

# WEST COAST DISTRICT MUNICIPALITY



## POLICY FOR THE CALCULATION OF PROVISION FOR BAD DEBTS

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## 1. PURPOSE OF POLICY

The purpose of the policy is to –

- a. Provide guidelines for the calculation of provision for bad debt;

## 2. DEFINITIONS

In this policy –

**“Accounting Officer”** means the Municipal Manager acting in his or her capacity as accounting officer of the Municipality;

**“Chief Financial Officer”** means the Chief Financial Officer acting in his or her capacity as the Head of the finance department of the Municipality;

**“Council”** means the Council of the Municipality;

**“Current assets”** comprise debtors, cash, inventories and the short-term portions of investments and long-term debtors of the Municipality;

**“Current Liabilities”** consist of creditors, bank overdrafts and the short-term portion of long-term loans [liabilities] of the Municipality;

**“Net operating capital”** means the difference between current assets and current liabilities of the Municipality;

**“Unfunded funds, reserves and provisions”** mean those funds, reserves and provisions not represented by cash.

## 3. MANAGEMENT OF BAD DEBTS

- a. The accounting officer must make an annual contribution to the bad debts provision in the operating budget of the Municipality.
- b. The total bad debts provision of the Municipality must be equal to  $A + B + C$ , where -
  - i. A is equal to 100% of all debts outstanding for longer than 120 days;
  - ii. B is equal to 50% of all debts outstanding for between 91 days and 120 days; and
  - iii. C is equal to 20% of all debts outstanding for between 61 days and 90 days.

Special consideration to be given to debtors with payment arrangements

- c. If the total provision for bad debts as required in terms of subparagraph 3(b) exceeds ten percent (10%) of the operating budget of the Municipality, the accounting officer must submit a report to the Council in which he or she must report on how the net current assets of the Municipality are managed and therein pay special attention to –
  - i. The debtors turnover rate, inventories and creditors;
  - ii. Credit management and debt collection; and
  - iii. The bank overdraft.
- d. The Council may approve the writing-off of bad debts as per the Policy for the calculation of provision for bad debts.

**4. DELEGATION OF POWER**

The accounting officer may delegate his/her responsibilities in terms of this policy to the Chief Financial Officer of the Municipality.