

MFMA NATIONAL AFS CONSISTENCY WORKSHOP – 2025/26 FY

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Presented by: Kashnee Sewnarain (CA)SA
Director: Inspired Financial Management
Solutions



MFMA NATIONAL AFS CONSISTENCY WORKSHOP

2025/26 FY

TOPIC: UNPACKING THE REVISED GRAP 104: A PRACTICAL APPROACH

DIFFERENCE MAKERS



ALIGNING MUNICIPAL
PRACTICE



SHARING KNOWLEDGE



BUILDING CAPACITY



DRIVING COMPLIANCE



IMPROVING FINANCIAL
SUSTAINABILITY

CONSISTENT FINANCIAL REPORTING
STRONGER MUNICIPALITIES
BETTER COMMUNITIES



Agenda

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Introduction and Unpacking
Key Concepts

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Debtors and Expected Credit
Loss Model

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Other Financial Instruments

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Transitional Provisions

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Accounting Policies

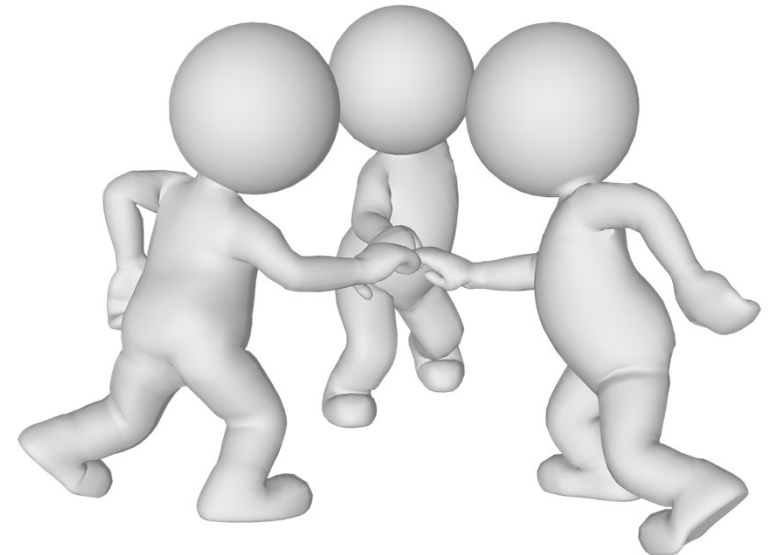
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Disclosures (GRAP 104R
and GRAP 3)

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Materiality and Closing
Remarks

INTRODUCTION AND UNPACKING KEY CONCEPTS



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01 Effective Date
Revised Standard was issued in April 2019, however, effective for financial years commencing from 1 April 2025

02 Principles
Establishes requirements for recognising, measuring, presenting and disclosing financial instruments in financial statements

03 Alignment to International Standards
Aligns South African reporting with international financial reporting principles and best practice

04 Significant changes

- Impairment of receivables (Expected Credit Loss model)
- Introduces a **forward-looking impairment approach**: Recognises expected losses before default occurs
- Classification and measurement of financial instruments

Introduction and Unpacking Key Concepts

What is a Financial Instrument?



DEFINITION OF A CONTRACT:

refer to an **agreement** between two or more parties that **has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law.** Contracts, and thus financial instruments, **may take a variety of forms and need not be in writing.**

Contracts are evidenced by the following three criteria:

- (a) contracts involve willing parties entering into an arrangement;
- (b) the terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party; and
- (c) performance and remedy for non-performance are enforceable by law.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity

**Not Statutory Arrangements
(legislation, regulation, or equivalent)**

Examples of Financial Instruments

- Cash and bank balances
- Contractual Receivables (debtors)
- Payables (creditors)
- Borrowings
- Investments

Key Principle:

A financial instrument (asset or liability) must be settled in cash or another financial asset, and not through goods or services

Introduction and Unpacking Key Concepts

Understanding Key Impairment Terms: Credit Risk Related Terms



Credit Risk Terminology

A

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

B

Credit risk rating grades are the ratings of credit risk based on the risk of default occurring on the financial instrument.

C

Past Due: A financial asset is past due when a counterparty has failed to make a payment when that payment was contractually due (e.g. in excess of 30 days based on contract)

Driven based on municipal policy

D

Default: Define in municipal policy a definition that is consistent with the definition used for internal **credit risk management purposes** for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate (**not more than 90 days past due**)

Introduction and Unpacking Key Concepts

Understanding Key Impairment Terms: Credit Risk Related Terms

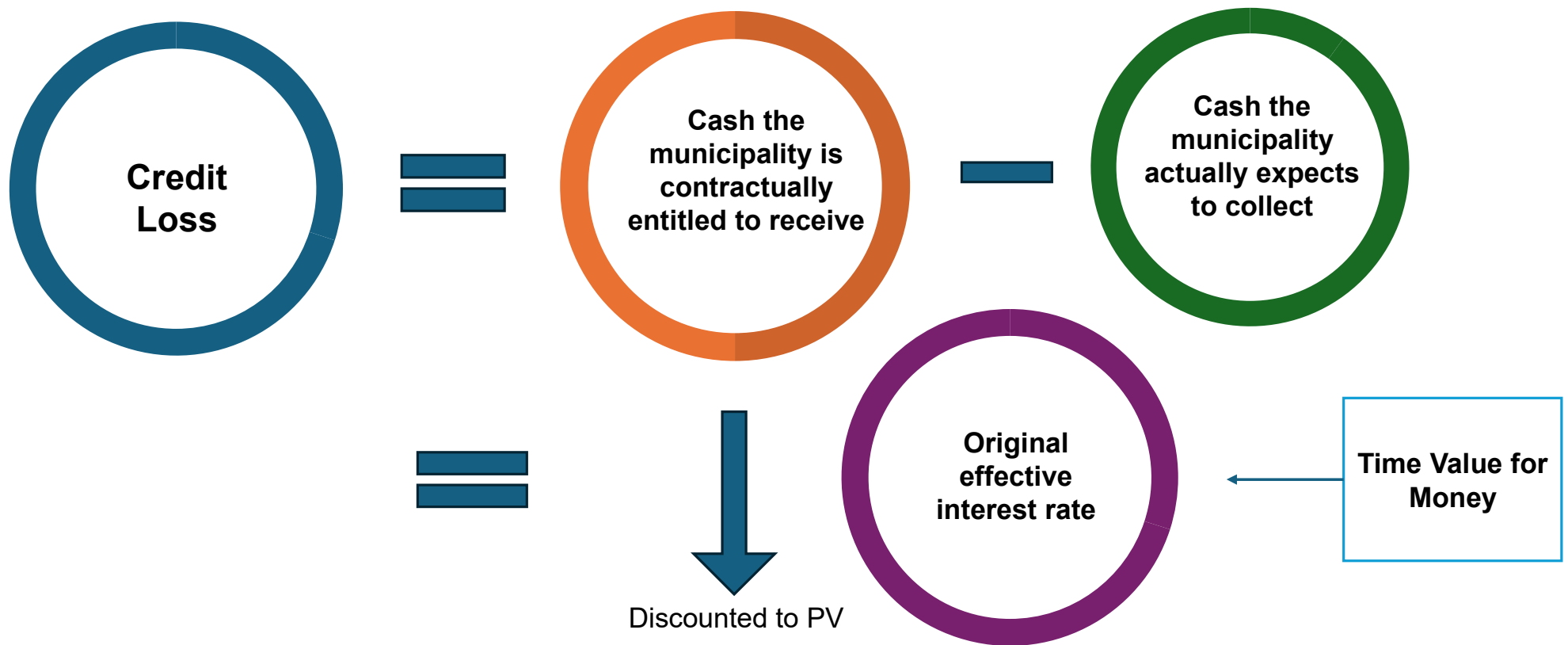


- **Credit-impaired financial asset** is a financial asset that is credit-impaired **when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.**
- Evidence that a financial asset is credit-impaired include observable data about the following events:
 - (a) significant financial difficulty of the issuer or the borrower;
 - (b) a breach of contract, such as a default or past due event;
 - (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
 - (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (e) the disappearance of an active market for that financial asset because of financial difficulties; or
 - (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.
- **It may not be possible to identify a single discrete event — instead, the combined effect of several events may have caused financial assets to become credit-impaired.**

Introduction and Unpacking Key Concepts

Understanding Key Impairment Terms: Credit Loss

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Introduction and Unpacking Key Concepts

Understanding Key Impairment Terms: Expected Credit Loss



Expected credit losses are defined in the Standard as “the weighted average of credit losses with the respective risks of a default occurring as the weights”

In simple terms, expected credit losses estimate how much of the debt will not be collected, by:

- Considering different scenarios (full payment, partial payment, no payment), and
- applying a probability (risk of default) to each scenario

Simplified Approach

12 month expected credit losses is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date

In simple terms, 12-month expected credit losses estimate how much of the debt may not be collected, by considering the possibility that a customer may default within the next 12 months, and applying a probability (risk of default within the next year) to the expected loss

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

In simple terms, lifetime expected credit losses estimate how much of the debt will not be collected, by considering all possible default scenarios over the full life of the debt (full payment, partial payment, no payment), and applying a probability (risk of default over time) to each scenario

General Approach

Expected life of the asset : It is the estimated duration the debt will exist before it is settled, written off, or recovered

Introduction and Unpacking Key Concepts Debt Impairment Approach



Debt Impairment – Expected Credit Loss Model

GENERAL APPROACH:

Examples:

- Investments
- Bank Accounts
- Loans receivable
- Financial Guarantee Contracts

Applies to Financial assets at amortised cost (*Excluding Receivables and Lease Receivables*), Loan Commitments, Financial Guarantee Contracts

Measures Expected Credit Loss based on changes in credit risk

3 Stage Model:

- Stage 1: No significant increase in credit risk / Performing → 12-month expected credit loss
- Stage 2: Increased risk → Lifetime expected credit loss
- Stage 3: Credit impaired → Lifetime expected credit loss

Requires ongoing assessment of credit risk movement, including tracking whether risk has significantly increased

SIMPLIFIED APPROACH:

Examples:

Contractual Receivables:
Generally Consumer / Trade
Receivables (Water,
Electricity, Refuse, Other
Services Receivables)

Applies to Receivables and Lease receivables

Note: This Standard uses the term “receivables”, which broadly refers to contractual arrangements where goods and services are provided by the entity to another party. (Basis of Conclusions - BC94)

Always recognises Lifetime expected credit losses

Does NOT require tracking changes in credit risk or Staging Model

**Define Receivables in
Municipal Policy**

Introduction and Unpacking Key Concepts

Understanding Discounting Principles: Extract of the ASB FAQ 9.1 – Part B



Initial Recognition	Subsequent Recognition
GRAP 104.AG5.9 however provides that “short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation”	- GRAP 104.AG88 goes on to state that: “Once the due date for short-term receivables has elapsed and payment is not received, an entity shall consider whether there is any indication that the receivable may be impaired, <u>either because interest is not levied on outstanding amounts (using a market related rate of interest), or because the principal amount may not be collected (see paragraphs 5.17 to 5.35 and AG5.40 to AG5.115).</u>” - The effect of these two paragraphs is as follows: If the initial credit period granted by an entity is consistent with “terms used in the public sector” (see FAQ 9.1 Part A for further guidance on this issue), then an entity will not apply discounting on initial recognition, even if the interest rate charged is not market related. - If the entity does not charge a market related rate of interest, there are two possible scenarios: (i) The entity receives payment on the due date for payment, which means that the effect of the financing transaction is immaterial. (ii) The entity does not receive payment on the due date for payment, which means that the effect of providing below market-interest may be material. Consequently, this will be considered in determining whether the receivable is impaired. In determining the present value of the cash flows, the entity uses the period from the date the transaction was entered into.

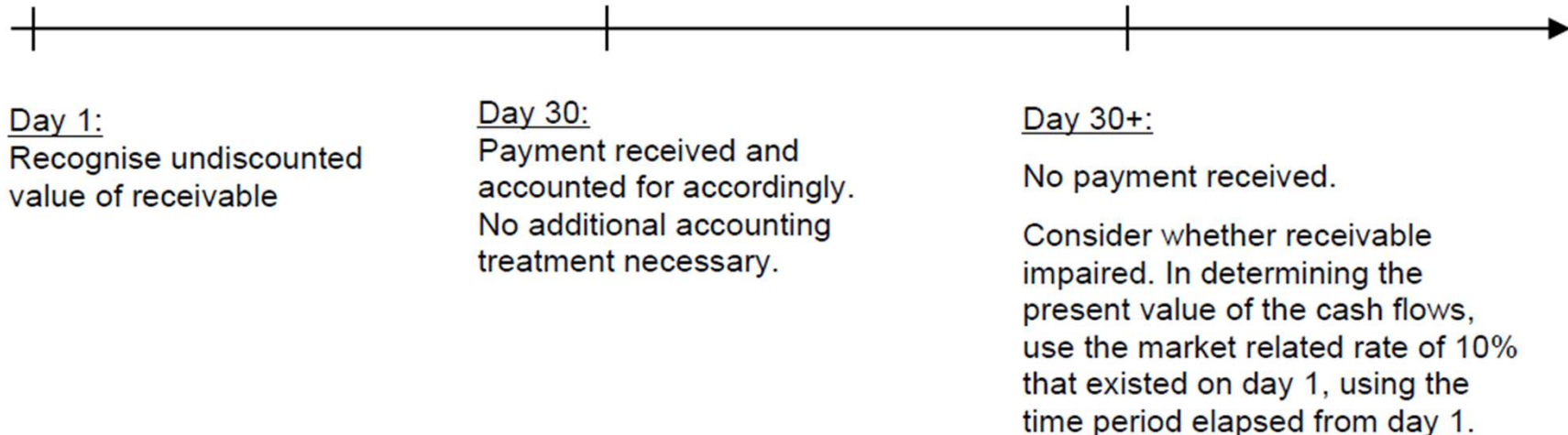
Introduction and Unpacking Key Concepts

Understanding Discounting Principles: ASB FAQ 9.1 – Part B



As an illustration: a municipality grants 30 days interest free credit to all consumers of water and electricity. If payment is not received within 30 days, then interest is levied at 8%. A market related rate of interest is 10%.

Time



Introduction and Unpacking Key Concepts

Understanding Discounting Principles: ASB FAQ 9.1 – Part B



- The purpose of discounting debtors is to determine if the **presentation of revenue in the statement of financial performance is correct, i.e. should the transaction be separated between the revenue for the value of the goods or services provided, and interest.**
- **The purpose of impairment is to present a loss in the value of the financial asset as a result of credit losses and/or delayed receipt of the contractually agreed cash flows.**
- Entities often (erroneously) calculate interest revenue by taking the outstanding debtors' balance at year end and multiplying it by the (effective) interest rate, and apportioning revenue between sales and interest.
- **The discounting of debtors is done at initial recognition based on the contractually agreed credit terms. The fact that payments may be subsequently delayed is an issue that affects impairment and not the recognition of interest (see GRAP 104.AG5.10).**



Introduction and Unpacking Key Concepts

Understanding Discounting Principles: Extract of ASB Application Guidance



AG5.11 The following example illustrate the application of these requirements:

An entity provides goods and services to the public. Payment for these goods and services should be received within 30 days after the invoice date in accordance with legislation. Assume that the value of goods and services provided in one month is R1-million and that, based on past history,

- only 30% of the debtors pay within the 30 days,
- 50% of the debtors pay within 120 days of invoice date,
- 15% of the debtors pay after 120 days but before 210 days of the invoice date, and
- 5% will never pay.

Analysis:

The entity has provided interest free credit to its customers for a period of 30 days. This 30 day credit period is deemed to be appropriate for the entity's operations based on prevailing legislation. It therefore initially recognises R1-million as revenue and a receivable.

After the 30 day interest free credit period has elapsed, an entity shall consider whether late or non-payment by customers is an indication of impairment. The entity shall also consider whether an impairment loss exists if it does not charge a market related rate of interest on the outstanding balance.

Introduction and Unpacking Key Concepts

Understanding Discounting Principles: Example to calculate Original Effective Interest Rate

Scenario to Discount Debt for Impairment:

- A municipality supplied electricity services to a commercial customer.
- Outstanding debtor balance: R100,000
- Original credit terms: 30 days
- Interest charged to customer on overdue accounts: 8%
- Expected repayment (including financing effect) based on previous cash flow history : R125,440 in 2 years
- **Original effective interest rate ?**
- The account is now significantly overdue

Fact Sheet #3 - If the transaction costs are not material, and the nominal/contractual interest rate is market related, then the nominal/contractual interest rate = EIR

Transaction costs include: Legal fees related to agreements, Advisory or consulting fees, Bank charges or arrangement fees, Broker or agent commissions, Documentation and processing fees

Step 1: Identify Cash Flows

- Initial amount (fair value): **R100,000**
- Future cash flow: **R125,440 in 2 years**

Step 2: Apply EIR Concept

- **Solve for r:**

$$(1 + r)^2 = \frac{125,440}{100,000} = 1.2544$$

$$1 + r = \sqrt{1.2544} = 1.12$$

$$r = 12\%$$

- **Original Effective Interest Rate = 12%**

Introduction and Unpacking Key Concepts

Understanding Discounting Principles: Example to calculate Impairment



Scenario to Discount Debt for Impairment:

- A municipality supplied electricity services to a commercial customer.
- Outstanding debtor balance: R100,000
- Original credit terms: 30 days
- Interest charged to customer on overdue accounts: 8%
- Original effective interest rate (EIR) at initial recognition: 12%
- The account is now significantly overdue

Position at Reporting Date

Based on the latest assessment:

- The customer is experiencing financial difficulty
- The municipality expects to recover only **R70,000**
- Recovery is expected in **2 years' time, based on past history**

Step 1: Identify Expected Cash Flows

Carrying amount of receivable: R100,000

Expected future cash flow: R70,000

Timing of expected recovery: 2 years

Step 2: Discount Expected Cash Flows to Present Value

GRAP 104 requires the municipality to discount the expected cash flows using the original effective interest rate, not the customer interest rate charged.

$$\text{Discounting calculation} = PV = \frac{70,000}{(1+0.12)^2}$$

PV of expected cash flows = R55,804

Step 3: Calculate the Impairment Loss

Impairment loss = Carrying amount – Present value of expected cash flows

Impairment loss = R100,000 – R55,804 = R44,196

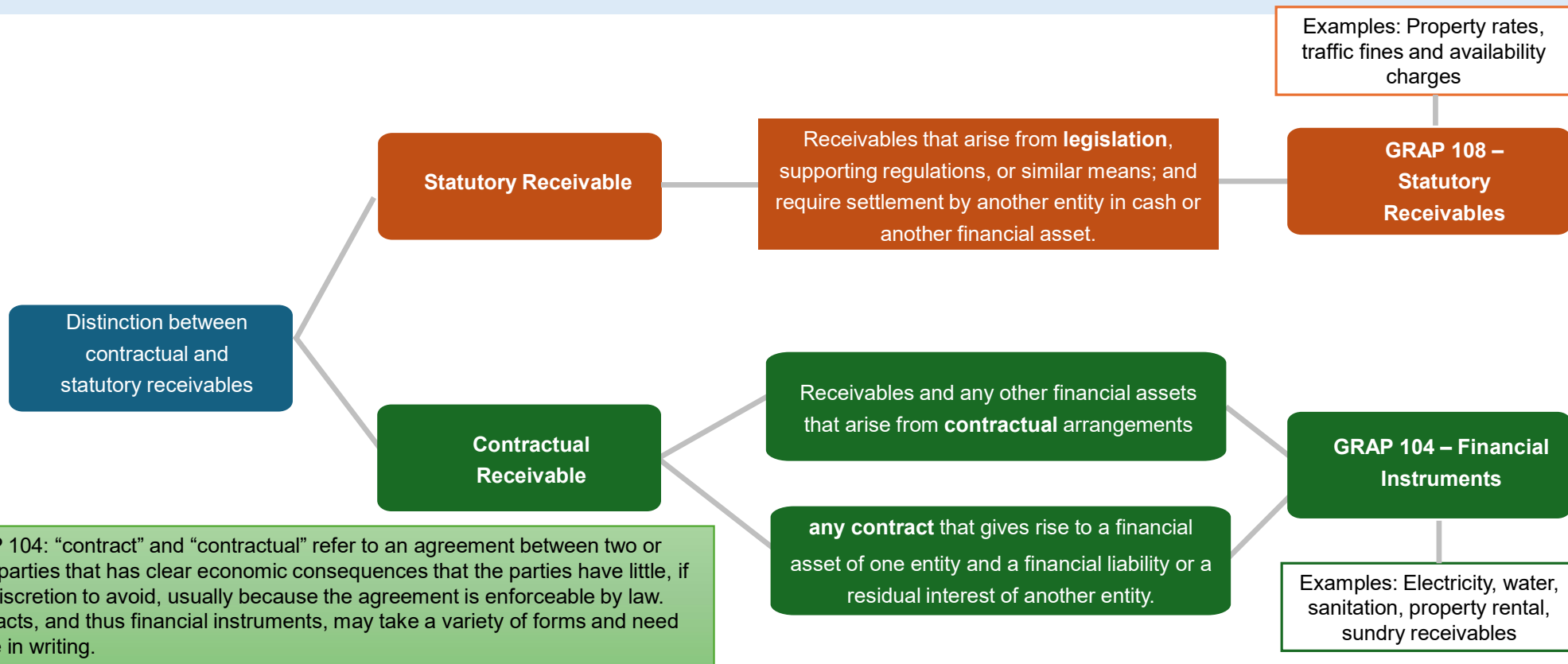
DEBTORS AND THE EXPECTED CREDIT LOSS MODEL



Debtors and Expected Credit Loss Model

Distinction between Statutory and Contractual Receivables

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Debtors and Expected Credit Loss Model

Requirements for impairment: Simplified approach for receivables and lease receivables



Simplified Approach (GRAP 104)

A Practical, Straightforward Approach to Expected Credit Losses



Measure Lifetime Expected Credit Losses at all times.

Recognise the full expected credit losses over the entire remaining life of the receivable from initial recognition.

What This Means

- ✓ No need to assess changes in credit risk
- ✓ No staging (no Stage 1, 2 or 3)
- ✓ A single approach is applied consistently to all balances within the scope

Applies To



Receivables
(e.g. consumer debtors, trade receivables)



Lease Receivables
(e.g. amounts due from lessees under operating or finance leases)

How It Is Applied

Usually calculated using a **Provision Matrix**



Historical Loss Experience
Past default and collection patterns

+



Current Conditions
Current economic and specific debtor circumstances

+



Forward-Looking Information
Reasonable and supportable forecasts

Practical Outcome

The carrying amount of receivables and lease receivables is reduced by the Lifetime Expected Credit Loss allowance from day one and at each reporting date.

Key Principle

Always recognise **Lifetime Expected Credit Losses**.

Simple Takeaway

Simplified Approach = No staging + Lifetime ECL from day one

Debtors and Expected Credit Loss Model

Simplified Approach: Extract of GRAP Standard: Determining ECL



Extract of GRAP 104 Standard:

- 5.32 An entity shall measure expected credit losses of a financial instrument in a way that reflects:
 - (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
 - (b) the time value of money; and
 - (c) reasonable and supportable information that is available **without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.**
- **5.34** The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with practice.
- **8.55 For receivables and lease receivables to which an entity applies, the information provided in accordance with paragraph 8.54 may be based on a provision matrix (see Appendix A paragraph AG5.95).**
- **GRAP 104 is not prescriptive about how to develop a provision matrix. Various Approaches may be appropriate provided that they are consistent with the principles in GRAP 104.**

Debtors and Expected Credit Loss Model

Simplified Approach: Extract of Appendix D - Illustrative Example: Determining ECL



Extract of Illustrative Example: 11 — provision matrix

- C67. Municipality M has a portfolio of receivables of R30 million in 20X1 and operates only in one geographical region. The customer base consists of a large number of individual clients and the receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The receivables are measured at an amount equal to lifetime time expected credit losses.
- C68. To determine the expected credit losses for the portfolio, Municipality M uses a provision matrix. The **provision matrix** is based on its **historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates**. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. In this case it is forecast that economic conditions will deteriorate over the next year.

C69. On that basis, Municipality M estimates the following provision matrix:

	Current	1–30 days past due	31–60 days past due	61–90 days past due	More than 90 days past due
Default rate	0.3%	1.6%	3.6%	6.6%	10.6%

Debtors and Expected Credit Loss Model

Simplified Approach: Extract of Appendix D - Illustrative Example: Determining ECL



Extract of Illustrative Example: 11 — provision matrix

C70. The receivables from the large number of small customers amount to R30 million and are measured using the provision matrix.

	Gross carrying amount	Lifetime expected credit loss allowance (Gross carrying amount x lifetime expected credit loss rate)
	R	
Current	15 000 000	45 000
1–30 days past due	7 500 000	120 000
31–60 days past due	4 000 000	144 000
61–90 days past due	2 500 000	165 000
More than 90 days past due	1 000 000	106 000
	30 000 000	580 000

Debtors and Expected Credit Loss Model

Simplified Approach: Extract from the Application Guidance: Determining ECL



- AG5.95 “An entity may use **practical expedients when measuring expected credit losses** if they are consistent with the principles in paragraph 5.32. **An example of a practical expedient is the calculation of the expected credit losses on receivables using a provision matrix.** The entity would use its historical credit loss experience (adjusted as appropriate in accordance with paragraphs AG5.60 to AG5.114) for receivables to estimate the 12-month expected credit losses or the lifetime expected credit losses on the financial assets as relevant. Depending on the diversity of its customer base, the entity would use appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments. Examples of criteria that might be used to group assets include geographical region, product type, customer rating, collateral and type of customer (such as industrial or households).”
- AG5.102 “Paragraph 5.32(a) requires the estimate of expected credit losses to reflect an **unbiased and probability-weighted amount** that is determined by evaluating a range of possible outcomes.
- **In practice, this may not need to be a complex analysis.**
 - In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios.
 - For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount.
- In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will probably be needed.
- In those situations, the expected credit losses shall reflect at least two outcomes in accordance with paragraph 5.33.”

Debtors and Expected Credit Loss Model

Simplified Approach: Determining Estimating Expected Cash Flows



Estimate expected cash flows by considering all relevant information that affects collectability and timing of payments



Customer Payment Behaviour

- Segment customers (e.g. type, geographical area, nature) to improve accuracy
- Analyse historical payment patterns and trends
- Consider: Consistency of payments, Frequency of late payments, Default history



Ageing and Collection Trends

- Use debtor ageing to assess likelihood of recovery
- Consider segmentation
- Older balances generally have lower probability of collection and therefore higher expected credit losses



Contractual Terms and Conditions

- Consider all terms included in the agreement: Payment terms (due dates, instalments), Interest or penalties on overdue amounts, Disconnection or enforcement provisions
- Include options such as: Early settlement, Extensions or payment arrangements



Economic and Environmental Factors

- Take into account current and forward-looking conditions:
- Economic hardship in the community
 - Unemployment levels
 - Affordability of services
 - Adjust assumptions where external conditions impact collections

Debtors and Expected Credit Loss Model

Simplified Approach: Determining Estimating Expected Cash Flows



Estimate expected cash flows by considering all relevant information that affects collectability and timing of payments



Recoveries from Collateral

- Include expected cash flows from: Collateral held (where applicable)
- Assets that can be recovered or realised in terms of contract
- Only include collateral that is: Legally enforceable and realistically recoverable



Credit Enhancements

- Consider mechanisms that improve recoverability: Guarantees, Security deposits, Third-party payment arrangements
- Include only enhancements that are: Integral to the agreement and enforceable



Expected Life of the Financial Instrument

- Estimate cash flows over the expected life, not just contractual term
- If expected life cannot be reliably estimated: Use the remaining contractual period



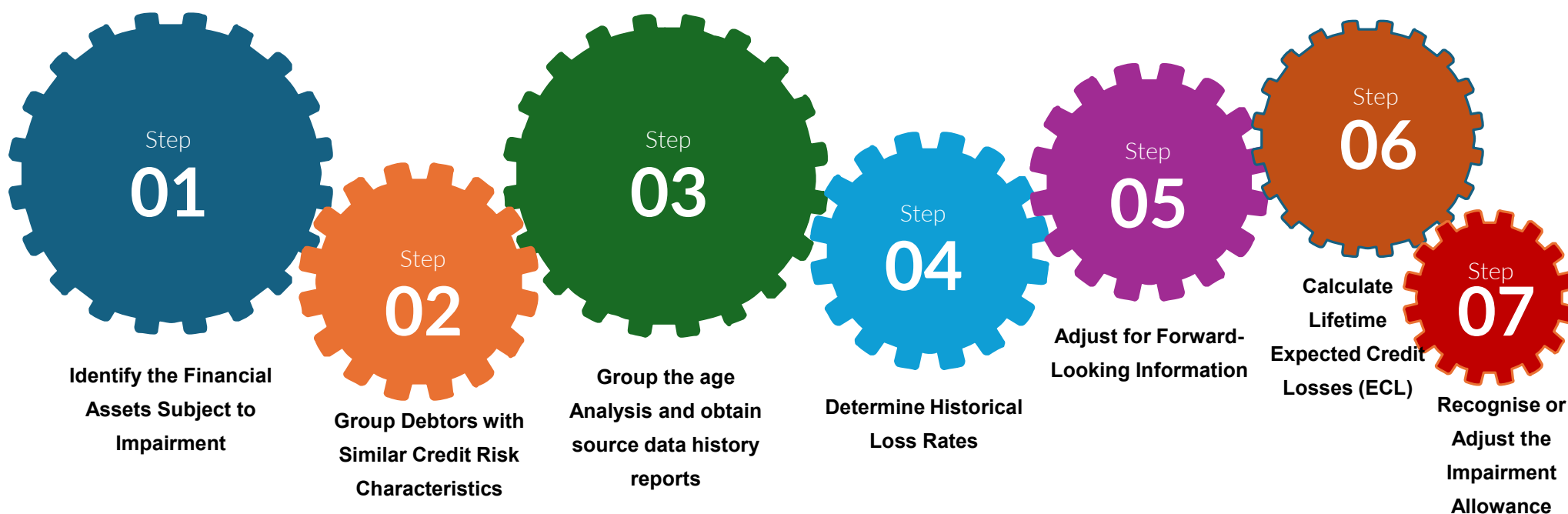
Key Principles

- Expected cash flows must be based on: Historical data, Current conditions, Forward Looking Considerations, and reasonable, supportable assumptions
- Consistency in methodology and clear supporting documentation for audit purposes

Debtors and Expected Credit Loss Model

Simplified Approach: Example of Step by Step Impairment Process Using a Provision Matrix

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Debtors and Expected Credit Loss Model

Simplified Approach: Step 1: Identify the Financial Assets Subject to Impairment



- The first step in applying the impairment requirements of **GRAP 104 (Revised)** is to identify all financial assets that fall within the scope of the Standard. This includes **all financial assets measured at amortised cost**, as these are subject to the expected credit loss (ECL) model.
- Typical municipal debtors include:
 - ☐ Service debtors arising from water, electricity, refuse, and sanitation services
 - ☐ Trade receivables arising from the sale of goods or services
 - ☐ Sundry and other receivables based on contractual arrangements
- ☐ Consideration must be given to separation of debtors data between statutory receivables (GRAP 108) and contractual receivables (GRAP 104), as only contractual receivables are considered in terms of GRAP 104, subject to exclusions in Standard.
- Under **GRAP 104 (Revised)**, receivables and lease receivables are subject to the **simplified approach**.
- This means that the Municipality **always applies lifetime expected credit losses** to debtors and does not apply the staging model or assess whether credit risk has increased significantly.

Debtors and Expected Credit Loss Model

Simplified Approach: Step 2: Group Debtors with Similar Credit Risk Characteristics



- GRAP 104 requires that expected credit losses be measured either individually or collectively, **depending on the nature of the financial assets**. GRAP 104 explicitly allows and expects collective assessment of financial instruments where individual assessment is not appropriate.
- Debtors as per the age analysis are grouped based on shared credit risk characteristics, such as:
 - ☐ The type of debtor (for example, households, businesses, government entities and indigent debtors)
 - ☐ Historical payment behaviour and collection patterns (debtors with likely prescribed balances and actively paying debtors)
 - ☐ Geographic location or socio-economic conditions (ward or area)
 - ☐ The nature of services provided (electricity, water, sanitation, refuse, rental and sundry debtors)
- Examples of common debtor groupings include:
 - ☐ Residential consumers
 - ☐ Commercial and industrial consumers,
 - ☐ Government departments and public entities
 - ☐ Indigent debtors
- Database may also be grouped by regional / ward area, where available and reliable. Level of grouping must be determined by municipality in the impairment methodology.
- Grouping debtors in this manner improves the accuracy and reliability of expected credit loss estimates, as it allows loss rates to reflect similar risk profiles.

Debtors and Expected Credit Loss Model

Simplified Approach: Step 3: Group the age analysis and obtain source data history reports



- An ageing analysis is prepared at the reporting date and serves as the primary indicator of credit risk for receivables. Ageing reflects how long amounts have been outstanding and is a strong predictor of the likelihood of non-payment.
- The age analysis should reflect for example, 0-30 days, 31-60 days, 61-90 days, 91-120 days, 120-150 days etc for each grouped profile of debtors, as adopted in the methodology.
- Obtain and retain supporting source data history reports used in the impairment assessment process. This should include historical sales or billing reports, collection reports, write-off history, collection trend reports, payment arrangement data, and ageing reports over a representative period to support the calculation of historical loss rates and expected credit losses.
- As receivables move into older ageing buckets, the probability of default generally increases. GRAP 104 permits and expects entities to rely on such observable data when estimating expected credit losses.

Debtors and Expected Credit Loss Model

Simplified Approach: Step 3: Group the age analysis and obtain source data history reports



Example on the application of grouping to the debtors age analysis:

Row Labels	Sum of Current	Sum of 30 Days	Sum of 60 Days	Sum of 90 Days	Sum of 120 Days	Sum of 150 Days	Sum of 180 Days	Sum of 210 Days	Sum of 240 Days	Sum of 270 Days	Sum of 300 Days	Sum of 330 Days	Sum of 360 Days	Sum of 390 + Days	Sum of TOTAL
Electricity	61539830.96	6701371.22	4157831.58	3799800.51	3683916.67	2598816.66	2600123.09	2884832.59	2659290.99	2280391.03	4010038.1	3553205.8	3147095.12	27811803.66	131428348
Commercial	45960798.64	5943637.55	3635795.55	2499453.7	2924792.71	2148539.91	1891702.56	2686639.29	2119134.76	1964757.53	3498045.86	3322099.53	2555398.85	20637079.54	101787876
Government	13753022.06	48413.94	42356.8	64098	79982.12	78173.84	88732.66	54364.77	47292.09	62641.24	99247.68	51286.33	30641.89	1326207.63	15826461.05
Indigent	99332.98	17416.89	6840.26	63822.81	23478.01	8984.94	34639.56	119.42	139.88	3519.09	821.93	1187.97	50444.64	146382.51	457130.89
Residential	1726677.28	691902.84	472838.97	1172426	655663.83	363117.97	585048.31	143709.11	492724.26	249473.17	411922.63	178631.97	510609.74	5702133.98	13356880.06
Property Rental	45231.87	41381.11	48499.97	48295.25	47913.96	47576	47397.35	47223.09	46893.26	46702.75	46522.59	45644.3	28653.9	1696755.24	2284690.64
Commercial	9469.24	6488.7	6526.22	6525.32	6524.44	6523.55	6522.47	6521.58	6520.7	6519.62	6518.73	6517.84	6430.82	367397.78	455007.01
Residential	35762.63	34892.41	41973.75	41769.93	41389.52	41052.45	40874.88	40701.51	40372.56	40183.13	40003.86	39126.46	22223.08	1329357.46	1829683.63
Service Charges	0.07	0.07	58.81	Sum of 90 Days	7.83	0.07	0.07	2611.42	7021.7	2437.33	0.07	3524.92	21760.22	37574.73	
Commercial	0	0	0	Value: 41769.93	0	0	0	174.09	174.09	290.15	0	111.9	951.15	1701.38	
Government	0	0	58.74	Row: Property Rental - Residential	0	0	0	0	58.03	348.18	0	0	2077.45	2542.4	
Indigent	0	0	0	Column: Sum of 90 Days	0	0	0	0	290.15	58.03	0	0	343	691.18	
Residential	0.07	0.07	0.07		12.08	147.83	0.07	0.07	2437.33	6499.43	1740.97	0.07	3413.02	18388.62	32639.77
Sundry	732451.91	1254496.85	153789.97	772089.67	167476.24	1883003.87	122851.77	121870.31	200692.38	1233576.49	133029.42	163518.1	2064644.76	11867639.39	20871131.13
Commercial	31656.41	2609.7	127.96	127.96	3391.7	149.44	172.5	195.57	238.68	1759.84	127.96	127.96	0	29879.43	70565.11
Government	314633.2	1206754.95	120749.04	680706.93	119357.07	1838051.14	103760.69	103760.69	168809.41	1213521.49	94965.81	95065.07	2018885.22	10786610.7	18865631.41
Indigent	3316.15	52.39	61.01	3324.77	61.01	6582.19	12.21	12.21	12.21	12.21	12.21	414.05	4662.54	14487.76	33022.92
Residential	382846.15	45079.81	32851.96	87930.01	44666.46	38221.1	18906.37	17901.84	31632.08	18282.95	37923.44	67911.02	41097	1036661.5	1901911.69
Waste	1824289.98	2868553.6	3145741.65	3090034.99	3065284.45	3038857.05	3002787.57	2979967.93	2957809.76	2893380.81	2885778.6	2845453.29	2060848.52	80841899.52	117500687.7
Commercial	477954.86	125784.22	99102.91	91098.73	90024.93	86182.52	82071.57	75365.72	79386.88	74158.44	97491.48	68449.5	52164.46	1901774.91	3401011.13
Government	154956.04	76875.14	78140.74	76462.13	75791.13	78544.26	73782.65	72987.69	71896.78	70583.83	69205.35	68280.26	73765.21	3053791.12	4095062.33
Indigent	139510.61	94904.21	95172.45	93960.76	92445.1	91602.18	90604.24	89871.39	89293.75	88520.66	87910.24	96673.01	46208.79	1746219.81	2942897.2
Residential	1051868.47	2570990.03	2873325.55	2828513.37	2807023.29	2782528.09	2756329.11	2741743.13	2717232.35	2660117.88	2631171.53	2612050.52	1888710.06	74140113.68	107061717.1
Grand Total	64141804.79	10865802.85	7505921.98	7710220.49	6964603.4	7568401.41	5773159.85	6033893.99	5867297.81	6461072.78	7077806.04	6607821.56	7304767.22	122239858	272122432.2

This can further be separated into actively paying accounts and fully impaired debtor accounts based on credit risk considerations

Debtors and Expected Credit Loss Model

Simplified Approach: Step 3: Group the age analysis and obtain source data history reports



Example on the analysis of the collection report history reports:

Row Labels	Sum of Current	Sum of 30 Days	Sum of 60 Days	Sum of 90 Days	Sum of 120 Days	Sum of 150 Days	Sum of 180 Days	Sum of 240 Days	Sum of 270 Days	Sum of 300 Days	Sum of 330 Days	Sum of 360 Days	Sum of 390 + Days	Sum of Total
Active paying accounts	-202713.59	-26396944.45	-2518613.9	-273572.65	-50530.94	-208066.78	-200993.5	-54145.19	-45485.79	-44653.67	-25027.76	-13767.71	-269664.55	-30540515.45
Electricity	-150164.31	-25931200.49	-2313649.96	-237204.95	-40937.94	-194093.71	-191704.15	-44886.63	-35217.54	-41310.39	-16753.72	-5240.5	-72763.33	-29486108.23
Commercial	-114172.88	-25102726.19	-2096425.53	-212546.97	-40262.27	-190093.71	-174678.04	-44389.79	-34955.09	-31091.67	-14553.45	-81.09	-23394.15	-28254219.67
Government	0	-39146.32	-800.94	-4339.53	0	0	0	0	0	-5000	0	-62.68	-27875.11	-77283.32
Indigent	0	-8462.31	-5213.49	-198.94	0	0	0	0	0	0	0	0	-970.89	-14996.69
Residential	-35991.43	-780865.67	-211210	-20119.51	-675.67	-4000	-17026.11	-496.84	-262.45	-5218.72	-2200.27	-5096.73	-20523.18	-1139608.55
Property Rental	-253.57	-490.14	-151.29	-142.55	0	0	0	0	-100	0	0	0	-658	-2503
Residential	-253.57	-490.14	-151.29	-142.55	0	0	0	0	-100	0	0	0	-658	-2503
Service Charges	0	0	0	0	-58.03	0	0	0	0	-55.95	0	-55.95	-43.26	-213.19
Government	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Residential	0	0	0	0	-58.03	0	0	0	0	-55.95	0	-55.95	-43.26	-213.19
Sundry	-7525.3	-11035.19	-11879.58	-1950.15	-17.03	0	0	-145.63	0	0	0	-1088.76	-2413.13	-42529.14
Commercial	0	-2808.15	-7657.06	0	0	0	0	-145.63	0	0	0	0	0	-10610.84
Government	0	0	0	0	0	0	0	0	0	0	0	0	-357.03	-357.03
Indigent	0	0	0	0	0	0	0	0	0	0	0	-948.76	0	-948.76
Residential	-7525.3	-8227.04	-4222.52	-1950.15	-17.03	0	0	0	0	0	0	-140	-2056.1	-30612.51
Waste	-44770.41	-454218.63	-192933.07	-34275	-9517.94	-13973.07	-9289.35	-9112.93	-10168.25	-3287.33	-8274.04	-7382.5	-193786.83	-1009161.89
Commercial	-4715.68	-136894.99	-23562.73	-8595.36	-1773.07	-2513.92	-330.27	-1763.32	-2710.87	-250.61	-1921.42	-1912.31	-17239.8	-209961.97
Government	-153.07	-2778.46	-3500.28	-1132.12	-1828.23	-1782.44	-1833.41	-1821.01	-1852.25	-171.82	-1703.41	-1462.35	-21509.72	-41672.81
Indigent	-57.05	-1432.9	-2243.89	-657.46	-395.41	-153.95	-191.27	-384.83	-278.14	-65.92	-216.94	-208.42	-6325.09	-13243.47
Residential	-39844.61	-313112.28	-163626.17	-23890.06	-5521.23	-9522.76	-6934.4	-5143.77	-5326.99	-2798.98	-4432.27	-3799.42	-148712.22	-744283.64
Grand Total	-202713.59	-26396944.45	-2518613.9	-273572.65	-50530.94	-208066.78	-200993.5	-54145.19	-45485.79	-44653.67	-25027.76	-13767.71	-269664.55	-30540515.45

Used to determine collection trends based on payments received and allocated to aging bucket. Historical loss rates can therefore be derived as the inverse of average collection rates (100% less the average collection rate per aging bucket) for actively paying accounts

Debtors and Expected Credit Loss Model

Simplified Approach: Step 4: Determine Historical Loss Rates



- Historical loss rates are determined using previous write-off experience, including other credit loss indicators over a reasonable and representative period, to ensure that impairment estimates are grounded in objective, supportable evidence rather than subjective judgement.
- Historical loss rates are calculated by **determining** historical loss data (e.g. prescribed debt, debt write offs, incentives provided, irrecoverable debt). Historical loss rates may further be calculated using the collection trend per aging bucket for impairment considerations. **It is not limited to bad debt written off only.**

Extract of NT Provision Matrix Toolkit Example for Calculation of Historical Loss Rate:

Note: this is not only limited to bad debt write-offs. It is the historical loss rate calculated using all historical information in the municipality

Note: This is illustrative. Municipalities must still consider historical loss data that is relevant, and apply segmentation to aging buckets and grouping as per the municipal methodology.

Age	Balance at YE	Cumulative uncollected	Bad debts	Bad debts as percentage of uncollected amount (historical loss rate)	ECL before adjustment for forward looking info	Forward looking adjustment *		ECL
						1.1	Adjusted loss rate	
	A	B	C	D (C/B)	E (A x D)	F	G (F/B)	H (A x G)
Current	286 100	2 944 600	76 000	2.58%	7 384	83 600	2.84%	8 123
31-60 days	310 000	1 321 400	76 000	5.75%	17 830	83 600	6.33%	19 613
61-90 days	266 600	1 167 400	76 000	6.51%	17 356	83 600	7.16%	19 092
>90 days	172 700	1 111 400	76 000	6.84%	11 810	83 600	6.84%	11 810
	1 035 400				54 380			58 637

Debtors and Expected Credit Loss Model

Simplified Approach: Step 5: Adjust for Forward-Looking Information



- GRAP 104 requires municipalities to **consider current conditions and reasonable, supportable forward-looking information** when assessing expected credit losses. This ensures that impairment estimates remain relevant and reflect expected future collection trends rather than relying only on historical collection patterns.
- The standard also **recognises that forward-looking information should be incorporated without undue cost and effort.** Municipalities may therefore use simple, practical approaches based on available economic and collection information to support impairment assessments relevant to the entity, to their debtor profiles and groupings.
- Forward-looking factors may include **internal and external information, and needs to be defined in methodology:**
 - ☐ Economic conditions such as unemployment, inflation, or economic growth, recessions,
 - ☐ Changes in municipal policies, such as indigent relief or debt relief programmes
 - ☐ Trends in collections and enforcement effectiveness
 - ☐ Industry specific risks
 - ☐ Changes in government policy or legislation
- For example, if an economic downturn is expected to negatively affect households' ability to pay, historical loss rates may be increased to reflect higher expected defaults.
- Forward-looking information should be compared to historical collection trends and debtor growth levels to determine whether past collection patterns are still expected to continue under current and future economic conditions, and its impact on expected credit losses.

Debtors and Expected Credit Loss Model

Simplified Approach: Step 5: Adjust for Forward-Looking Information



- **Example of a Simple Forward Looking Information Model for Illustration Purposes:**

- **Identify Relevant Economic Indicators:** Management identifies economic indicators expected to affect customer payment behaviour over the next 12 months:

Economic Indicator	Current Condition	Expected Impact on Collections
Unemployment rate	Increasing	Negative
Inflation	Increasing	Negative
Electricity tariff increases	Significant increase expected	Negative
Local business closures	Increasing	Negative
Consumer debt levels	High	Negative
Interest rates	Stable	Neutral

Can be
weighted as
per the
municipal
methodology

- **Note:** This must be relevant to the municipality, and indicators used can vary across municipalities. Management determines which indicators are relevant, and documents this in the methodology.

Debtors and Expected Credit Loss Model

Simplified Approach: Step 5: Adjust for Forward-Looking Information



Example of a Simple Forward Looking Information Model for Illustration Purposes:

- **Perform Historical Data Analysis:** Management analyses historical municipal collection performance against previous economic conditions over two financial periods by quarter (2024/25 and 2025/26) to determine how changes in economic indicators affected customer payment behaviour and collection rates.

Financial Period	Quarter	Unemployment Rate	Inflation Rate	Tariff Increase	Debtors Outstanding	Collection Rate
2024/25	Q1	31.5%	5.2%	5%	R68 million	93.6%
2024/25	Q2	32.1%	5.8%	0%	R71 million	93.1%
2024/25	Q3	33.0%	6.4%	0%	R75 million	92.5%
2024/25	Q4	34.2%	6.9%	0%	R79 million	91.8%
2025/26	Q1	34.8%	7.1%	12%	R82 million	91.2%
2025/26	Q2	35.5%	7.6%	0%	R86 million	90.7%
2025/26	Q3	35.0%	6.8%	0%	R84 million	91.3%
2025/26	Q4	34.0%	5.9%	0%	R80 million	92.1%

Debtors and Expected Credit Loss Model

Simplified Approach: Step 5: Adjust for Forward-Looking Information



- Projected Forward-Looking Data for 2026/27 and 2027/28:

Financial Period	Quarter	Projected Unemployment Rate	Projected Inflation Rate	Tariff Increase	Projected Debtors Outstanding	Projected Collection Rate
2026/27	Q1	34.3%	6.1%	9%	R83 million	91.7%
2026/27	Q2	34.6%	6.3%	0%	R85 million	91.4%
2026/27	Q3	34.8%	6.0%	0%	R86 million	91.3%
2026/27	Q4	34.5%	5.7%	0%	R84 million	91.6%
2027/28	Q1	34.2%	5.5%	8%	R86 million	91.8%
2027/28	Q2	34.0%	5.3%	0%	R87 million	92.0%
2027/28	Q3	33.8%	5.1%	0%	R86 million	92.2%
2027/28	Q4	33.5%	4.9%	0%	R84 million	92.5%

Debtors and Expected Credit Loss Model

Simplified Approach: Step 5: Adjust for Forward-Looking Information



- **Example of a Simple Forward Looking Information Model for Illustration Purposes:**
- **Projected Analysis:** Management projects that unemployment will remain elevated during 2026/27 but gradually improve during 2027/28. Inflation is expected to reduce slowly over the two-year period, while annual tariff increases are only applied in Quarter 1 of each financial year.

Base Position	Unemployment Rate	Inflation Rate	Debtors Outstanding	Collection Rate
2025/26 Q4	34.0%	5.9%	R80 million	92.1%
Projected Position	Unemployment Rate	Inflation Rate	Debtors Outstanding	Collection Rate
2026/27 Q4	34.5%	5.7%	R84 million	91.6%
2027/28 Q4	33.5%	4.9%	R84 million	92.5%

Debtors and Expected Credit Loss Model

Simplified Approach: Step 5: Adjust for Forward-Looking Information



- **Key Forward-Looking Adjustment Drivers:**

- **A: Unemployment Adjustment:**

Indicator	2026/27	2027/28
Change in unemployment	Increase by 0.5%	Decrease by 0.5%
Impact on collection rate	Negative	Positive
Adjustment applied*	-0.3%	+0.3%

Higher unemployment reduces customer affordability and collections. Improving employment conditions support better collections.

- **B: Inflation Adjustment:**

Indicator	2026/27	2027/28
Inflation movement	Slight decrease	Significant decrease
Affordability impact	Limited improvement	Improved affordability
Adjustment applied*	+0.1%	+0.4%

Lower inflation improves household affordability and payment behaviour.

***Applied based on weighting criteria as per methodology**

Debtors and Expected Credit Loss Model

Simplified Approach: Step 5: Adjust for Forward-Looking Information



- **Key Forward-Looking Adjustment Drivers:**

- **C: Tariff Adjustments**

Financial Year	Tariff Increase	Adjustment Applied*
2026/27	9%	-0.6%
2027/28	8%	-0.4%

Annual tariff increases place pressure on customer affordability and reduce short-term collections.

** Applied based on weighting criteria as per methodology*

Summary of Forward-Looking Adjustments: 2026/27 impact

Economic Indicator	Adjustment
Unemployment increase	-0.3%
Inflation improvement	+0.1%
Tariff increase impact	-0.6%

Net Adjustment – 0.3% + 0.1% – 0.6% = – 0.8%

Debtors and Expected Credit Loss Model

Simplified Approach: Step 5: Adjust for Forward-Looking Information



- **Key Forward-Looking Adjustment Drivers:**

Summary of Forward-Looking Adjustments: 2027/28 impact

Economic Indicator	Adjustment
Unemployment improvement	+0.3%
Inflation improvement	+0.4%
Tariff increase impact	-0.4%

Net Adjustment = $+0.3\% + 0.4\% - 0.4\% = +0.3\%$

Total Forward Looking Adjustment to be applied: $- 0.8\% + 0.3\% = - 0.5\%$

Debtors and Expected Credit Loss Model

Simplified Approach: Step 6: Calculate Lifetime Expected Credit Losses (ECL)



Analyse historical debtor collection performance by extracting prior year collection reports and ageing allocation information from the system functionality. Evaluate actual amounts received, timing of collections, allocation of payments to specific ageing buckets, historical recovery percentages, and migration patterns between ageing categories to establish reliable historical collection trends and recovery behaviour.



Project future cash flow recoveries by applying historical payment trends to current outstanding debtor balances. Estimate expected future collections per ageing category and determine the anticipated timing of recoveries based on observed payment behaviour.



Apply discounting to projected future cash flows using projected interest rates and expected recovery periods to determine the present value of anticipated collections. Ensure that discounting appropriately reflects the time value of money and future recovery risk in accordance with GRAP 104 principles.



Calculate Expected Credit Losses by comparing outstanding debtor balances to the present value of projected future cash flow recoveries after incorporating forward-looking adjustments and discounting assumptions. Reassess collection trends, economic indicators, projected recovery timing, and discount rates at each reporting date to ensure that impairment provisions remain reasonable, supportable, evidence-based, and reflective of current and anticipated future collection conditions.

Refer to slides 16-22 on application of discounting.

Debtors and Expected Credit Loss Model

Simplified Approach: Step 6: Calculate Lifetime Expected Credit Losses (ECL)



- Once adjusted loss rates have been determined, lifetime expected credit losses are calculated by applying those rates to the outstanding debtor balances in each ageing category.

- Formula: Expected Credit Loss = Debtor balance × Adjusted loss rate

Debtor Category	Ageing Bucket	Aging Debtor Balance (R)	Discount (R)	Discounted Aging Balance (R)	Historical Loss Rate	Forward-Looking Adjustment	Adjusted Loss Rate	Expected Credit Loss (Includes Discount) (R)
Residential	Current	500,000	10,000	490,000	2.00%	-0.50%	1.50%	17,350
Residential	1–30 days	200,000	19,680	180,320	4.00%	-0.50%	3.50%	25,991
Residential	31–60 days	150,000	31,725	118,275	7.00%	-0.50%	6.50%	39,413
Residential	61–90 days	100,000	31,000	69,000	12.00%	-0.50%	11.50%	38,935
Residential	91–120 days	80,000	34,240	45,760	18.00%	-0.50%	17.50%	42,248
Residential	121+ days	70,000	47,600	22,400	30.00%	-0.50%	29.50%	54,208
Total		1,100,000	174,245	925,755		-0.50%		218,145

Debtors and Expected Credit Loss Model

Simplified Approach: Step 7: Recognise or Adjust the Impairment Allowance



- The calculated expected credit loss is compared to the existing loss allowance recognised in prior periods. Any difference results in an impairment loss or reversal recognised in surplus or deficit.
- Example: Existing loss allowance: R 50,400 Required loss allowance: R 70,400 Increase in impairment: R 20,000
- Ensure that the G/L impairment amount is accounted for excluding VAT (Financial Performance).

Transaction	Debit	Credit
Recognition of impairment	Gains and losses: impairment: Trade and Other Receivables from Exchange Transactions: Electricity (excl VAT) Current liabilities: Output Tax :Provision for Doubtful Debt Impairment: Recognised (VAT)	Current assets: receivables from exchange electricity: Impairment: Recognised (incl VAT)

Debtors and Expected Credit Loss Model Accounting for Bad Debt Write-Offs



Transaction	Debit	Credit
Bad debt written Off <i>(as per NT Circulars and current accounting practice)</i>	Expenditure: bad debt written off (excl VAT)	Current assets: receivables from exchange: electricity: bad debt
	Current liabilities: VAT Credit: Output Tax Accrual: Recognised	written off (incl VAT)
	Current assets: receivables from exchange: electricity: impairment: Reversal (incl VAT)	Gains and losses: reversal of impairment: Trade and Other Receivables from Exchange Transactions: electricity (excl VAT)
		Current liabilities: Output Tax: Provision for Doubtful Debt Impairment: Transfers (VAT)

Note: The ASB revised Fact Sheet 3 on receivables (updated March 2026), and therefore the bad debt write off is recognised directly against the impairment loss under current assets, and is no longer posted to the Financial Performance.

Debtors and Expected Credit Loss Model

Accounting for Bad Debt Write-Offs



Write-off

An entity shall directly reduce the gross carrying amount of a receivable when the entity writes off the receivable. Write-off constitutes a derecognition event.

Interaction between write-off and loss allowance

Entities can apply either of the following approaches for the recognition of the debit side of the entry:

Approach A: Write-off is recognised by removing any balance in the loss allowance for the specific financial asset and recognising any additional amount in the statement of financial performance.

Approach B: An impairment loss/gain is recognised against the loss allowance to align the loss allowance with the write-off amount. The full amount of the write-off is then recognised against the loss allowance.

Paragraphs
5.16, 5.17, 8.49
and 8.50, BC81-
BC82

Extract of the Fact Sheet 3: Change in the recognition of the write-off

Debtors and Expected Credit Loss Model Accounting for Bad Debt Write-Offs



Transaction	Debit	Credit
Bad debt written Off <i>(taking into account the ASB Fact Sheet 3 guidance on the write-off of debt)</i>	Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Impairment: Reversal (Ex VAT) – (NT Chart does not have Bad debt write-off yet) - R 100 Current liabilities: VAT Credit: Output Tax Accrual: Transfer (VAT) - R 15	Current assets: receivables from exchange: electricity: bad debt written off (incl VAT) – R 115
Recognition of VAT portion for write off against impairment allowance	Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Impairment: Reversal (VAT) – (VAT portion of write off fully reflected in impairment) – R 15	Current liabilities: Output Tax: Provision for Doubtful Debt Impairment: Transfer (VAT) – R 15

OTHER FINANCIAL INSTRUMENTS

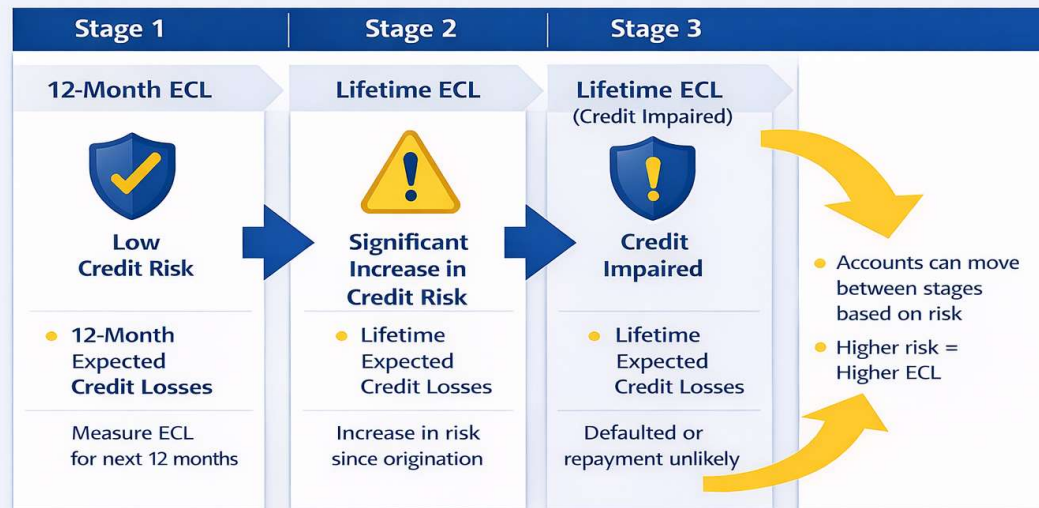


Other Financial Instruments

Requirements for impairment: General Approach



General Approach to GRAP 104 ECL Model



Key Principle: Higher credit risk = Higher expected credit loss.

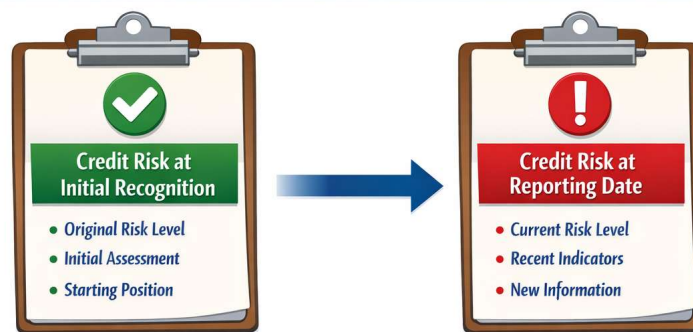
Other Financial Instruments

Determine Stage (Credit Risk Assessment)



- Credit risk assessment is used to determine whether there has been a significant increase in credit risk (SICR) since initial recognition. This determines whether the financial asset is classified in Stage 1, Stage 2, or Stage 3.

How to Perform Credit Risk Assessment



"Has the Risk of Default Increased Significantly
Since the Asset was First Recognised?"



Other Financial Instruments

General Approach: Step 2: Determine Stage (Credit Risk Assessment)



The municipality must assess whether credit risk has increased **since initial recognition**.

Stage	Condition	Measurement
Stage 1	No significant increase in credit risk	12-month ECL
Stage 2	Significant increase in credit risk	Lifetime ECL
Stage 3	Credit impaired	Lifetime ECL + interest on net balance

Other Financial Instruments

General Approach: Step 2: Determine Stage (Credit Risk Assessment)



- GRAP 104.5.25 An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (see Appendix A paragraphs AG5.81 to AG5.83)
- AG5.81 The credit risk on a financial instrument is considered low for the purposes of paragraph 5.25, if the **financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and operational conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.** Financial instruments are not considered to have low credit risk when they are regarded as having a low risk of loss simply because of the value of collateral and the financial instrument without that collateral would not be considered low credit risk. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the entity's other financial instruments or relative to the credit risk of the environment within which an entity operates.
- AG5.82 To determine whether a financial instrument has low credit risk, **an entity may use its internal credit risk ratings or other methodologies that are consistent with a globally understood definition of low credit risk and that consider the risks and the type of financial instruments that are being assessed. An external rating of "investment grade" is an example of a financial instrument that may be considered as having low credit risk.** However, financial instruments are not required to be externally rated to be considered to have low credit risk. They should, however, be considered to have low credit risk from a market participant perspective taking into account all of the terms and conditions of the financial instrument.

Other Financial Instruments

General Approach: Step 2: Determine Stage (Credit Risk Assessment)

#DIFFERENCE
#MAKERS

LOW CREDIT RISK

Assessing Financial Instruments under Revised GRAP 104

Low credit risk exists when the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term and longer term.



TYPICAL EXAMPLES

- Major bank balances and call accounts
- Fixed deposits with investment-grade banks
- Government bonds and treasury bills
- High-quality debt instruments
- Investments with reputable financial institutions
(Subject to ongoing assessment)

IMPACT ON ECL ASSESSMENT

- Assumed that credit risk has not increased significantly since initial recognition.
- Financial instrument remains in Stage 1.
- Recognise 12-month Expected Credit Losses.



KEY INDICATORS OF LOW CREDIT RISK

- Strong capacity to meet obligations
- Low likelihood of default
- High credit ratings (e.g. AAA, AA, A)
- No history of default
- Stable or improving financial indicators
- Favourable economic outlook
- No significant adverse changes in the counterparty

INDICATORS THAT CREDIT RISK HAS INCREASED

- Declining credit ratings
- Financial distress or liquidity problems
- Overdue payments
- Deteriorating economic conditions
- Adverse changes in the operating environment

DOCUMENTATION IS ESSENTIAL

- Credit ratings and assessments
- Treasury and investment committee evaluations
- Economic information and assumptions
- Management judgement and conclusion
- Ongoing monitoring and review



Low credit risk does not mean no risk. Continuous monitoring and reassessment are required at each reporting date.

Principle: Substance over form, forward-looking and evidence-based assessment.

Other Financial Instruments

General Approach: Step 2: Determine Stage (Credit Risk Assessment)



Payment Behaviour

Assess how consistently the debtor makes payments. Identify overdue amounts and missed payments. Monitor partial or irregular payments. Evaluate whether payment patterns are deteriorating.
Example: A debtor previously paid on time but is now consistently over 60 days overdue.

Ageing of Debt

Analyse how long amounts have been outstanding. Monitor movement between ageing categories.
Example of Indicator: Balances over 30 days indicate increased risk (past due), while 90+ days suggests significant risk (Default risk)

Financial Position of Debtor

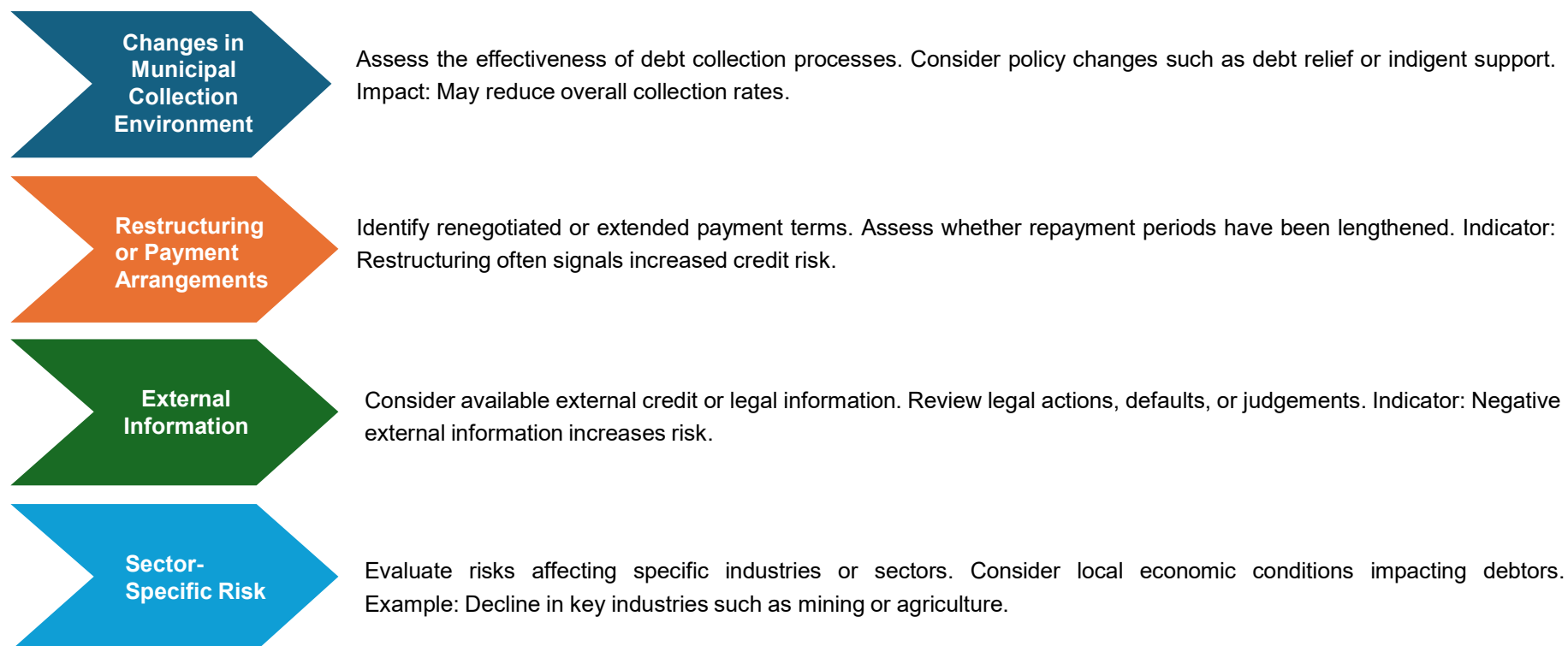
Assess whether the debtor shows signs of financial difficulty. Consider liquidity challenges and ability to pay
Example: A business in liquidation or a consumer experiencing financial hardship.

Changes in Economic Conditions

Consider broader economic factors affecting payment ability. Evaluate the impact of unemployment, inflation, or downturns. Impact: Reduced ability of customers to settle debts.

Other Financial Instruments

General Approach: Step 2: Determine Stage (Credit Risk Assessment)



Other Financial Instruments

General Approach: Step 3: Estimate Key Inputs



For each debtor (or group of debtors), estimate the following components to calculate expected credit losses:

Exposure at Default (EAD)

Represents the total amount owed by the debtor at the reporting date (Rand Value) Includes: Outstanding principal and Accrued interest (where applicable). For municipalities, this is typically the carrying amount of the receivable or loan.

Probability of Default (PD)

Represents the likelihood that the debtor will default over a specific period. Expressed as a percentage (e.g. 10%, 40%) Based on: Historical default patterns, Current payment behaviour, Forward-looking economic conditions

Loss Given Default (LGD)

Represents the portion of the exposure that will not be recovered if default occurs. Takes into account: Expected recoveries from the debtor, Collateral or security held, Legal recoveries or enforcement actions, Expressed as a percentage (e.g. 30%, 60%)

01

Exposure at Default (EAD): How much is at risk if the debtor defaults?

02

Probability of Default (PD): How likely is it probability of a debtor default?

03

Loss Given Default (LGD): If the debtor defaults, how much will we lose?

Document!

Other Financial Instruments

General Approach: Step 3: Estimate Key Inputs



- Identify outstanding principal balance
- Extract balance from debtor listing at reporting date
- Add accrued interest, if not already included in outstanding balance
- Include interest calculated using effective interest rate
- Include additional exposures (if relevant): Fees, penalties, or charges due
- Adjust for expected future drawings, where relevant for loan commitments or facilities



Exposure at Default (EAD)

- **Define Default:** For example: Default = 90+ days past due or legal action initiated
- **Calculate Historical Default Rate:**
 - ☐ Identify total number (or value) of debtors at start, Identify number (or value) that defaulted and Calculate default percentage
 - ☐ Formula: $PD = \text{Defaults during period} / \text{Total population}$
- **Determine PD Based on Stage:**
 - ☐ Stage 1 (12-month PD):→ Defaults expected within next 12 months
 - ☐ Stage 2 & 3 (Lifetime PD):→ Defaults expected over entire remaining life
- **Adjust for Forward-Looking Information:**
 - ☐ Adjust PD for economic conditions, Payment trends, Policy changes
 - ☐ Example: 50 defaults out of 1,000 accounts → PD = 5%



Probability of Default (PD)

Loss Given Default (LGD)

Other Financial Instruments

General Approach: Step 3: Estimate Key Inputs

#DIFFERENCE
#MAKERS

- **Identify defaulted accounts:** Based on defined default criteria
- **Determine total exposure at default (EAD)**
- **Calculate recoveries received:** Cash collections after default, Legal recoveries
- **Estimate future recoveries (if applicable)**
- **Deduct recovery costs:** Legal fees, Collection costs
- $LGD = (EAD - \text{Recoveries}) / EAD$
- For Example: EAD: R100,000 Recoveries: R30,000
Loss = R70,000



Loss Given Default
(LGD)

Probability of
Default (PD)

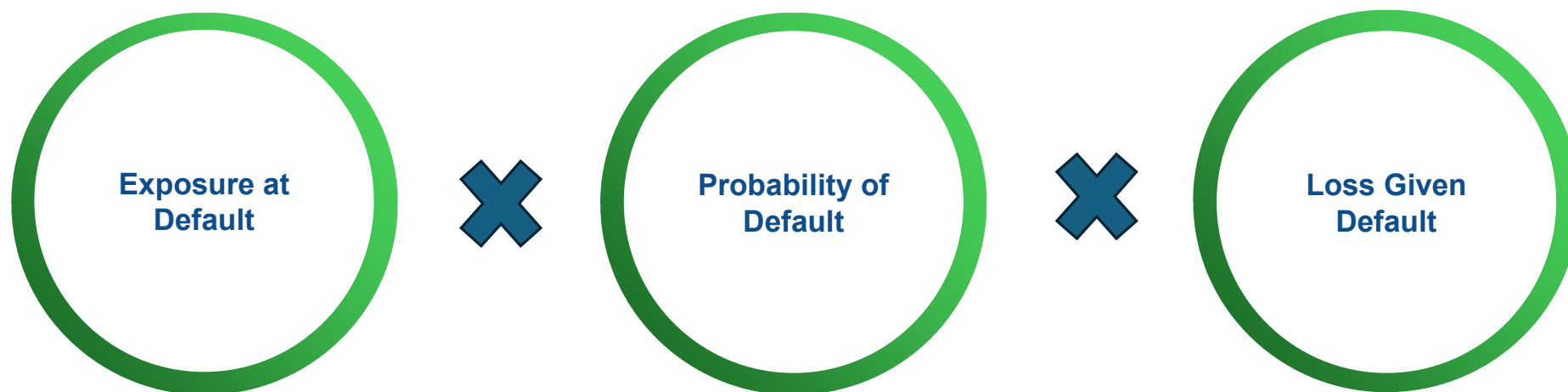


Other Financial Instruments

General Approach: Step 4: Calculate Expected Credit Loss



Calculate Expected Credit Losses:



Apply Based on Stage:

- Stage 1: Use 12-month PD - Only defaults expected in next 12 months
- Stage 2 & 3 : Use lifetime PD - All expected defaults over the remaining life

Other Financial Instruments

Bank Accounts and Investments



- **A deposit of cash with a bank or similar financial institution is a financial asset** because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability.
- AG4.19 requires an entity to assess whether contractual cash flows are solely payments of principal and interest (SPPI Test) on the principal amount outstanding for the currency in which the financial asset is denominated.
- Where the SPPI test is met, the investments and bank accounts will be classified at amortised cost.
- GRAP 104.5.25 An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date (see Appendix A paragraphs AG5.81 to AG5.83)
- Define what is considered low credit risk and the assessment process in the methodology.

Extract of Fact Sheet #2 – Revised March 2026

Classification

Principle

An entity considers the following criteria in classifying financial assets.

Classification as an instrument at amortised cost or fair value will depend on:

- (a) The management model for bank accounts, i.e. hold to collect contractual cash flows, or hold for sale.
- (b) The characteristics of the contractual cash flows of the bank accounts, i.e. whether the cash flows are solely payments of principal and interest (SPPI).

Interpretation

Bank accounts are likely to be classified using amortised cost as:

- entities will collect the contractual cash flows (the cash is repaid on demand or based on the notice period or other terms specified); and
- the cash flows are solely payments of principal (fair value on initial recognition will be repaid) and interest (based on the terms of the arrangement which are likely to include simple variable or fixed rates consistent with a basic lending arrangement).

Paragraph 4.1-
4.4 and AG4.1-
AG4.45

Other Financial Instruments

Bank Accounts and Investments



Undertaking a credit risk assessment – Amortised Cost



Identification of Bank and Investment Accounts:

Compile and maintain a complete register of all bank accounts, cash equivalents, deposits and investment instruments, including institution details, account types, maturity dates, interest rates and exposure values.



Credit Quality Assessment of Financial Institutions:

Assess the financial stability and regulatory standing of each financial institution using financial statements, credit ratings, Prudential Authority information, liquidity indicators, market reputation and external risk assessments.



Expected Credit Loss Indicator Assessment:

Identify impairment indicators such as credit rating downgrades, financial distress, restricted access to funds, market instability or legal disputes that may affect recoverability. Take into account payment history.



Probability of Default and Loss Assessment

Estimate the probability of default, exposure at default and potential loss given default to support the expected credit loss assessment in accordance with GRAP 104. Calculate expected credit loss (general approach)

Other Financial Instruments

Bank Accounts and Investments

DIFFERENCE
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Extract of Fact Sheet #2 – Revised March 2026

Original Balance
(before Deducting
Impairment)

Interest
revenue

Bank account – not credit impaired

Interest revenue = Gross carrying amount of bank account X EIR.

Bank account – becomes credit impaired after recognition (i.e. from beginning of next reporting period)

Interest revenue = Amortised cost* of bank account X EIR

*includes loss allowance.

Note: The principles for “purchased or originated credit impaired financial assets” have not been illustrated as this is unlikely for a bank account.

Paragraph
5.13-5.14

After Impairment

Other Financial Instruments

Loan Commitments



Loan Commitment:

A loan commitment is a contractual arrangement where one party commits to provide a loan or credit facility to another party in the future, subject to agreed terms and conditions.

A loan commitment is a promise to lend money.

Examples of Loan Commitments:

- A municipality approves a housing loan facility of R5 million to a housing entity, but only R2 million has been drawn at reporting date. Remaining commitment amount is R 3 million
- A municipality commits to provide a repayable development loan to a municipal entity over a three-year period - The undisbursed portion represents a loan commitment.

A loan commitment is not money already lent, it is an obligation to lend.



Refer to the GRAP 104 Standard, and guidance issued by the ASB should a loan commitment exist within the municipality.

Other Financial Instruments

Concessionary Loans Payable



Concessionary Loan Payable:

A concessionary loan is a loan received at terms that are more favourable than market terms.

e.g. No interest charged, below market related interest, reduced repayment requirements

Examples of Concessionary Loans Payable:

- Housing loans at reduced interest rates
- Development loans to municipal entities
- Community upliftment funding that is repayable
- Loans to public sector bodies at subsidised rates
- Infrastructure financing at below-market terms

Most concessionary loans payable are likely to be measured at amortised cost.
#Fact Sheet 5

Loan component of concessionary loans payable – Liability

Non-exchange revenue – GRAP 23

- Recognise at Fair Value less Transaction Costs
- Amortised cost is calculated as:
 - Amount initially recognised (fair value plus transaction costs)
 - minus Principal repayments
 - plus or minus Cumulative amortisation*

*by applying the effective interest rate (EIR).



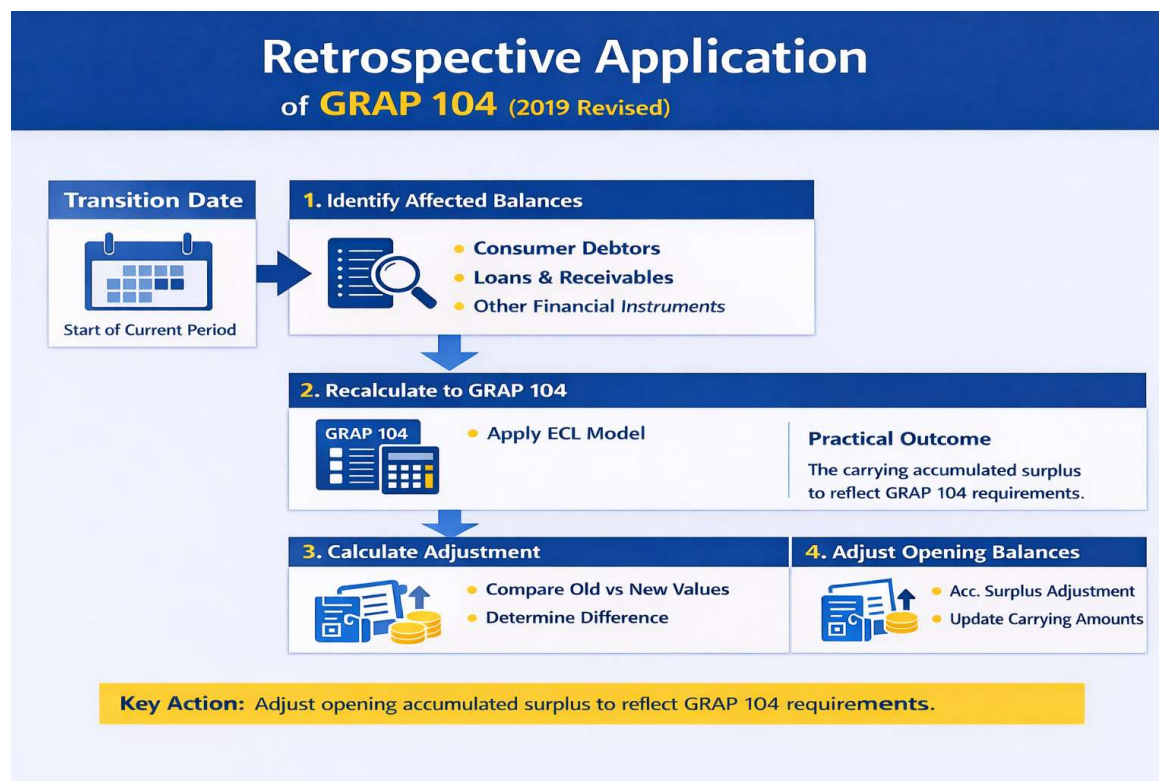
Refer to the GRAP 104 Standard, Fact Sheet #5 and guidance issued by the ASB should concessionary loans exist within the municipality.

TRANSITIONAL PROVISIONS



Transitional Provisions Retrospective Application

#DIFFERENCE
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Transitional Provisions Retrospective Application



Retrospective Application in the first year of adoption:

Retrospective application means that when a municipality applies the revised GRAP 104 for the first time, it must assess existing financial instruments as though the revised requirements had always been applied.

However, it does not process this adjustment as a prior year restatement.



Note: No prior year restatement in AFS. However, Change in Accounting Policy note to be included

Determine the effect of applying the revised standard at the beginning of the current reporting period and adjusts the opening balances accordingly (i.e. 1 July 2025)

Calculate the impairment as at 1 July 2025.

Process the impairment adjustment between 30 June 2025 (Previous GRAP 104 method) and 1 July 2025 (New GRAP 104 Method) as follows, in 2025-26 FY:

Assume an increase in debt impairment of R 20 million:

Dr : Net Assets: Accumulated Surplus/(Deficit): **Opening Balance** (Restates CY Opening Balance) – **Exclusive of VAT**

Dr : Liabilities: Current Liabilities: VAT Payable: Output Tax: Provision for Doubtful Debt Impairment: Opening Balance* - **VAT portion**

Cr : Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Impairment: Opening Balance* - **Inclusive of VAT**

*** Note: NT chart does not have the Change in Accounting Policy lines for these accounts hence opening balance lines are utilised**

Transitional Provisions

Application of the provisions to Statement of Net Assets



Statement of Net Assets					
	Housing Development Reserve	Self- Insurance Reserve	Total Reserves	Accumulated Surplus / (Deficit)	Total Net Assets
Opening balance as previously reported	1 200 000	800 000	2 000 000	10 000 000	12 000 000
Change in accounting policy [note 84]	-	-	-	(250 000)	(250 000)
Correction of error [note 54]	-	-	-	100 000	100 000
Balance as at 01 July 2024 as restated	1 200 000	800 000	2 000 000	9 850 000	11 850 000
Surplus / Deficit for the period [1p.113(a)]	-	-	-	1 850 000	1 850 000
Transfer to / from Reserves	250 000	150 000	400 000	(400 000)	-
Balance as at 30 June 2025 as restated	1 450 000	950 000	2 400 000	11 300 000	13 700 000
Change of accounting policies- GRAP 104	-	-	-	(2 300 000)	(2 300 000)
Balance as at 01 July 2025 as restated	1 450 000	950 000	2 400 000	9 000 000	11 400 000
Surplus / Deficit for the period [1p.113(a)]	-	-	-	2 200 000	2 200 000
Transfer to / from Reserves	300 000	200 000	500 000	(500 000)	-
Balance as at 30 June 2026	1 750 000	1 150 000	2 900 000	10 700 000	13 600 000

Calculate impairment in accordance with revised GRAP 104 as at 1 July 2025 using 30 June 2025 data and restate opening balance of current financial year

*Aligned to the NT mSCOA specimen 2025/26 FY

ACCOUNTING POLICIES



Accounting Policies

Review of Accounting Policies



Accounting policies should not simply restate the requirements of GRAP 104. They should explain how the municipality applies the Standard in practice, including its methodologies, judgements, assumptions, and significant accounting estimates.

Review existing accounting policies for alignment with the revised GRAP 104.

Ensure that accounting policies address revised GRAP 104 instruments and GRAP 108 – Statutory Receivables separately.

Describe the basis for recognition, measurement (initial and subsequent), impairment and derecognition (including bad debt written off)

Describe how the municipality classifies each of its financial instruments reported for example: Consumer receivables, long term receivables, Investments, Bank, Borrowings and Payables

Verify that the policies complement, and do not duplicate, the detailed disclosures in the notes.

Explain application of key concepts and significant judgements: historical loss determination, discounting, impairment, forward looking considerations, credit risk assessment

Align accounting policies with working papers, methodologies, and financial statement disclosures.

Include application of transitional provisions

Accounting Policies

Illustrative Example



Classification of Financial Assets and Financial Liabilities

The classification of financial assets and financial liabilities requires management to exercise judgement in determining the appropriate accounting treatment in accordance with the requirements of GRAP 104: *Financial Instruments*. In determining the classification of financial instruments, management considered the contractual terms of each instrument, the nature of the underlying rights and obligations, and the relevant recognition and measurement requirements of GRAP 104.

The Municipality's financial assets primarily comprise and are measured on the following basis

- Cash and cash equivalents;
- Investments;
- Consumer receivables arising from exchange transactions; and
- Sundry receivables.

Financial liabilities primarily comprise:

- Trade and other payables arising from exchange transactions;
- Borrowings;
- Lease liabilities and

Property rates, service availability charges and traffic fine receivables are recognised and measured in accordance with **GRAP 108: Statutory Receivables** and are therefore excluded from the scope of GRAP 104.

Management is satisfied that the classification applied appropriately reflects the substance of the Municipality's financial assets and financial liabilities.

Accounting Policies

Illustrative Example



Classification of Financial Instruments

A financial instrument is recognised when the Municipality becomes a party to the contractual provisions of the instrument. Financial assets are classified according to the Municipality's management model and the contractual cash flow characteristics of the instrument:

- **Amortised cost** – financial assets held to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding.
- **Fair value** – financial assets that are not classified as measured at amortised cost.
- **Cost** – investments in residual interests that have no quoted market price in an active market and whose fair value cannot be reliably measured.

Financial liabilities are contractual obligations to deliver cash or another financial asset and are measured at amortised cost.

Class of financial asset	Classification per GRAP 104	Prior year Measurement Basis - Old GRAP 104	Current year Measurement Basis – Revised GRAP 104
Cash and cash equivalents	Amortised cost	Amortised cost (incurred loss)	Amortised cost (ECL – general approach)
Investments	Amortised cost / Fair value	Amortised cost / Fair value	Amortised cost / Fair value (ECL)
Consumer receivables (exchange)	Amortised cost	Amortised cost (incurred loss)	Amortised cost (ECL – simplified approach)
Sundry receivables	Amortised cost	Amortised cost (incurred loss)	Amortised cost (ECL)

Class of financial liability	Classification per GRAP 104	Prior year Measurement Basis - Old GRAP 104	Current year Measurement Basis – Revised GRAP 104
Trade and other payables (exchange)	Amortised cost	Amortised cost	Amortised cost
Borrowings	Amortised cost	Amortised cost	Amortised cost
Lease liabilities	Amortised cost	Amortised cost	Amortised cost

Accounting Policies

Illustrative Example



Initial and Subsequent Measurement

Financial Assets

- **Amortised cost:** initially measured at fair value plus directly attributable transaction costs (the fair value of short-term receivables is the transaction price where the initial credit period is no longer than 30 days). Subsequently measured at amortised cost using the effective interest method less any impairment, with interest recognised on an effective yield basis. All gains, losses, interest and impairment losses are recognised in surplus or deficit.
- **Fair value:** initially measured at fair value, with directly attributable transaction costs recognised in surplus or deficit. Subsequently measured at fair value, with unrealised gains or losses recognised directly in equity until the investment is derecognised or impaired, at which point the cumulative gain or loss in equity is recognised in the Statement of Financial Performance.

Financial Liabilities

- **Amortised cost:** initially measured at fair value less directly attributable transaction costs (the fair value of short-term payables is the transaction price where the initial credit period is no longer than 30 days). Subsequently measured at amortised cost using the effective interest method, with interest recognised on an effective yield basis. All gains, losses and interest are recognised in surplus or deficit.
- **Fair value:** initially measured at fair value, with directly attributable transaction costs recognised in surplus or deficit. Subsequently measured at fair value, with any resulting gains or losses recognised in surplus or deficit.

Accounting Policies

Illustrative Example



Key Sources of Estimation Uncertainty

Impairment of Financial Assets (GRAP 104)

The Municipality applies the Expected Credit Loss (ECL) model in accordance with GRAP 104 when assessing impairment of financial assets measured at amortised cost. The **simplified approach** is applied to trade receivables and lease receivables, whereby lifetime expected credit losses are recognised from initial recognition until derecognition.

Expected credit losses are determined using a provision matrix methodology, which incorporates historical payment behaviour, current conditions and reasonable and supportable forward-looking information.

Management exercises significant judgement in determining the following assumptions:

Grouping of Receivables

Receivables are grouped based on similar credit risk characteristics to ensure that historical payment behaviour is representative of each portfolio.

The Municipality groups financial receivables into categories including Residential consumers, Business consumers, Government Departments, Municipal entities, and Indigent consumers.

Historical Collection Behaviour

Historical payment profiles are analysed over the previous three financial years to determine expected collection patterns across ageing categories. Historical payment trends are evaluated to determine the probability that outstanding balances will ultimately be collected.

Ageing Profiles

Receivables are analysed using ageing categories designed to reflect the Municipality's collection experience. Where appropriate, ageing buckets are consolidated to improve the statistical reliability of the impairment model.

Accounting Policies

Illustrative Example



Impairment of Financial Assets (Continued)

Align to municipal policy

Default

The Municipality considers a financial asset to be in default when it is more than 90 days past due, or when there is evidence that the debtor is unlikely to pay its credit obligations in full without recourse by the Municipality, such as legal action or a credit-enhancing guarantee.

General Approach

The general approach is applied to cash and cash equivalents and non-current receivables. The loss allowance is determined based on whether there has been a significant increase in credit risk since initial recognition of the financial asset:

- where credit risk has not increased significantly, the loss allowance is measured at an amount equal to the 12-month expected credit losses; and
- where credit risk has increased significantly, lifetime expected credit losses are recognised.

Credit risk is assumed to have increased significantly when the balance is more than 30 days past due, and is considered not to have increased where credit risk is assessed as low. A financial asset is in default when it is more than 90 days past due or the debtor is unlikely to pay in full without recourse by the Municipality.

Measurement of Expected Credit Losses

Expected credit losses are a probability-weighted estimate of credit losses, derived from historical payment patterns and adjusted where necessary for current conditions and reasonable, supportable forward-looking information. Credit losses are measured as the present value of all cash shortfalls and are discounted using the effective interest rate of the financial asset.

Accounting Policies

Illustrative Example



Discounting of Expected Cash Flows

Where expected cash flows are expected to be recovered over an extended period, the Municipality assesses whether discounting is required to determine the present value of expected recoveries. Where the effect of the time value of money is material, expected future cash flows are discounted using the original effective interest rate or an appropriate market-related discount rate, as required by GRAP 104.

Although interest is charged on overdue consumer accounts at the approved municipal interest rate, management assessed the effect of discounting and concluded that the impact on the impairment allowance was not material. Accordingly, expected credit losses were not discounted to present value.

OR

Management concluded that the timing of expected future cash flows has a material effect on the measurement of expected credit losses. Accordingly, the estimated future cash flows were discounted to present value using the original effective interest rate applicable to the financial assets, resulting in a present value adjustment to the impairment allowance.

Accounting Policies

Illustrative Example



Key Sources of Estimation Uncertainty

Probability of Default

Expected credit losses are determined using historical default and collection experience. Management estimates the probability that receivables within each ageing category will not be recovered, taking into account historical payment behaviour and collection trends.

Forward-looking Information

In accordance with GRAP 104, historical loss experience is adjusted where appropriate to reflect current conditions and reasonable and supportable forecasts of future economic conditions. Management considered macroeconomic indicators including: Unemployment rates; Prime lending rate; Inflation trends and Other municipality-specific factors affecting recoverability.

Based on the analysis performed, management concluded that these factors **did/ did not** materially affect expected future collections beyond the historical payment behaviour already reflected in the model. Accordingly, no material adjustment was made to the historical expected credit loss rates.

Accounting Policies

Illustrative Example



Write-offs and Derecognition

Write-offs

The gross carrying amount of a financial asset is written off when the Municipality has no reasonable expectation of recovering the outstanding balance and the Council has approved the write-off. The carrying amount of receivables is reduced through an allowance account, with no bad debt written off being recognised in surplus or deficit.

Derecognition

- **Financial assets:** the Municipality derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, are cancelled or waived, or when it transfers the asset and substantially all the risks and rewards of ownership to another entity. Any resulting gain or loss is recognised in surplus or deficit.
- **Financial liabilities:** the Municipality derecognises a financial liability when, and only when, its obligations are discharged, cancelled or expire. Any resulting gain or loss is recognised in surplus or deficit.

Accounting Policies

Illustrative Example



Transition to the Revised GRAP 104: Financial Instruments

The Municipality adopted the revised GRAP 104: Financial Instruments during the current financial year. The most significant change relates to the implementation of the Expected Credit Loss (ECL) model for financial assets measured at amortised cost for the municipality.

The Municipality reviewed the classification and measurement of its financial assets and financial liabilities and implemented an impairment methodology based on historical collection trends, debtor segmentation, ageing profiles and reasonable and supportable forward-looking information.

The adoption of the revised Standard resulted in updated accounting policies, enhanced impairment methodologies and additional disclosures.

The adoption of the revised GRAP 104 resulted in an increase in the impairment allowance on financial assets of **R8.6 million**, with a corresponding reduction in opening accumulated surplus as at 1 July 2025.

The adjustment primarily relates to the application of the Expected Credit Loss model to trade and other exchange receivables.

OR

The adoption of the revised GRAP 104 did not result in a material adjustment to the carrying amounts of the Municipality's financial assets or financial liabilities. The primary impact of the revised Standard relates to enhancements in the impairment methodology and expanded financial statement disclosures.

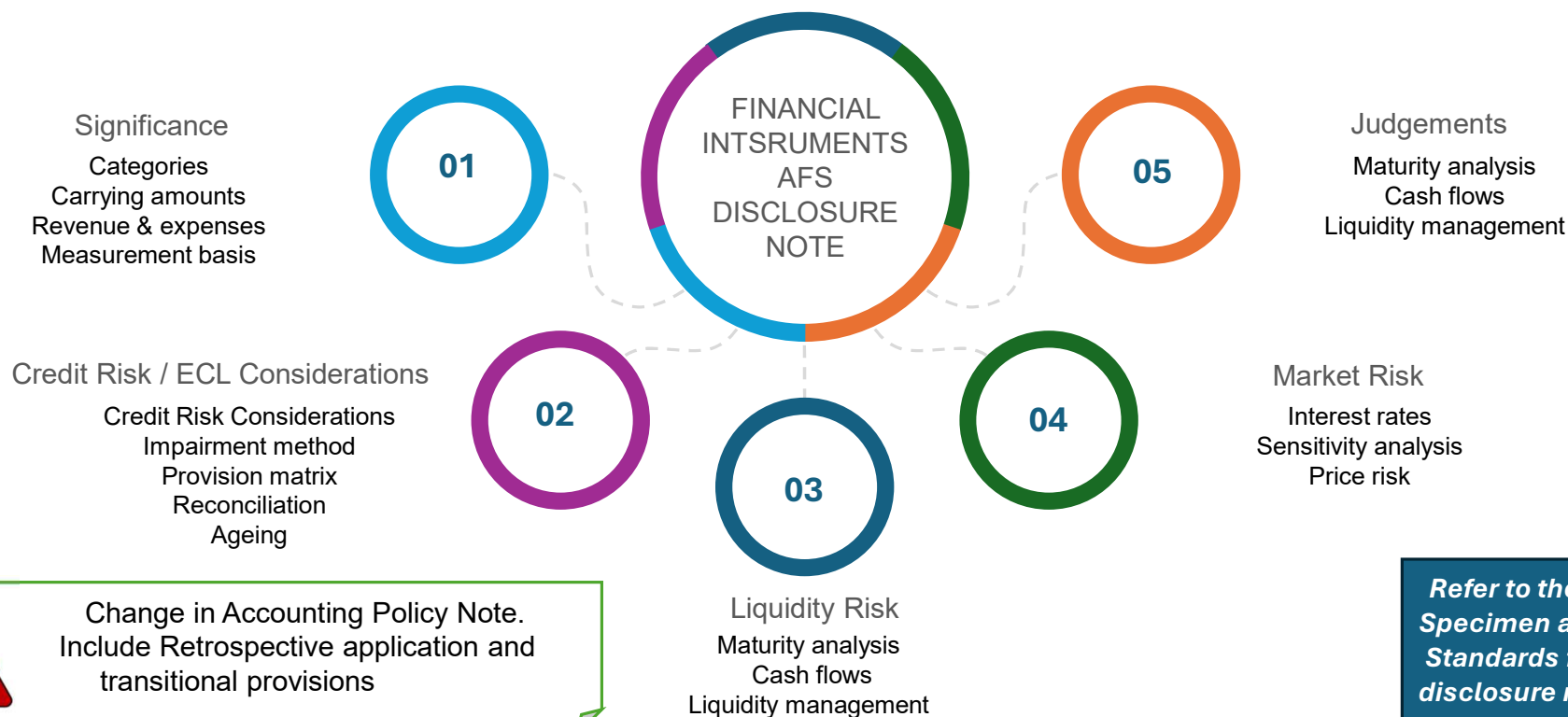
DISCLOSURES (GRAP 104 R and GRAP 3)



Disclosures – GRAP 104 R and GRAP 3

Overview of Disclosure Requirements

#DIFFERENCE
#MAKERS



Disclosures – GRAP 104 R and GRAP 3

Disclosure Requirements: Illustrative Example



Cash and Cash equivalents:

4.1 Impairment Reconciliation of Cash and Cash Equivalents

	2025/2026						2024/2025				
	(R'000s)						(R'000s)				
	Opening balance	Change in ACP (GRAP 104)	Restated Opening balance	Impairment raised	Impairment reversed / Irrecoverable debt w/off	Closing balance	Opening balance	Impairment raised	Impairment reversed / Irrecoverable debt w/off	Closing balance	
Call deposits and investments	-	25 000	25 000	20 000	(18 000)	27 000					-
Call deposits and investments	-	15 000	15 000	22 000	(20 000)	17 000					-
Total	-	40 000	40 000		(38 000)	44 000	-	-	-	-	-

List each bank account separately

**Aligned to the NT mSCOA specimen 2025/26 FY*

Disclosures – GRAP 104 R and GRAP 3

Disclosure Requirements: Illustrative Example



5.3.4 Impairment Reconciliation of Trading Service and Consumer Service Debtors

	2025/2026						2024/2025					
	(R'000s)						(R'000s)					
	Opening balance	Change in ACP	Restated Opening balance	Remeasur	Impairment reversed / Irrecoverable debt written off	Closing balance	Opening balance	Change in ACP	Restated Opening balance	Remeasure	Impairment reversed / Irrecoverable debt written off	Closing balance
				ement of loss allowance						ment of loss allowance		
Trading Service and Consumer Service Debtors												
Electricity	18 500	1 200	19 700	350	(900)	19 150	17 200		17 200	280	(650)	16 830
Waste Management	4 200	(150)	4 050	80	(220)	3 910	3 900		3 900	60	(175)	3 785
Waste Water Management	6 100	300	6 400	125	(310)	6 215	5 700		5 700	95	(240)	5 555
Water	7 850	450	8 300	160	-	8 460	7 200		7 200	120	(360)	6 960
Housing Selling Scheme	2 300	75	2 375	45	-	2 420	2 150		2 150	35	(85)	2 100
Land Sale Debtors	1 650	(60)	1 590	30	-	1 620	1 480		1 480	25	(60)	1 445
Merchandising, Jobbing and Contracts	920	40	960	20	(35)	945	850		850	15	(30)	835
Property Rental Debtors	3 100	180	3 280	70	(145)	3 205	2 850		2 850	55	(125)	2 780
Total Trading Service and Consumer Services Debtors	44 620	2 035	46 655	880	(1 610)	45 925	41 330		41 330	685	(1 725)	40 290

**Aligned to the NT mSCOA specimen 2025/26 FY*

Disclosures – GRAP 104 R and GRAP 3

Disclosure Requirements: Illustrative Example



5.3.4 Trading Service and Consumer Services Debtors Impairment

	2025/2026 (R'000s)					
	Total	30 days	60 days	90 days	120 days	120+ days
Trading Service and Consumer Services Debtors from exchange transactions						
Electricity	19 150	3064	2681	2298	2106	9001
Waste Management	3 910	626	547	469	430	1838
Waste Water Management	6 215	995	870	746	684	2920
Water	8 460	1354	1184	1015	931	3976
Housing Selling Scheme	2 420	242	242	242	242	1452
Land Sale Debtors	1 620	81	81	162	162	1134
Merchandising, Jobbing and Contracts	945	236	189	142	95	283
Property Rental Debtors	3 205	385	353	321	321	1825
Total Trading Service and Consumer Services Debtors	45 925	6 983	6 147	5 395	4 971	22 429

**Aligned to the NT mSCOA specimen 2025/26 FY*

Aging is disclosed for
both gross and
impairment

Disclosures – GRAP 104 R and GRAP 3

Disclosure Requirements: Illustrative Example



84. Change in Accounting Policy

The Municipality adopted the revised GRAP 104 on 1 July 2025. Comparative information was not restated in accordance with the transitional provisions. Differences between previous carrying amounts and revised carrying amounts were recognised in opening accumulated surplus on 1 July 2025. (Note: NT Specimen has more background detail which can be utilised)

Impact on Measurement Categories						
Financial Assets						
Description	Original Classification	New Classification	Carrying Amount (R'000)			
Cash and cash equivalents	Amortised cost	Amortised cost	185000			
Receivables from exchange	Amortised cost	Amortised cost	45925			
Investments	Amortised cost	Amortised cost	96500			
Other financial assets	Amortised cost	Amortised cost	4200			
Financial Liabilities						
Description	Original Classification	New Classification	Carrying Amount (R'000)			
Borrowings	Amortised cost	Amortised cost	122000			
Payables from exchange	Amortised cost	Amortised cost	38250			
Other financial liabilities	Amortised cost	Amortised cost	3150			
Reconciliation of Carrying Amounts on Transition						
Description	New Classification	GRAP104 (2009)	Reclass to FVTSD	Reclass to Amortised Cost	Measurement Change	Opening GRAP104 (2019)
Cash and cash equivalents	Amortised cost	185000	0	0	0	185000
Receivables from exchange	Amortised cost	48250	0	0	-2035	45925
Investments	Amortised cost	96500	0	0	0	96500
Other financial assets	Amortised cost	4200	0	0	0	4200
Borrowings	Amortised cost	122000	0	0	0	122000
Payables from exchange	Amortised cost	38250	0	0	0	38250
Other financial liabilities	Amortised cost	3150	0	0	0	3150

**Aligned to the NT mSCOA specimen 2025/26 FY*

GRAP 104 – Financial Instruments

Disclosure Requirements: Illustrative Example



3. Credit Risk

Credit risk is the risk that a debtor or counterparty will fail to meet its contractual obligations, resulting in a financial loss to the Municipality. Credit risk arises primarily from consumer debtors, trade and other receivables arising from exchange transactions, loans receivable, investments and deposits with financial institutions.

The Municipality manages credit risk through the implementation of approved Credit Control and Debt Collection Policies, ongoing monitoring of debtor balances, enforcement of collection procedures and the application of indigent support programmes in accordance with applicable legislation and municipal policies. Credit risk is monitored continuously, with particular emphasis on debtor ageing, historical payment behaviour and recovery trends. The Municipality applies the Expected Credit Loss (ECL) model in accordance with GRAP 104.

Consumer debtors and trade receivables are measured using the simplified approach, whereby lifetime expected credit losses are recognised from initial recognition until derecognition. Expected credit losses are determined using a provision matrix based on historical collection experience, ageing profiles, debtor groupings and reasonable and supportable forward-looking information.

Receivables are grouped according to similar credit risk characteristics, including debtor type (such as residential, business, government and other debtors), payment behaviour and other relevant risk factors, to ensure that impairment estimates appropriately reflect the credit risk of each portfolio. Loans receivable and other long-term financial assets are assessed individually or collectively, depending on the nature and significance of the balances.

GRAP 104 – Financial Instruments

Disclosure Requirements: Illustrative Example



3. Credit Risk

A financial asset is considered to be in default where there is objective evidence that the debtor is unlikely to settle its contractual obligations in full, or where contractual payments are significantly past due in accordance with the Municipality's credit control practices. Indicators of increased credit risk include deteriorating payment behaviour, extended delays in settlement and adverse changes in the financial position of the debtor.

Forward-looking information, including macroeconomic indicators such as unemployment, inflation and interest rates, is considered when measuring expected credit losses. Where management concludes that these factors do not materially affect expected collections beyond historical trends, no adjustment is made to the historical loss rates. Cash deposits and investments are placed only with reputable South African financial institutions to minimise exposure to default risk.

The Municipality considers these balances to have low credit risk. The maximum exposure to credit risk at the reporting date is represented by the carrying amounts of the financial assets recognised in the Statement of Financial Position. Due to the diversified nature of its debtor base, the Municipality does not consider there to be a significant concentration of credit risk.

GRAP 104 – Financial Instruments

Disclosure Requirements: Illustrative Example



3. Credit Risk Exposure: Provision Matrix

Ageing	Residential	Business	Government	Other	Total Gross Carrying Value	Loss Allowance
30 days	12500	8200	4100	1200	26000	130
60 days	9800	6100	3200	900	20000	300
90 days	7600	4800	2100	500	15000	750
120 days	5800	3400	1400	400	11000	1650
120+ days	14200	8200	2800	800	26000	18200
Total	49900	30700	13600	3800	98000	21030

**Aligned to the NT mSCOA specimen 2025/26 FY*

May include weighted average rate for ECL, but not a requirement

GRAP 104 – Financial Instruments

Disclosure Requirements: Illustrative Example



9. Liquidity Risk

Liquidity risk is the risk that the municipality will be unable to meet its financial obligations as they fall due. This risk arises from the timing mismatch between cash inflows from revenue collection and cash outflows required to settle liabilities.

The municipality manages liquidity risk through maintaining adequate cash reserves, regular cash flow forecasting, and continuous monitoring of cash inflows and outflows. Budgetary controls and expenditure management processes are also implemented to ensure that sufficient liquidity is maintained throughout the financial period.

The municipality also ensures access to funding through available borrowing facilities, where necessary, and monitors compliance with legislative and policy requirements governing borrowing and cash management.

Maturity Analysis of Financial Liabilities

The table below summarises the maturity profile of the municipality's financial liabilities based on contractual undiscounted cash flows:

Liability	<1 Year	1–3 Years	Total
Trade and other payables	700,000	–	700,000
Borrowings	100,000	150,000	250,000

GRAP 104 – Financial Instruments

Disclosure Requirements: Illustrative Example



10. Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables, such as interest rates, foreign exchange rates, or other price risks.

The municipality is primarily exposed to interest rate risk arising from borrowings with variable interest rates. Changes in interest rates may impact future cash flows and finance costs.

The municipality manages interest rate risk by monitoring market conditions and, where appropriate, considering fixed versus variable rate borrowing structures.

No significant exposure to foreign currency risk exists, as the municipality's transactions are predominantly denominated in South African Rand. Similarly, the municipality does not have material exposure to other price risks, such as equity or commodity price risk.

The Municipality is not exposed to material market risks requiring sensitivity analysis. The Municipality's primary financial risk relates to credit risk arising from consumer receivables and liquidity risk associated with the settlement of financial liabilities.

Sensitivity analyses are required only for material exposures to market risk (variable interest rate borrowings / investments). Market risk comprises interest rate risk, currency risk and other price risk. Where the Municipality has no material exposure to a particular market risk, a sensitivity analysis is not required.

GRAP 104 – Financial Instruments

Disclosure Requirements: Illustrative Example



11. Market Risk

The preparation of the financial statements requires management to make judgements, estimates, and assumptions that affect the reported amounts of financial instruments and related disclosures.

Key areas of judgement and estimation include:

- Determining when a financial asset is considered to be in default, based on both quantitative indicators (such as days past due) and qualitative factors (such as evidence of financial distress)
- Assessing whether there has been a significant increase in credit risk since initial recognition for financial assets subject to the general approach
- Determining appropriate groupings of receivables for collective assessment of expected credit losses
- Selecting and applying forward-looking information, including macroeconomic factors and policy impacts, in the estimation of expected credit losses
- Estimating loss rates, recovery rates, and the timing of future cash flows used in the expected credit loss model

These estimates and assumptions are based on the best available information at the reporting date and are reviewed regularly to ensure that they remain appropriate. Changes in these estimates are recognised prospectively in surplus or deficit.

Disclosures – GRAP 104 R and GRAP 3

Overview of Disclosure Requirements



Classifications – Statement of Financial Position						
Financial assets	2025/26 Amortised Cost	2025/26 FVTSD	2025/26 Cost	2024/25 Amortised Cost	2024/25 FVTSD	2024/25 Cost
Cash and cash equivalents	185000	0	0	172500	0	0
Investments	96500	0	0	88500	0	0
Receivables from exchange	45925	0	0	48250	0	0
Other financial assets	4200	0	0	3950	0	0
Total	331625	0	0	313200	0	0
Financial liabilities	2025/26 Amortised Cost	2025/26 FVTSD	2025/26 Cost	2024/25 Amortised Cost	2024/25 FVTSD	2024/25 Cost
Borrowings	122000	0	0	128500	0	0
Payables from exchange	38250	0	0	35680	0	0
Other financial liabilities	3150	0	0	2900	0	0
Total	163400	0	0	167080	0	0
Classifications – Statement of Financial Performance						
Gains and losses	2025/26 Amortised Cost	2025/26 FVTSD	2025/26 Cost	2024/25 Amortised Cost	2024/25 FVTSD	2024/25 Cost
Impairment losses	-2325	0	0	-1850	0	0
Interest revenue	16850	0	0	15420	0	0
Interest expense	-11240	0	0	-11860	0	0
Total	3285	0	0	1710	0	0

**Aligned to the NT mSCOA specimen 2025/26 FY*

List each instrument disclosed - Ensure that these amounts do not include GRAP 25 items as well as Statutory Receivables

MATERIALITY



Materiality

Considerations in applying materiality considerations



Professional Judgement

Assess whether financial instruments and related disclosures are material to the financial statements before applying detailed measurement and disclosure requirements.

Measurement

Evaluate whether impairment, discounting, fair value measurements and expected credit losses have a material impact on the carrying amounts of financial assets and financial liabilities.

Disclosures

Tailor accounting policies and note disclosures to material financial instruments, significant judgements and key estimation uncertainties, avoiding unnecessary boilerplate information.

Documentation

Document all materiality assessments, including conclusions where requirements such as discounting, sensitivity analyses or additional disclosures are considered not material, to support management's professional judgement and audit evidence.

ANY QUESTIONS



THANK YOU

All the best for 25-26 Financial Statements Preparation