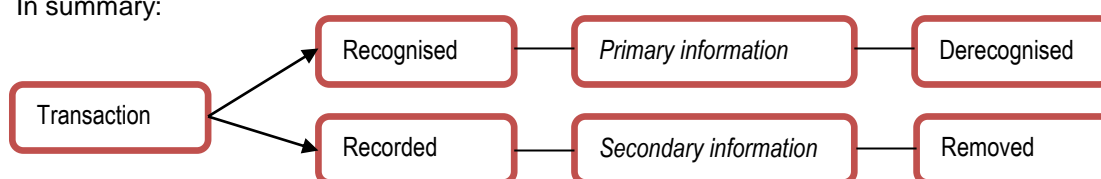
If an element does not meet the recognition criteria at a certain date, it can be recognised at a later stage. When an item fails to meet the criteria, but still possesses the characteristics of an element, it should be recorded for disclosure as secondary financial information where it meets the specific criteria established for such items in the relevant individual chapters of the MCS, supplemented by guidance in the Accounting Manual.

The recognition and recording process has the following stages:

- **Initial recognition or recording and measurement**, which is when an item is initially captured in the electronic or manual records for the first time and depicted in the primary financial statements for the first time (recognition);
- **Subsequent re-measurement**, which involves changing the amount at which an already recognised or recorded asset or liability is stated;
- **Derecognition**, which is when an item that was previously recognised in the primary financial statements ceases to be recognised; and
- **Removal**, which is when an item that was previously recorded and disclosed in the secondary financial information is no longer required to be disclosed in accordance with the MCS.

The individual chapters in the MCS, supplemented by guidance in the Accounting Manual, set out specific criteria for when a specific element should either be recognised in the primary financial statements as primary financial information or recorded for disclosure as secondary financial information.

In summary:



6.5 Measurement of the elements of financial statements

Measurement is the process of determining the value at which the elements of the financial statements are to be recognised and carried in the statement of financial position and statement of financial performance, or recorded for disclosure as secondary financial information. This involves the selection of the particular basis of measurement. The individual chapters in the MCS, supplemented by guidance in the Accounting Manual, specify the appropriate measurement basis to use for a specific element.

The two common measurement bases are historical cost and fair value:

- For assets, **historical cost** is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the asset at the time of its acquisition.

For liabilities, historical cost is the amount of proceeds of cash or cash equivalents received or the fair value of non-cash assets received in exchange for the obligation at the time the obligation is incurred, or in some circumstances the amounts of cash or cash equivalents expected to be paid to settle the liability in the normal course of business.

By applying the cash basis of accounting, this will be the receipt amount (income) or the invoice amount (expenditure).

- **Fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

7 Summary of Key Principles

This chapter provides a basic understanding of the fundamental accounting concepts required for maintaining accounting records and preparing departmental financial statements.

7.1 Basic accounting equation and the double-entry system

The equation is $\text{Net Assets (NA)} = \text{Assets (A)} - \text{Liabilities (L)}$

Assets: what the department has or owns or is owed by others e.g. cash in bank, receivables

Liabilities: what the department owes others e.g. payables

Net Assets: what remains when liabilities are subtracted from assets

7.2 Basis of accounting

South African departmental financial statements are prepared on a **modified cash basis of accounting**.

Cash basis of accounting means that transactions and other events are recognised in the financial statements when the resulting cash or its equivalent are received or paid. This is referred to as "**primary financial information**".

Modified cash basis of accounting means that supplementary accrual information is provided in the notes to the financial statements". This is referred to as "**secondary financial information**".

7.3 The departmental financial statements

A complete set of financial statements must comply with the **qualitative characteristics** as stipulated in the MCS.

A complete set of financial statements have the following **elements**:

- Assets
- Liabilities
- Net assets
- Revenue
- Expenses

For each of the elements there are specific **definitions, recognition and measurement** criteria that need to be met before the element can be recognised and disclosed in the financial statements.

When an item fails to meet the criteria, but still possesses the characteristics of an element, it should be recorded for disclosure as secondary financial information where it meets the specific criteria established for such items in the relevant individual chapters of the MCS, supplemented by guidance in the Accounting Manual.