



METHODOLOGY FOR THE IMPAIRMENT OF RECEIVABLES POLICY

1 July 2025

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PURPOSE

The purpose of this document is:

- To set out a methodology for the impairment of receivables in line with the applicable accounting standards.
- To ensure that sufficient allowance is made for the impairment of receivables in the financial statements.
- Ensure that receivables disclosed in the financial statements are stated at amounts that are deemed collectable; and
- To promote transparency as required by sections 215 and 216 of the Constitution when dealing with receivables and debt.

SCOPE

The methodology is applicable to all receivables subsequently measured at amortised cost.

This includes the following line items as disclosed on the statement of financial position:

- Consumer receivables.
- Receivables from exchange transactions; and
- Receivables from non-exchange transactions.

DEFINITIONS AND ABBREVIATIONS

“**CFO**” means Chief Financial Officer

“**Financial year**” means the period 1 July of one year to 30 June of the following year (both days included)

“**GRAP**” means Generally Recognised Accounting Practices

“**MFMA**” means Municipal Finance Management Act 56 of 2003

“**Reporting date**” means 30 June of each year

APPLICABLE ACCOUNTING STANDARDS

GRAP 104 Financial Instruments sets out the requirements and guidelines for the impairment of financial assets subsequently carried at amortised cost.

GRAP 104.46 “*All financial assets measured at amortised cost, or cost, are subject to an impairment review...*”

GRAP 104.57 “An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraphs .61 to .63 (for financial assets carried at amortised cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any impairment loss. “

GRAP 104.58 “A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.”

GRAP 104.61 “If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.”

GRAP 104.62 “An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see paragraph .58). If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.”

METHODOLOGY

1. Timing of Assessment

The Municipality will assess at the end of each reporting date whether there is objective evidence that a receivable account or group of receivable accounts is impaired.

2. Evidence of Impairment

The following accounts are specifically excluded from impairment testing:

- Receivable accounts with a combined credit balance at reporting date.
- Receivable accounts where the combined balance at reporting date is zero.
- Receivable accounts where the Municipality is the owner; and

- Receivable accounts that have no balance outstanding longer than 90 days at reporting date as these accounts are considered not to be past due.

Any one of the following events is considered to provide objective evidence that a receivable account or group of receivable accounts could be impaired.

- Accounts handed over to debt collectors and/or power of attorney.
- All accounts indicated as in-active accounts on the system.
- When accounts have been formally presented to the CFO of Mayoral Committee for write off; and
- All accounts with balances outstanding 90 days and longer as these accounts are considered to be past due

3. **Calculation and Recognition of Impairment Loss**

The impairment loss is calculated as the difference between the carrying value at reporting date less the present value of expected future cash flows.



The impairment loss is recognised in the general ledger in the following accounts:

Statement of Financial Position:

Account number	Account description	Line item on statement of financial position
	PROV BAD DEBT	Impairment loss/Reversal of impairment loss - Exchange Rev
	PROV BAD DEBT	Impairment loss/Reversal of impairment loss non-Exchange

Statement of Financial Performance:

Account number	Account description	Line item on statement of financial position
	BAD DEBT	Impairment loss/Reversal of impairment loss – Statement of Financial Performance.

4. Individually Significant Receivables

Consumer receivables with outstanding balances, per service, as set out below, is considered material and will be assessed individually for evidence of impairment. Impairment is done per service. The total is given as a reference.

Risk categories

High risk	Medium risk	Low risk
Residential	Business	Government receivables, excluding government schools
Churches	Agriculture: Farmers	
Closed Accounts		
Non-active accounts		

For sundry receivables management will assess on an annual basis which accounts are individually material. These accounts will be assessed individually for evidence of impairment.

5. Risk Categories

All receivables are categorised into one of three risk categories. These categories are:

- High risk category: Domestic
- Medium risk category: Business, Farmers, Other
- Low risk category: Government.

The allocation of receivables into the different risk categories are reviewed annually.

5.1. Consumer receivables

The following receivables are specifically identified as being high risk due to their nature:

- Closed accounts.
- Non-active accounts.

The following receivables are specifically identified as being low risk receivables due to their nature and past payment history:

- Government receivables, excluding government schools

The following receivables are specifically identified as being medium risk receivables due to their nature and past payment history:

- Government school receivables
- Business
- Agriculture i.e. farmers

The remainder of the consumer receivables are classified as high-risk receivables.

All other receivables are divided into the three risk categories based on management's knowledge of these receivables.

Summary of risk groups for consumer receivables

	High risk	Medium risk	Low risk
5.1 u Residential		Business	Government receivables, excluding government schools
u Churches		Agriculture: Farmers	
u Closed Accounts		Schools.	
u Non-active accounts			

Receivables

The following receivables are specifically identified as being high risk due to their nature and past payment history:

- Medical
- Marked to be written off; and
- Handed over accounts

The following receivables are specifically identified as being low risk receivables due to their nature and past payment history:

- Relocation costs.

The remainder of the sundry receivables are classified as medium risk receivables.

All other receivables are divided into the three risk categories based on management's knowledge of these receivables.

Summary of risk groups for consumer receivables

High risk	Medium risk	Low risk
Medical	Remainder of sundry receivable accounts	Relocation costs
Closed accounts		
Marked to be written off		
Handed over accounts		

6. **DISCOUNT RATE**

The discount rate is set as the yield of the two-year fixed rate South African government Bond as at the reporting date. The actual yield on the bond is sourced from the RSA Retail bonds website at reporting date.

<https://secure.rsaretailbonds.gov.za/ViewHistory.aspx>

The risk-free rate is adjusted with a premium per risk category. The following is taken into account in determining the premium:

- The economic conditions of the population in the municipal district;
- History of bad debts written off;
- Effectiveness of the debt collection processes;
- The vast rural area that the municipality covers and the rural population have high social problems;
- High unemployment rate in the municipal district.

Based on the above risk factors identified the risk free rate is adjusted with the following premium

Risk category	Premium adjustment
High risk	1.25%
Medium risk	0.75%
Low risk	0.25%

The risk factors and premium adjustment to the risk free rate are reviewed annually by management.

7. **EXPECTED REPAYMENT TERM**

One expected repayment term is calculated for high, medium and low risk receivables. The expected repayment term is calculated as the receivables' days at reporting date.



The average receivables balance for the reporting period is calculated as follows:



The balance due per age analysis include both debit and credit balances.

The **total amount due** from consumers for the reporting period include:

- Property tax; which includes Rates Levy
- Refuse;
- Electricity
- Interest on arrears and
- Less income foregone

8. **EXPECTED FUTURE CASH FLOWS**

After all the account balances that are not considered for impairment are removed, the expected future cash flow for the remaining accounts are calculated as follows: The moneys received during the year per customer, as a percentage of the total balance outstanding per customer as at the end of the prior reporting period, limited to 100%.

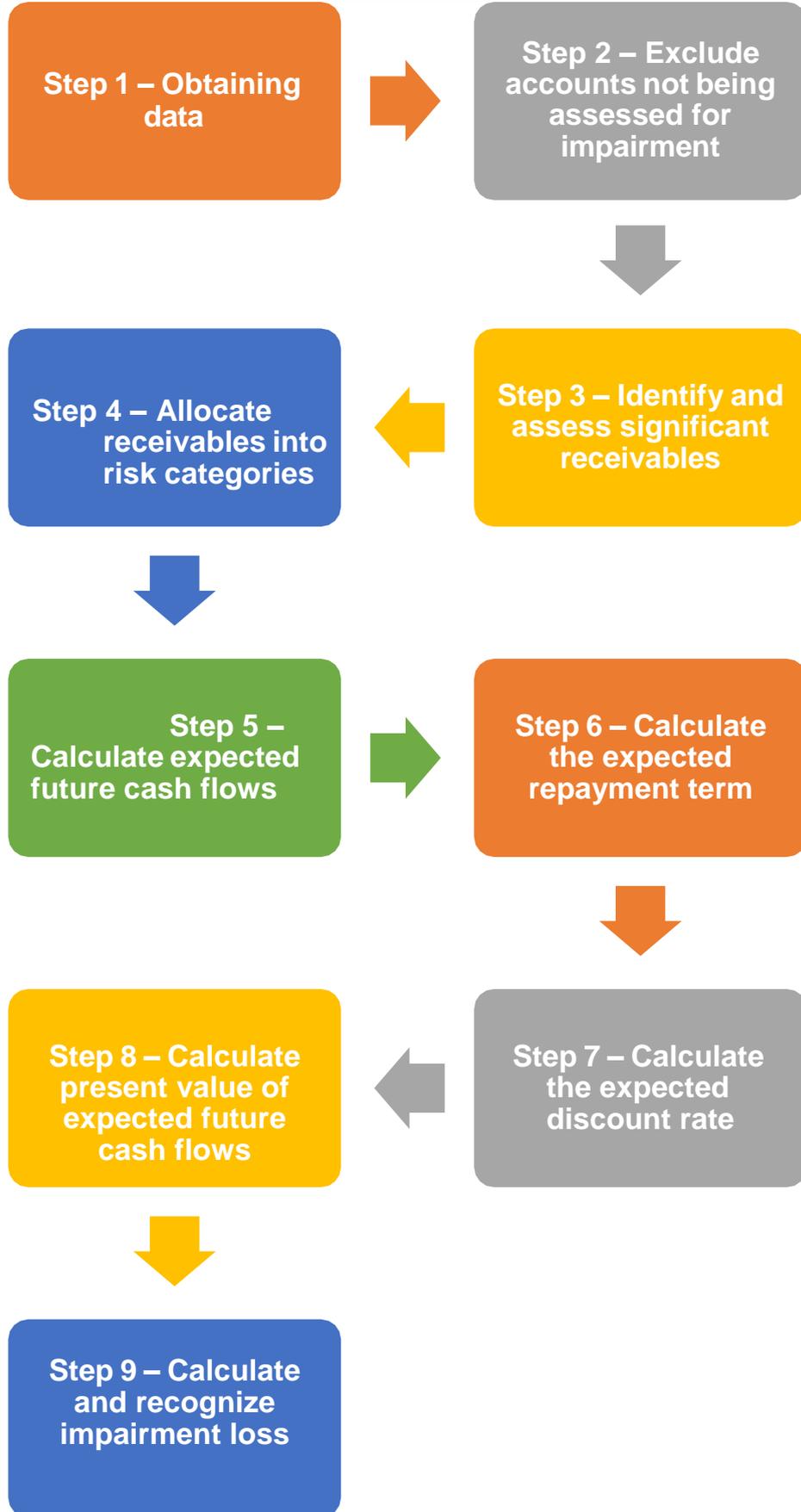
9. **PRESENT VALUE OF EXPECTED FUTURE CASH FLOWS**

The present value of expected future cash flows is calculated using the present value formula in MSEXcel. The data for input in the formula is the obtained from point 6, 7 and 8 above.

SOURCE

- GRAP 104 Financial Instruments issued October 2009
- GRAP 104 Application Guide issued October 2009
- National Treasury Accounting Guidelines GRAP 104 Financial Instruments

APPENDIX A - WORK PROCEDURES – CONSUMER RECEIVABLES



Step 1 – Obtaining data

1. Obtain the consumer receivables age analysis as at reporting date
 - 1.1. Subtotal all accounts with debit balances.
 - 1.2. Subtotal all the accounts with credit balances at reporting date.
See hidden lines
 - 1.3. Agree above totals with the control accounts.
Calc agrees to AFS
2. Obtain the following detail for each receivable reflecting on the consumer age analysis at reporting date:
Included on Debtors Impairment
 - 2.1. Indicator if status is active or not active.
 - 2.2. Indicator of Indigent Status.
3. Obtain prior year financial information. Use Age analysis Excel calculations. Determine debtors and payments in advance.
See Impairment Audited
4. Ensure the file obtained include the following as a minimum:
See Debtors Impairment 2017
 - 4.1.1. Account number
 - 4.1.2. Classification
 - 4.1.3. Type of use

Step 2 – Exclude accounts not being assessed for impairment

1. Save the consumer age analysis with the file name for example: MLM - Provision for impairment – 30 June 20??
Saved as **Debtors Impairment**
2. From the file saved, identify all the following accounts and hide the relevant lines on the age analysis
 - 2.1. All accounts with zero or credit balances in column Tot Outstanding
 - 2.2. All accounts where there is no balance outstanding over 30 days

Step 3 – Identify and assess significant receivables

1. From the remaining account on the consumer age analysis identify all accounts where the total balance outstanding is above the identified significant outstanding balances as per part 4 of the methodology for impairment of receivables.

See Debtors Age Analysis Jun 17 UNGROUPED, column N and O

Step 4 – Allocate receivables into risk categories

1. Allocate receivables into the risk categories as per the methodology by inserting a column and indicating the risk category as follows:
 - 1.1. High – H >>>
 - 1.2. Medium – M >>>
 - 1.3. Low – L >>>
2. Risk categories are determined in the following order:
 - 2.1. Non-active accounts – high risk
 - 2.2. Indigent accounts – high risk
 - 2.3. Business accounts – medium risk
 - 2.4. Agriculture accounts – medium risk
 - 2.5. Government accounts are categorized as low risk, excluding government schools which are assessed as a medium risk.
 - 2.6. Remainder of accounts – high risk – this is all accounts not specifically included in point 2.1 to 2.5 above.

See Debtors Impairment 2017 column AA to AG

Step 5.1 – Calculate the expected future cash flows for specific risk receivables

1. For all accounts where no indicator of impairment was identified the expected future cash flows are equal to the balance outstanding at reporting date

Step 5.2 – Calculate the expected future cash flows for risk categories

1. Take the data obtained in Step 1 point 4
2. From the data received recalculate the payments received to ensure that payments received are not more than the amount owing. This is done in order to eliminate prepayments (where consumer pay more than the balance due)
3. Add a column and allocate the risk categories (H, M or L) per methodology. Risk categories will be allocated in the following order:
 - 3.1. Non-active accounts – High Risk
 - 3.2. Indigents – High Risk
 - 3.3. Business – Medium risk
 - 3.4. Agriculture – Medium Risk
 - 3.5. Government, excluding schools - they are low risk
 - 3.6. Government schools - they are medium risk
 - 3.7. Remainder of accounts – High risk

4. Calculate the expected payment term per risk category as:



Column AJ on Debtors Impairment

Step 6 – Calculate the expected repayment term

1. Use this receivables months as the expected repayment term for all consumer receivables

Step 7 – Calculate the expected discount rate

1. The discount rate per risk category is obtained from the methodology part 6.
Refer Debtors Impairment , sheet named Info

Step 8 – Calculate the present value of expected future cash flows

1. For the remaining receivables categorised between the risk categories the present value of expected future cash flows are calculated using the present value formula in excel

Column

AK

Rate: This is the discount rate as per methodology divided by 365 in order to get a daily rate

Total number of payments (Nper): This is the expected term as calculated in step 7 above and is in days

Payment made (pmt): This is zero

Future value (fv): This is the expected future cash flow as calculated in step 6 (4) above

Type: This is nil as payment is expected at the end of the month

2. Calculate the total present value of expected future cash flows by adding all the individual calculations
3. Check the total present value of expected future cash flows to ensure that the calculated amount is not higher than the balance outstanding at year end

Step 9 – Calculate and recognise impairment loss

1. Calculate the impairment loss as the difference between the total balance outstanding as at reporting date and the present value of expected future cash flows as calculated above

Cells AJ2 – AK5



2. Review the list to ensure that none of the amounts calculated in the impairment loss column is in negative
3. Calculate the movement in the provision by deducting the current year calculated provision from the provision made in the prior year

Description	Amount
Current year calculation	(XXX)
Prior year provision	(XX)
Difference	(X)

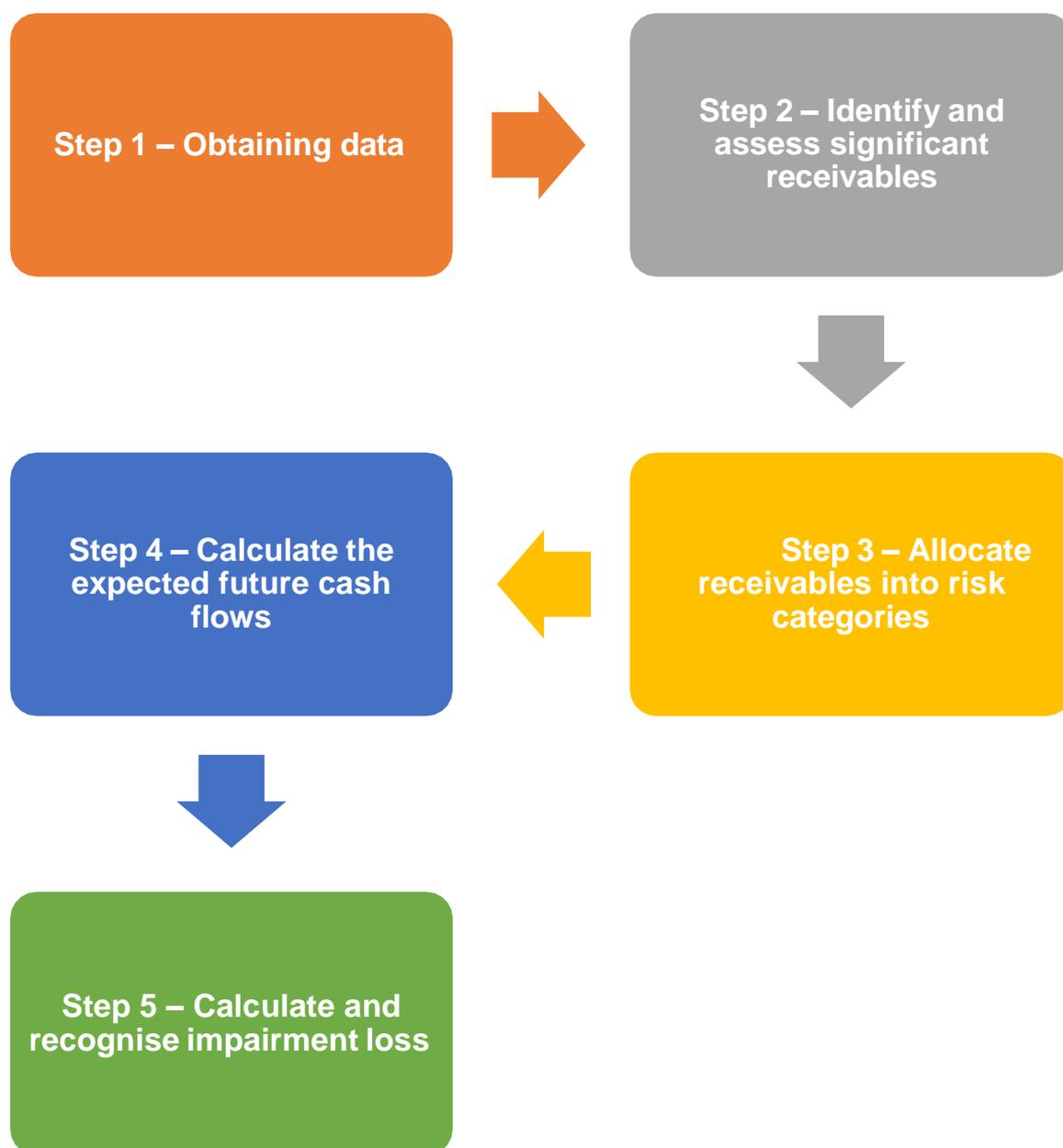
4. Prepare a journal to account for the movement as calculated above
 - 4.1. If current year provision is lower than prior year provision the journal required is

- 4.1.1. DT Statement of financial position
- 4.1.2. CT Statement of financial performance

42 If the current year provision is higher than the prior year provision the journal required is:

- 4.2.1. DT Statement of financial performance
- 4.2.2. CT Statement of financial position

APPENDIX B - WORK PROCEDURES – SUNDRY RECEIVABLES



Step 1 – Obtaining data

1. Obtain a list of sundry receivables as at reporting date
2. Obtain payments received, per sundry receivable between 30 June and 31 July

Step 2 – Identify and assess significant receivables individual

1. For each account identified as being individual assessed, determine their recoverability separately by taking into account the past payment trend of the receivable

Step 3 – Allocate receivables into risk categories

1. Allocate accounts not being individually assessed into the risk categories as per the methodology by inserting a column and indicating the risk category as follows:
 - 1.1. High – H
 - 1.2. Medium – M
 - 1.3. Low – L

Step 4 – Calculate the expected future cash flows

1. Based on past experiences and knowledge of the municipality the expected future cash flows for High and Low risk sundry receivables can be summarised as follows:

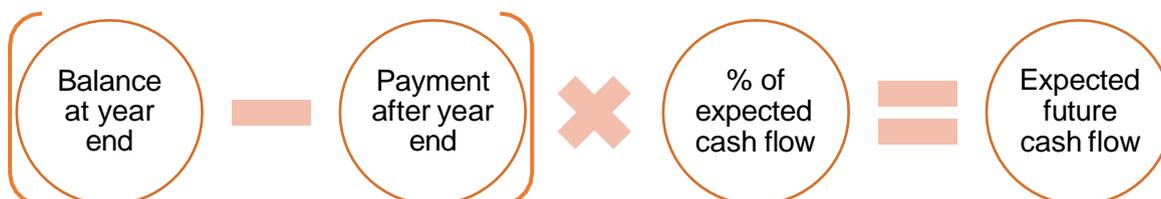
Risk category	Expected future cash flow
High risk	0%
Low risk	100%

2. Take the data obtained in Step 1 and calculate the % of expected future cash flows for medium risk sundry receivables as follows:



3. Round the % of expected cash flow to the nearest 10%

- Calculate the expected future cash flow as follows:



Step 5 – Calculate and recognise impairment loss

- Calculate the impairment loss as:



- Review the list to ensure that none of the amounts calculated in the impairment loss column is in negative
- Calculate the movement in the provision by deducting the current year calculated provision from the provision made in the prior year

Description	Amount
Current year calculation	(XXX)
Prior year provision	(XX)
Difference	(X)

- Prepare a journal to account for the movement as calculated above
 - If current year provision is lower than prior year provision the journal required is
 - DT Statement of financial position
 - CT Statement of financial performance
 - If the current year provision is higher than the prior year provision the journal required is:

- 4.2.1. DT Statement of financial performance
- 4.2.2. CT Statement of financial position