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# PAYABLES POLICY

**SUSTAINABLE NATURAL RESOURCE MANAGEMENT FOR A BETTER LIFE**

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## 1. Overview

This policy is about explaining the different payment types and the accounting entries required to capture expenditure transactions in BAS. In the cash accounting environment expenditure is referred to as “payments” where such payments refer to cash leaving the bank account *i.e. the last step in the procurement process following the authorisation of payments*. Exceptions such as unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure are also explained in this policy. Classification of assets are dealt with and how to account for payments related to projects, capital projects, capitalised payments and minor capital assets are explained. There are some items that are not easily classified and guidance is provided for classification of such items relating to goods and services and capital assets at the end of the chapter.

## 2. Key objectives

To understand the classification of payments in terms of the Standard Chart of Accounts. Understand the accounting entries for payment transactions. Understand the accounting entries for payments in respect of projects. Understanding the accounting entries applicable for inter-departmental transactions.

## 3. Payments

In the modified cash environment, payments are accounted for 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 payments 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.

### 3.1. Categories of Payments

The main categories of expenditure in accordance with the Standard Chart of Accounts are: Compensation of employees; Goods and services; Interest and rent on land; Payments for financial assets; Expenditure for capital assets; and Transfer and subsidies

The BAS accounting entries for recording 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 AFS. The payment is captured as follows:*

*Debit*

Outstanding Payment Account

*Credit*

Outstanding Payment Account OR BAS EBT Control OR BAS Credit Transfer

Interface on the bank statement:

*Debit* Outstanding Payment Account OR

BAS EBT Control OR

BAS Credit Transfer

*Credit* Bank Account (department PMG account)

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 AFS includes all purchases approved for payment (even if the payment still needs to clear the bank account).

### **3.1.1 Compensation of employees**

This item is the largest spending item in the budget of government as more than a million public servants are paid via Persal on a monthly basis.

There are two main groupings within *compensation of employees* namely, "Salaries and Wages" and "Social Contributions" (also referred to as employee benefits.). *Salary and Wages* comprise of amounts paid to the employees of a department including all payments made on their behalf such as PAYE/SITE and the employee's contributions to pension and / or medical schemes. The *Social Contributions* category includes the employers' contribution to the social insurance schemes to which the employee belongs.

The monthly salary slip of an employee is broken down as follows:

**Salary slip Impact on department**

Gross salary per month 3,000.00 Total payroll cost for the month Increase in expenditure

Less: deductions

(pension, medical, UIF etc)

(500.00) Amount paid by employer on behalf of employee (amount employee owes other institutions)

Decrease in cash resources

Nett Salary 2,500 Amount paid to employee Decrease in cash resources

The payment to the employee and to the other institutions decreases the available cash resources and at the same time increases the payroll costs of the department.

***Salaries and wages include the following payments:***

Payments made to government employees at regular weekly or monthly intervals.

Remuneration to staff members employed on a contractual basis who are on the government payroll and paid at regular intervals;

Supplementary allowances such as housing allowances;

Special allowances for overtime;

Special allowances for dangerous work;

Salaries and wages paid to employees away from work for short periods (*leave pay*); and

Performance bonuses.

***Salaries and wages exclude the following payments:***

Reimbursement of expenses incurred by employees for goods purchased to enable them to perform their duties e.g. tools, equipment and uniforms (*classified as goods and services*);

Reimbursement for reallocation expenses e.g. when employees take up new positions of employment (*classified as goods and services*);

Travel and subsistence expenses e.g. per diem and out-of-town allowances (*classified as goods and services*);

Purchases of services provided by non-government employees e.g. consultants and occasional workers (*classified as goods and services*);

Social benefit allowances e.g. accidental injury, severance and pay for incapacity (*classified as transfers to households*); and

Allowances to dependents of employees are also categorised as social benefits (*classified as transfers to households*).

**Compensation of employees** includes most payments to government employees, except payments to government employees working on capital projects and where the department elects to capitalise these payments. These specific payments are classified as capitalised payments and are recognised in the line item, "*payments for capital assets*". Salaries and wages are further subdivided into smaller categories:

- *Basic salary*
- *Performance awards*
- *Service based*
- *Compensation/circumstantial*
- *Periodic payments*
- *Other non-pensionable allowances*

**Social Contributions** Social contributions are normally made on behalf of employees currently employed but can also be paid on behalf of formerly employed people. Social Contributions include employer contributions to social insurance schemes (e.g. security funds, unemployment insurance funds, pension funds, provident funds and medical aid schemes). Social contributions are further subdivided into smaller categories:

- *Pension*
- *Medical Aid*
- *UIF*
- *Bargain Council*



- *Official Unions and Associations*

- *Insurance*

Note that all employees in the department may not receive the same medical benefits. The medical aid contributions are usually split between the employee and the employer however, in some cases, employees do not contribute to a medical aid fund and the department pays the full benefit.

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.

**S&W: Home Owners Allowance (*expenditure account*)**

**S&W: Non-Pensionable Allowances (Other) (*expenditure account*)**

**Employer Contribution: Pension (*expenditure account*)**

**Employer Contribution: Medical (*expenditure account*)**

**Employer Contribution Bargaining Council (*expenditure account*)**

**Communication: Telephone (*expenditure account*)**

**Bank Account (*ledger account*)**

### **Employee benefits**

Not all employee benefits are recognised under the cash basis of accounting. Therefore certain benefits that give rise to a present legal or constructive obligation is shown in the disclosure notes to the AFS

Employee benefits are mainly made up of the following accrual amounts:

leave entitlements;

service bonuses; and

performance bonuses;

### **3.1.2 Goods and services**

This item refers to all government payments for goods and services, excluding purchases of capital assets. This item would in most instances be the second largest spending item for departments. An invoice from a supplier for the purchase of goods / services is broken down as follows (refer to the Fundamentals chapter for a discussion on the minimum requirements for an invoice):

#### **Invoice**

## Impact on department

### Cost of goods acquired

Amount recorded as the cost of goods acquired. Note: the trade discount is not recorded separately, 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.

Increase in expenditure resulting in a decrease in the surplus of the department; AND  
Decrease in cash resources;

The payment to the supplier decreases the available cash resources and at the same time increases the costs of the department. The above is reflected in the general ledger by:  
Debiting the relevant goods and services expenditure account Crediting The bank account 1

Increase in expenditure resulting in a decrease in the surplus of the department;

### ***Goods and services include the following payments:***

Payments for goods costing less than R5,000 for use by the department and not intended for use as input on a capital project Goods purchased for resale e.g. postcards for resale by government owned museums Goods purchased by government but later transferred in kind to employees or other units; this is because government does not apply the full accrual accounting principles with regard to in-kind transactions. Goods to be included in *goods and services* are for example petrol, coal, small tools and equipment, stationery, foodstuff and electricity. Payments for use of buildings from other departments, for example Public Works Payments for research, design costs, bursaries to government employees and consultants' fees Other examples of goods are: for example petrol, coal, small tools and equipment, stationery, foodstuff and electricity. Other examples of services are: accommodation (hotels, etc.), restaurants, transport, communication, banking, business services, consultant fees, market research and staff training, as well as rental of buildings (not rental of land), other fixed structures, equipment and vehicles. Reimbursements of:

- o expenses incurred by employees on tools, equipment, uniforms and other items that are needed to enable them to carry out their work; uniform allowances if the employee is required to purchase a uniform required for use at work;

- o expenses incurred by employees when they take up new jobs or are required by their employer to move their homes, e.g. relocation expenses; and

- o payments in respect of travel and subsistence while on government duty away from duty station; per diem and out of town allowances are also included in this category

***Goods and services exclude the following payments:*** Payments for capital assets (*classified as "expenditure for capital assets"*) Payments for goods and services, to be used as input into a capital project executed by government (*classified as capitalised payments*)



Rent of land (*where it is not possible to distinguish the rent of land from rent of buildings on the land the total amount is included in goods and services*)

### 3.1.3 Interest and rent on land

The following examples of interest payments may not be applicable to all departments.

**Interest includes the following payments:** Total value of interest payments where such payments are associated with debt, e.g. interest on borrowing and overdraft facilities Interest payments on bills and bonds issued by other government units Interest paid on overdue accounts

**Rent on land includes the following payments:** Total value of payments due to the use of land owned by another party, including other government units. Total value of payments due to use of sub-soil assets and other naturally occurring assets that are commercially exploitable such as virgin forests, game and fisheries. If it is impossible to distinguish between the rent of land and rental of the fixed structures erected thereupon, the whole amount, including the payment for use of land, is included in *goods and services*

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.

### 3.1.4 Payments for financial assets

This item consists mainly of lending for policy purposes. The reason for expensing this payment rather than treating it as financing is that, unlike other financial transactions, the purpose of the transaction is not market oriented.

### 3.1.5 Expenditure for capital assets

Capital assets are goods that are expected to be used during more than one reporting period and from which future economic benefits or service potential are expected to flow, provided that their value exceeded the capitalisation threshold when originally acquired. Examples of capital assets are buildings, vehicles and machinery. Payments on goods worth less than the capitalisation threshold are never included under payments for capital assets. This is relevant even for goods that can be used during more than one reporting period. These items are not considered capital assets and payments on such goods should be classified as *goods and services*. *Payments for capital assets* include all costs associated with the purchase of the asset, examples of such are: the cost of a new asset; the cost of improvements to existing capital asset; the cost of ownership transfers of land, buildings and other assets; and the cost of the warranty included with the initial purchase of the asset.

Note when recording a purchase of a capital asset in BAS it is important to identify the type of asset acquired in the asset segment. This will assist the department in reconciling the assets purchased during the year to the asset registers.



### 3.1.6 Transfers and subsidies

Transfers and subsidies include all unrequited payments made by a department. A payment is unrequited when 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 item.

**Current transfers are:** social security benefits paid to households fines penalties compulsory fees compensation for injuries or damages paid to another unit

**Capital transfers are:** Payments that are conditional on the recipient unit using the funds to acquire capital assets Transfer to enterprises (publicly or privately owned) to cover large operating deficits accumulated over at least two years or to finance their cost of purchasing capital assets Capital taxes payable to other departments.

All these transfer categories are self-explanatory, however certain categories are explained in more detail below.

#### ***Subsidies on production***

- comprise all current, unrequited payments to businesses – both government and privately owned – on the basis of their level of production or quantity, or values of products produced, sold, imported or exported.

- Subsidies influence the level of production and/or pricing policies of the recipient.

- Subsidies on production are current transfers

- Subsidies can be payable on specific products or on production in general. A subsidy on a product is a subsidy payable per unit of a good or service. The subsidy may be a specific amount of money per unit of quantity of a good or service, or it may be calculated *ad valorem* as a specified percentage of the price per unit. A subsidy may also be calculated as the difference between a specified target price and the market price actually paid by a buyer. A subsidy on a product usually becomes payable

when the good or service is produced, sold, exported, or imported. But it may also be payable in other circumstances, such as when a good is transferred, leased, delivered, or used for own consumption or own capital formation.

- ***Subsidies on production*** consist of subsidies that enterprises receive for engaging in production but that are not related to specific products. Included are subsidies on payroll or workforce, which are payable on the total wage or salary bill, the size of the total workforce, or the employment of particular types of person; subsidies to reduce pollution; and payments of interest on behalf of corporations.

- Subsidies also include ***transfers to public corporations*** to compensate for losses they incur on their productive activities as a result of charging prices that are lower than their average costs of production because of deliberate government economic and social policy. If such losses have been accumulated over two or more years, however, the transfer is considered to be of a capital nature and classified as *other transfers to public corporations and private enterprises*.



o ***Other transfers to public corporations and private enterprises***

- consist of all capital transfers and those current transfers whose purpose is not to subsidise production. Most of these transfers are capital transfers; e.g. of this category include payments to corporations and enterprises to finance purchases of capital assets, to compensate them for damages to capital assets, and to cover large operating deficits accumulated for at least two years.

o ***Transfers to municipalities***

- *Include payment of rates and taxes.* Property rates are levied by a municipality in terms of the Municipal Property Rates Act to pay for a wide range of public services, from the maintenance of roads and traffic control, to providing public parks, libraries, clinics, recreation centres and other similar services for the public. These services are for the benefit of the community as a whole and not an individual ratepayer. As such there is no direct link between the amount paid by a ratepayer and the value of services received in return.

o ***Transfers to households***

- ***Social benefits*** are current transfers to households, but not all transfers to households are included under this category. Included are the transfers made to households to protect them against events that may adversely affect their social

welfare; e.g. include the child support grant; payments for medical, convalescent and dental care and home care. Social benefits also encompass the cost to provide free housing and housing below market prices.

- ***Other transfers to households*** consist of all other transfers to households. All capital transfers to households are included here. This category also includes payments of bursaries (but excluding bursaries to government employees, which are recorded under *goods and services*), fines and penalties paid to households. It also includes compensation for injuries and damages caused by natural disasters or departments if paid to households.

***"households"*** are defined as small groups of persons who share the same living accommodation, pool some or all of their income and wealth, and consume certain types of goods and services

#### **4. Interdepartmental Transactions**

Interdepartmental transactions arise when one department provides goods or services to another department because it is able to provide a more efficient or cost effective service.

Reasons for interdepartmental transactions:

the department provides a specialist service to other departments;

in the absence of a specialist service one department may provide a service to other departments so that all departments can benefit from economies of scale; and

secondment of staff from one department to another and recovering the salary costs without changing permanent employment of the staff member.

##### **4.1 Types of interdepartmental transactions**

Interdepartmental transactions arise as a result of the following:

###### ***Transversal services***

The generation of receipts or payments as a result of one department performing common services on behalf of other departments

###### ***Individual transactions between departments***

Personnel transfers as a result of secondment of staff; other services between departments or the sale of goods between departments.

###### ***Transactions between departments and other government bodies***

These are transactions between departments and or public entities / municipalities. This also encompasses transactions between national and provincial departments.

Note that interdepartmental services are rendered at a price. The following may be applied:

***Market related prices*** that may be adjusted downward when internal transacting occurs;

***Cost related prices*** base on complete costing, direct costing or activity based costing; or

***Negotiated prices*** which may deviate from market and cost related prices.



## 4.2 Accounting for Interdepartmental Transactions

When departments transact and there is a flow of funds the accounting entry on BAS is : A department pays expenses on behalf of another department and subsequently claims the costs from that department.

## 4.3 Transversal Services

Accounting transactions for transversal services will be explained by way of an example:

**Residential buildings** The Department of Public Works owns government buildings which are rented to government employees who have to pay rent to the Department of Public Works. The rental is usually charged at a rate lower than market value if the tenants are government employees; such rental payments are deducted from the monthly salaries of the employees and the department then pays the money over to the Department of Public Works in respect of the rent. For the purpose of this example the employee's department will be referred to as Department ABC. When the employee's salary is captured:

## 4.4 Other Transactions between Departments

Accounting transactions for other transactions between departments will be explained by way of an example: **Transfers of personnel** When an employee leaves one department (home department) to work for another department (new department) it may take some time to change the employee's existing PERSAL information hence the employee's salary and related deductions may continue to be paid from the home department for one or two months after the employee has left for the new department. In this case the home department must reclaim the employee's salary and related costs from the new department. It may also happen that the employee has received an increase in salary upon joining the new department; the home department must then reclaim this additional expense as well.

## 4.5 Trading Physical Goods between Departments

Accounting transactions for trading physical goods between departments will be explained by way of an example: Department A recently moved offices and discarded much of its old furniture selling it off to other departments. The furniture valued and was priced accordingly by an external party. Department B expressed an interest in acquiring most of the available furniture. Once Department B selected all the items they wanted Department A prepared the necessary invoice in respect of the furniture purchased by Department B.

**5. FINANCIAL IMPLICATIONS**

This policy does not have any additional financial implications, except for the fact that all relevant Officials of the Department must adhere to the processes.

**6. COMMUNICATION**

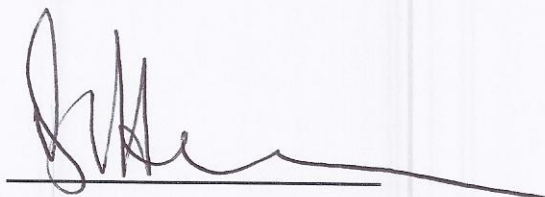
This document has been communicated to all affected parties.

**7. POLICY REVIEW**

The policy will be reviewed when the need arises or when there is any additional information that requires a review.

**8. ADOPTION OF POLICY**

Approved/ Not Approved

  
\_\_\_\_\_  
**HEAD OF DEPARTMENT**

27. 02. 2013  
**DATE**