



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Accounting Manual for Departments

Expenditure

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1. Overview

The purpose of this Chapter is to provide an explanation on the different types of expenditure incurred by departments along with the accounting entries required to capture expenditure transactions in the Basic Accounting System (BAS).





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.

The Modified Cash Standard (MCS), adopted the classification principles established in the ERF for the classification of expenditure. The alignment between the MCS and the ERF provides decision makers (including oversight structures) with a means to assess the financial performance of a department with reference to the budget allocations and the actual spending reported at the end of the financial year.

The classification principles were described in the Reference Guide to the Economic Reporting Format (ERF) and embedded in the Standard Chart of Accounts (SCOA) within the Basic Accounting System (BAS).

Explanation of images used in the manual:

	Definition
	Take note
	Management process and decision making
	Example


2. Key Learning Objectives

- Understanding the different types of expenditure
- Understanding the accounting entries for expenditure transactions

3. Scope

The Chapter on Expenditure in the MCS, and consequently this guide does not apply to the accounting requirements in respect of the secondary financial information for expenditure on capital assets, inventory and leases. This is dealt with in their respective chapters of the MCS. A department must also consider the provisions of that Chapter in order to correctly classify the type of asset acquired.

4. Expenditure

	<p>Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or incurrences of liabilities that results in a decrease in net assets, other than those relating to capital distributions from net assets. This means that expenditure is recognised when goods and/or services are received from parties.</p> <p>In the modified cash environment, payments are accounted for in the period in which the monies were paid and not in the period in which the underlying transaction or event occurred that gave rise to the expenditure.</p>
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In the modified cash environment, expenditure is recognised in the period in which the monies are paid and not in the period in which the underlying transaction or event that gives rise to the expenditure occurs. The management of expenditure must be directed at achieving economy, effectiveness and efficiency and avoiding unauthorised, irregular or fruitless and wasteful expenditure.

All functions and officials involved in the process of spending public funds must therefore ensure that:

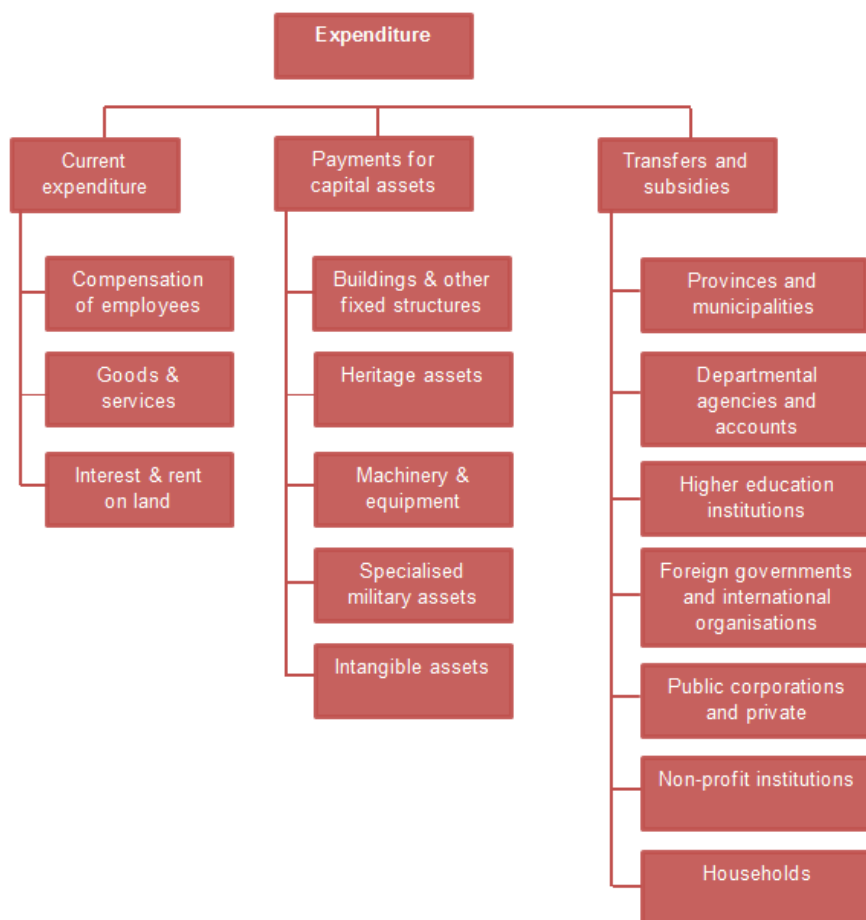
- ✓ a genuine requirement exists to expend funds on particular goods and services;
- ✓ the expenditure is justified; and
- ✓ funds are available.

The department's service delivery mandate will drive the types of expenses it will incur. For example, departments whose service delivery mandate is to provide policy advice will spend a higher portion of its budget on compensation of employees, whereas departments providing operational services will incur a wider range of expenses both of a current and a capital nature.

The main categories of expenditure for government departments, aligned to the Reference Guide to the Economic Reporting Format (ERF) are:

- Compensation of employees;
- Goods and services;
- Interest and rent on land;
- Transfers and subsidies;
- Payments for financial assets - discussed in more detail in the *Chapter on General Departmental Assets and Liabilities*; and
- Expenditure for capital assets - discussed in more detail in the *Chapter on Capital Assets*.

The illustration below illustrates the classification of departmental expenditure:



The BAS accounting entries for payment transactions are as follows:

Expenditure is authorised and captured in BAS:-

Debit	Relevant expenditure item
Credit	Outstanding Payment Account

At this point the expenditure is recognised in the general ledger and the department's annual financial statements.

The payment is captured as follows:-

Debit	Outstanding Payment Account
Credit	Outstanding Payment Account OR BAS EBT Control OR BAS Credit Transfer

The interface on the bank statement:-

<i>Debit</i>	Outstanding Payment Account OR BAS EBT Control OR BAS Credit Transfer
<i>Credit</i>	Bank Account

Further discussion on the above can be found in the **Chapter on The Standard Chart of Accounts and Systems**.

5. Recognition and Measurement of Expenditure

5.1 General

A department recognises expenditure in the statement of financial performance on the **date of payment**.



MCS describes **the date of payment** as the date on which the expenditure is authorised for payment on the system (but no later than the last day of the reporting period).



Note that there is a time lag between the authorisation for payment and the interface on the bank statement. At year-end the amount recognised as expenditure in the annual financial statements includes all purchases approved for payment by 31 March (even if the payment still needs to clear the bank account).

For practical purposes, there is a rebuttable presumption that when a department authorises a payment on its system, the likelihood of this payment not occurring is remote and the department can recognise the expense. However, where there is evidence to the contrary, the department should make appropriate adjustments to ensure that expenses are recognised on the actual date that the cash outflow occurred.



A **rebuttable presumption** means that something will be considered true (the presumption) until it is proven untrue (rebutted).

Cash payments arising from transactions in a foreign currency should be recorded in South African Rand by applying to the spot exchange rate between South African Rand and the foreign currency at the date of the cash flow.

Expenditure is measured at the cash amount paid to settle the expenditure incurred.

**Example: Recognition of expenditure**

An invoice from a supplier for the purchase of goods or services is broken down as follows:

Invoice		Impact on department	
Cost of goods acquired	7,540.00	Amount recorded as the cost of goods acquired.	Increase in expenditure resulting in a decrease in the surplus of the department
Less: trade discount	(377.00)	Note: The trade discount is not recorded separately.	AND
Total excl VAT	7,263.00	The cost of goods acquired includes the VAT levied by the supplier as a department is not a VAT vendor and cannot claim this amount from the Receiver. Thus the total expense is R8,279.82	Decrease in cash resources
VAT	1,016.82		
Total incl. VAT	8,279.82		

The payment to the supplier decreases the available cash resources and at the same time increases the expenditure of the department.

The above is reflected in the general ledger by:

Debit	Relevant Goods and Services Expenditure Accounts
Credit	Bank Account


**Example: Recognition of expenditure and accruals**

An invoice received from the telephone company for the month of May is as follows:

Summary of account		Impact on department	
Balance brought forward	1,112.49		
Payment(s)	(1,112.49)		
This invoice (May 20x0)	1,219.42	Amount payable to the service provider	Record as "Accruals" if unpaid
Rental	114.91		
Usage	933.79		
Subtotal	1,048.70		
VAT	170.72		


	Total 1,219.42		Actual cost of line and calls made	When paid: Increase in expenditure resulting in a decrease in the surplus of the department. Remove amount recorded as "Accruals" in May
	When the department pays the company in June 20x0 the impact on the general ledger is as follows:			
	Debit	COM:TEL/FAX/TELEGRAP&TELEX		
	Credit	Bank Account		

5.2 Compensation of Employees

	Compensation of employees comprise of most forms of consideration given by a department in exchange for services rendered by employees. It excludes payments made to employees as a re-imbursement of costs incurred on behalf of the employer (e.g. travel and subsistence expenditures).
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Only employee benefits paid to employees during the financial year are shown under "compensation of employees" in the Statement of Financial Performance.

Employee benefits that have accrued to an employee, but have not yet been paid by year end are recorded in the "Employee Benefits" note to the financial statements. The recording and measurement of these liabilities are discussed in more detail in the **Chapter on Provisions and Contingents**.



Example: Posting salaries paid to the expenditure accounts

Mr D's salary slip for the month of June is as follows:

Pay Date	Bank	Acc No.	Gross Salary	Deductions	Nett Salary
20100115	Red Bank	123456789	26,032.59	8,017.01	18,015.59
EARNINGS			DEDUCTIONS		
Item	Description	Amount	Item	Description	Amount
0001	BASIC SALARY	22,153.52	0001	TAX RSA	4,613.33
0423	MOTOR CAR	2,000.00	0002	GEPF	1,661.48
0083	HOUSING ALL	600.00	0007	BOND	1,000.00

0428	NP CASH	1,279.47	0005	MEDICAL	575.00
			0028	PSA	57.00
			0214	TELEPHONE	110.19

Once paid, Mr D's salary will be posted to the following accounts:

S&W: Basic Salary (<i>expenditure account</i>)			
Salary payment (June)	22,153.52		

S&W: Home Owners Allowance (<i>expenditure account</i>)			
Salary payment (June)	600.00		

S&W: Motor Vehicle Allowance (<i>expenditure account</i>)			
Salary payment (June)	2,000.00		

S&W: Non-Pensionable Allowances (Other) (<i>expenditure account</i>)			
Salary payment (June)	1,279.47		

Employer Contribution: Pension (<i>expenditure account</i>)			
Salary payment (June)	1,661.48		

Employer Contribution: Medical (<i>expenditure account</i>)			
Salary payment (June)	575.00		

Employer Contribution Bargaining Council (<i>expenditure account</i>)			
Salary payment (June)	57.00		

Communication: Telephone (<i>expenditure account</i>)			
		Recovery of costs from employee	110.19


Bank Account (<i>ledger account</i>)			
		Salary – Mr D	18,015.59
		SARS	4,613.33
		GEPF [1,661.48 x 2]	3,322.96
		Bond institution	1,000.00

			Medical fund [575.00 x 2]	1,150.00
			Bargaining council [57.00 x 2]	114.00
		TOTAL DEBITS	28,326.47	TOTAL CREDITS
				28,326.47

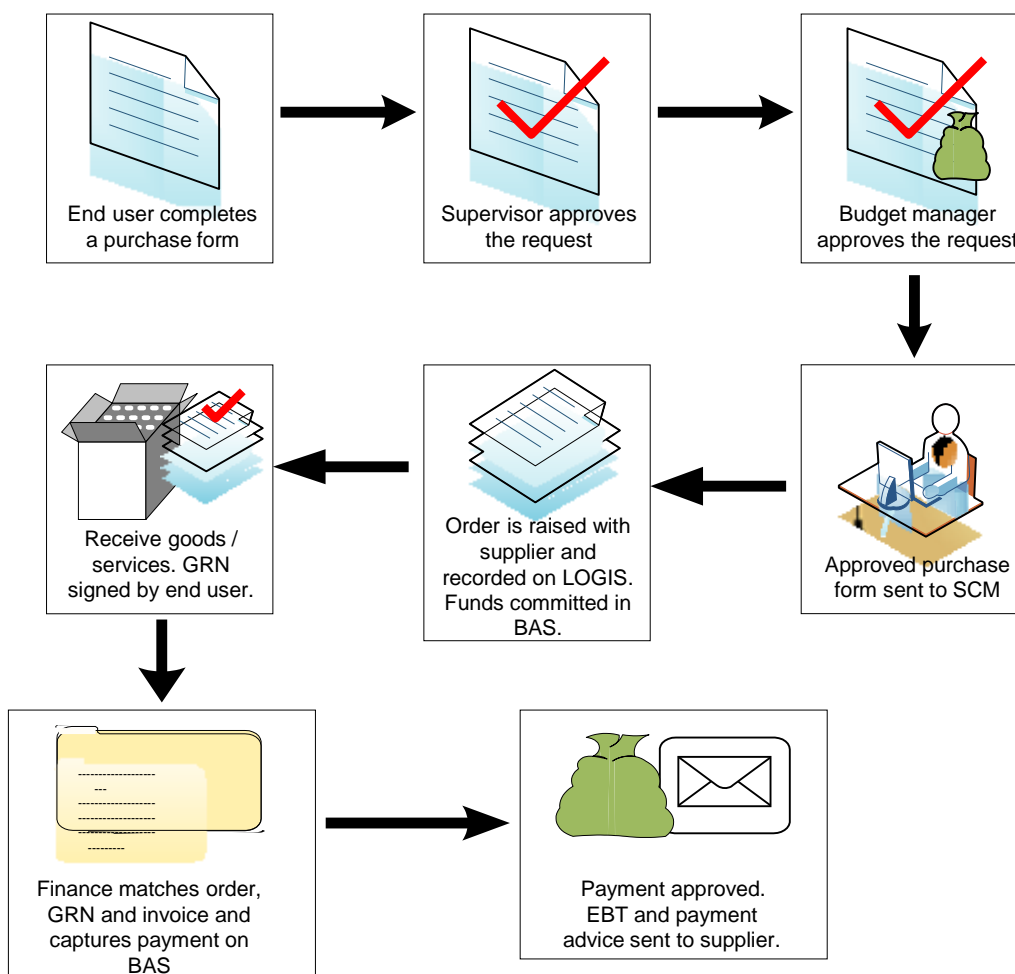
5.2.1 Members of Legislature salaries

Since members of Legislatures are not “employees”, their remuneration should be disclosed separately.


5.3 Goods and services

	<p>Goods and services include payments for all goods and services to be used by a department, excluding purchases of capital assets.</p>
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The basic flow and source documents for the purchase of goods / services are illustrated below:



5.4 Interest and rent on land


	<p>Interest includes the total value of interest payments. These are payments associated with debt, for example interest on borrowing and overdraft facilities. Interest payments on bills and bonds issued by other government units are also included here. Interest paid on overdue accounts should also be included under this item.</p> <p>Rent on land includes the total value of payments due to the use of land owned by another party, including other government units.</p>
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5.4.1 Interest paid on Corporation for Public Deposit advances by provincial treasuries

When a provincial treasury requests an advance from the Corporation for Public Deposit (CPD), interest will be charged by the CPD. The provincial treasury has to determine which department is responsible for this request and the interest charged will be recovered from that department. However should the provincial treasury not be able to identify the responsible department, the provincial treasury has two options, namely:

- To create a statutory vote for interest payment for the revenue fund. Funds should be appropriated for this; or
- To fund the payment from the Paymaster General Account of the provincial treasury. In this case, approval that such interest is not fruitless and wasteful expenditure should be sought from the accounting officer or delegated official. Alternatively this should be covered in a departmental policy.

The interest cannot be a direct cost of the revenue fund.

	<p>Note that all rent on land excludes rental for the use of buildings or other fixed structures. If it is not possible to distinguish between payment for the use of land and the fixed structures on it, the whole amount is recorded under goods and services.</p>
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**Example: Interest**

A provincial department of health purchases medicine from a supplier. It is policy to pay all suppliers within 30 days. In this instance the department takes 90 days to settle the account. Consequently the supplier charges interest of R150.

The accounting entry will be as follows:

	Debit	Credit
	R	R
INT PAID: Overdue Accounts	150	
Bank Account		150

This might attract Fruitless and Wasteful expenditure because expenditure was made in vain and would have been avoided had reasonable care been exercised

**Example: Rent on land**

The department of Defence rents a property that includes offices and a warehouse located outside Pretoria. The rent is made up of R50,000 for the fixed structures and R10,000 for the plot. The agreement is an operating lease.

The accounting entry for the rent of land will be as follows:

	Debit	Credit
	R	R
Rent on Land Account	10,000	
Bank Account		10,000

The accounting entry for the rent of fixed structures will be as follows:

	Debit	Credit
	R	R
Goods and Services: Operating Leases	50,000	
Bank Account		50,000

5.5 Payments for financial assets



ERF Definition:

Payments for financial assets consist mainly of payments associated with certain purchases of financial assets.

Most purchases of financial assets are not considered payments, but it is sensible to do so when the government lends to public corporations or makes equity investments in them, for policy purposes.

Examples are where amounts are written off of debt that originated from irregular, fruitless and wasteful expenditure.



Example 4: Payments for financial assets

Department of Public Enterprises loans money to Eskom for the upgrading of its infrastructure. The amount loaned is R50 million, and no interest is charged. The accounting entry in the statement of financial performance, when the loan is extended will be as follows:

	Debit	Credit
	R	R
Extension of loans for policy purposes (under "payments for financial assets")	50,000,000	
Bank Account*		50,000,000

The departments subsequently accounts for the loan in the statement of financial position as follows:

	Debit	Credit
	R	R
Loans (public corporations) : non-current assets	50,000,000	
Loans (public corporations): recoverable capital		50,000,000

Any repayment from Eskom (e.g. R10,000,000) shall be recorded as follows:

	Debit	Credit
	R	R
Bank	10,000,000	
Loans (public corporations) : non-current assets		10,000,000
<i>Recording of the actual receipt</i>		

	Debit	Credit
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		R	R
	Loans (public corporations): recoverable capital	10,000,000	
	Departmental revenue – transactions in financial assets and liabilities, loans: public sector		10,000,000
	<i>The receipt is recorded as departmental revenue and subsequently paid over to the relevant revenue fund.</i>		

5.6 Expenditure for capital assets

Payments for capital assets include:

- ✓ payments towards the cost of a new asset;
- ✓ payments toward the cost of improvements to an existing capital asset;
- ✓ payments for the use of an asset in terms of a finance lease arrangement;

Refer to **Chapter on Capital Assets** for more detail.

5.7 Transfers and subsidies



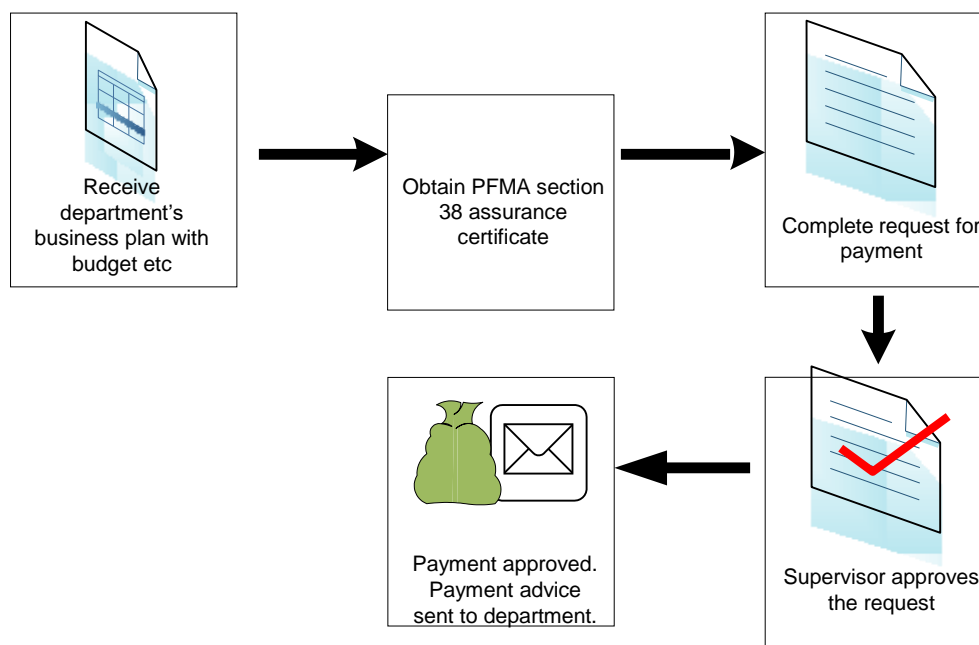
Transfers and subsidies include all “non-exchange” payments made by a department. A payment is “non-exchange” provided that the department does not receive anything directly in return for the transfer to the other party.

Both current and capital transfers are included in this category.

For more information on “exchange” and “non-exchange” refer to the **Chapter on Revenue**.

Departments are required by legislation to report on the unspent portion of funds transferred to certain recipients. This disclosure only applies to transfers and subsidies made specific categories of transfer payments where the funds are due back to the department at the end of the financial year per agreement or legislation. This information is required to be disclosed by the department in the Notes 48, Annexure 1A and Annexure 1B of the financial statements.

The basic flow and source documents for transfers and subsidies are illustrated below:



6. Standard Charts of Accounts and Systems

As discussed above, The classification principles were described in the Reference Guide to the Economic Reporting Format (ERF) and embedded in the Standard Chart of Accounts (SCOA) within the Basic Accounting System (BAS).

6.1 Understanding the Standard Chart of Accounts

SCOA comprises the coding of items used for classification, budgeting, recording and reporting of receipts and payments within the financial system. It serves to facilitate and systematise the recording of all transactions and is directly linked to ERF, in fact, the items roll up to the ERF reporting format. The coding structure comprises eight segments. When recording a transaction, a selection is made from each of the eight segments.

The segments are:

a) Infrastructure Segment

The purpose of the infrastructure segment is to identify whether or not a spending item relates to infrastructure and to show the type of infrastructure it relates to.

b) Item Segment

The purpose of the item segment is to record receipt and payment transactions as well as transactions in assets and liabilities.

c) Assets Segment

The purpose of the asset segment is to identify asset classes to which a transaction is allocated when the purpose relates to an asset or the use of an asset. This segment in combination with the infrastructure and item segment provides economic classification.

d) Project Segment

The purpose of the infrastructure segment is to identify whether or not a payment is part of a project. Under this segment departments are encouraged to name the project as listed in their budget documentation.

e) Objective Segment

The purpose of the objective segment is to identify the programme / activity against which any given transaction should be recorded. The segment reflects a department's programme and sub-programme structure in as much detail as is required both for reporting and management purposes.

f) Fund Segment

The purpose of the fund segment is to identify the source of funding from which payments are effected, and the nature of receipts.

The fund segment is also used to record receipts collected by departments for the rendering of services, delivery of goods and other funds received within the normal course of operations, i.e. departmental own revenue.

g) Responsibility Segment

The purpose of the responsibility segment is to identify which region benefits from government spending.

h) Regional identifier segment

The purpose of the regional identifier segment is to identify the cost centre of any given transaction. As the location of cost centres varies across departments, depending on their organisational structure, this segment is not standardised and the departments maintain the segment.

6.2 The Basic Accounting System

BAS is the core of government accounting system; it is the general ledger where all transactions are recorded and classified in accordance with the principles of the SCOA and is the main source of information for the preparation of management reports and the departmental financial statements.

Transaction processing originates in independent stand-alone systems before they are “captured” in the general ledger. An important internal control measure is to reconcile information in the sub-systems to BAS to ensure that transactions processed in the sub-systems are captured correctly in BAS. The systems referred to above most commonly used are **LOGIS, PERSAL and MEDSAS**.

a) Recording of basic accounting transactions

Accounting transactions are recorded according to the principle of a “debit” being recorded in one account and a corresponding “credit” being recorded in another account.

b) Bank reconciliation (BAS / PMG Account)

Bank reconciliation is the comparison of the cashbook balance (accounts per BAS) and the bank statement balance (per PMG Account) at regular intervals. BAS provides automated bank reconciliation functionality.

Differences between these balances must be investigated and explained.

c) Debtors' and creditors' reconciliation

The Debtors Reconciliation Functional Area within BAS provides an automated facility. Therefore only Creditors reconciliation is manually performed.

d) Salaries' reconciliation (BAS / PERSAL)

The Personnel Salary system (PERSAL) is the payroll system that performs all personnel transactions. All salaries and allowances are paid through PERSAL and deductions are made directly from employee's salary. PERSAL assembles the information and makes it available to interface into BAS.

e) Assets and inventory reconciliation (BAS / LOGIS)

An assets or inventory reconciliation is the comparison of the information as per the LOGIS system, the asset or inventory register and the information as per the BAS system on a monthly and yearly basis.

Differences between these balances must be investigated and explained.

f) The payments process

When capturing payments in the general ledger a standard process is followed. The accounting transaction differs depending on the payment method selected. (bank transfer etc.) or the type of expense (e.g. PERSAL, LOGIS, MEDSAS etc.).

PERSAL is the independent stand-alone system used for collection and recording all **employee related information** such as leave records, personal information, medical aid benefits and taxation information.

LOGIS is the independent stand-alone system used in the supply chain process for the procurement of **goods and services**.

MEDSAS is used for the procurement and management of pharmaceutical products (mainly medicine). This independent stand-alone system is used by the **Health departments and their trading entities where applicable**.

g) The receipting process

For the processing of receipt of annual appropriation (voted funds and conditional grants), into BAS, two accounts are important. The **exchequer grant account** and the **general account of the vote**.

The exchequer grant account informs the department of the funds available in the relevant revenue fund for withdrawal.




The general account of the vote informs the department of the total funds available for a particular financial year. The balance in this account represents the total budget for the department per Fund.

For the processing of receipts of departmental revenue into BAS, the **general account of revenue** is important.

The general account of revenue consists of the monthly pay-overs of revenue to the relevant revenue fund.

7. Disclosures

Refer to the Specimen Annual Financial Statements for the illustrated disclosure requirements.

	<p>Classification of expenditure in the financial statements</p> <p>Expenditure is classified in the department's budget and subsequently in the statement of financial performance according to the nature of the expense incurred. For example, the salary paid to an employee is classified as compensation of employees. The high level classification structure is prescribed in both the budget and financial reporting frameworks. Departments must exercise care to ensure that the planned and actual expenditure is correctly reflected in both the budget (appropriation Act) and the annual financial statements. Departures are only permitted when an alternative classification is more relevant.</p> <p>Where a department determines that the classification of the expenditure is inconsistent with the nature thereof (e.g. money paid to the CSIR for a research paper budgeted under transfers and subsidies instead of goods and services), it must first correct the classification in the budget through the adjustment budget or virement process. Where neither option is available the department must reflect the expenditure correctly in the statement of financial performance and appropriation statement regardless of where the funds were appropriated. Departments must consult the relevant treasury for guidance where there is uncertainty as to the appropriate classification of the expenditure.</p>
	<p>Compensation of employees note</p> <p>The amounts included under the heading pension and medical are the employer's contributions; any contribution made by the employee is included under basic salary.</p> <p>The average number of employees should also be disclosed in the note. The number of individuals is determined on a full time equivalent basis at the beginning and the end of a financial year. The numbers reported here must agree with the numbers published elsewhere in the annual report.</p>
	<p>Transfers and subsidies note</p> <p>For this note the department should also complete Annexures to the financial statements which indicate the details of each transfer and subsidy paid.</p>

8. Summary of Key Principles

This chapter provides a basic understanding of the types of expenditure a department is likely to incur and how the department should account for these transactions in its accounting records.

7.1 The types of expenditure the department would incur

The department is likely to incur the following expenditure:

1. Compensation of employees
2. Social contributions
3. Employee benefits
4. Goods and services
5. Interest and rent on land
6. Payments for financial assets
7. Expenditure on capital assets
8. Transfers and subsidies

7.2 Recognition and measurement of expenditure

A department **recognises** expenditure in the statement of financial performance on the date of payment.

Expenditure is **measured** at the cash amount paid to settle the expenditure incurred.

ANNEXURE 1: BAS PROCESSING RULES

BAS has defined processing rules that determine how it collects, processes and responds to information. To understand these processing rules, it is important to be familiar with the following terms:

Functional area: the logical split of BAS functionalities into groups.

Transaction type: pre-defined rules per functional area that identifies where the transaction is derived from. For example:

- **AP:** Accounts payable (Sundry Payments transactions)
- **BR:** Bank Reconciliation (Bank interfaced transactions)
- **CR:** Cash Receipts (Cash Receipts transactions)
- **GJ:** General Journal (General Journal transactions)
- **DB:** Disbursements (Disbursement transactions)
- **CL:** Commitments and Liabilities (Creditor Payments transactions)
- **PS:** PERSAL (Transactions interfaced from Personnel System: PERSAL)

Three types of processing rules have been defined, namely:

1. Transaction Processing Rules (TPR)

- Used to process transactions that have been defined according to transaction type and in accordance with the predefined allocations associated with that transaction type.
- Configured to indicate the fixed debit and/or credit leg(s) of a financial transaction.
- Ensures that the basic accounting principles are adhered to e.g. debits are equal to credits.
- Minimises the incidence of user errors.

2. Item Function Rules (IFR)

- Restricts user access to certain Item Segment Details.
- A user will only be able to post transactions to the Debt Account by using the Debt Functional Area and if the user should select the General Journals Functional Area, the user will not be able to see the Debt Account.

3. Item Processing Rules (IPR)

- Links matching fields (additional components of allocations) to specific items allowing for grouping of individual transactions to facilitate reconciliation.