

THE UNITED REPUBLIC OF TANZANIA

PRIME MINISTER'S OFFICE



LOCAL AUTHORITY ACCOUNTING MANUAL

P.O.BOX 1923,

DODOMA.

FOREWORD

1. Local Government Authorities (LGAs) were re-established in 1984 following a lapse of twelve years after Cap. 333 and 105 were repealed by the Decentralization Act of 1972. The re-establishing Laws of 1982 gave LGAs almost the same objectives as the former LGAs of maintaining, facilitating the maintenance of peace, order and good governance, promoting social welfare and economic development of all persons within their area of jurisdiction. The LGAs to day responsibilities therefore, are to provide services to the people.
2. Financial management in relation to LGAs activities is of utmost importance. Therefore, we have to convince the public that resources like financial, human or otherwise, received by the LGAs are utilized strictly in accordance with rules, regulations, directives and only for the purpose for which they were intended. For that reason, every individual involved in the management of LGAs resources must have a clear understanding of Local Government Accounting procedures.
3. Sound Local Government Authorities Financial Management can only be realized if there are clear guidelines. Past guidelines in the Financial Memoranda and administrative directives were the only formal guidelines available. There was no single guiding document and this was acknowledged by the Ministry responsible for Local Government in its production of a draft Local Authorities' Accounting Manual (LAAM) in 1992. This document has formed the basis of the present LAAM and covers areas of compliance with the International Public Sectors Accounting Standards (IPSAS) in accountancy and financial management.
4. The primary objectives of this accounting manual are to:-
 - (a) ensure that all transactions that give rise to receipts and payments of Income and Expenditure, Assets and Liabilities are accurately and properly recorded.
 - (b) give Local Government Authorities timely and reliable information for the running of their day to day activities.
 - (c) provide a sound framework for financial control to Local Government Authorities.
5. Apart from implementing the law, which demands uniform accounting system for all the LGAs, the manual will serve as a handy working document for those involved in the management and accounting of the Local Authorities' resources. The procedures, documents and books described herein, are the new guidelines

for the management of Local Government Authorities finances. All officials vested with such duties must strictly adhere to them in the performance of their duties.

6. I hereby, authorize this publication as the second Local Authorities Accounting Manual, by virtue of powers conferred upon me by section 45 of the Local Government Finances Act CAP 280 which shall be used by all Local Government Authorities.

Mizengo P. Pinda (MP)
PRIME MINISTER

Date

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INTRODUCTION

This is the second version of the Local Authority Accounting Manual (LAAM). In order to achieve its objective, any manual should narrate in detail step by step the operational procedures and technicalities of the system it intends to operate. This manual like the earlier 1992 version intends to achieve this objective that clarifies step by step accounting functions in the Local Authorities accounting.

The first version of LAAM was prepared 1992 being quite a long time for a living profession such as the Local Government Finances and Public Sector Accounting in general. During that period many changes have taken place, these changes include:-

- Enactment of the Public Procurement Act.
- Preparation of Public Procurement Regulations and Guidelines.
- Adoption of IPSAS for all Local Authorities in 2009.
- Technological Changes including adoption of various accounting packages such as Epicor implementation in Local Government Authorities.
- Adoption of other reporting requirements such as Plan Rep.
- Introduction of various reporting formats such as Council Financial Report (CFR) and council Development Report (CDR).
- The adoption of Government Financial Statistics (GFS) codes in the Local Authorities Accounting.

All the above and many other factors necessitated the revision of the first version of LAAM into the version at hand.

The revised Local Authorities Accounting Manual has been developed in line with the first version LAAM, the Local Authority Finance Training Manuals, the revised Local Authorities Financial Memorandum of 2009, the amended version of the Local Government Finance Act Cap 290 and introduction of IPSAS. All these changes have been considerably expanded and updated both in contents and coverage. As far as possible this LAAM addresses all important requirements of Local Government Authorities accounting.

The cost centre budgeting and coding system which was one of the main features of the previous LAAM has been dropped due to adoption of the GFS coding system in the Local Government Accounts. This will enhance inter Local Government Authorities comparisons and as a result to have national aggregation of financial data.

Since 2004 NBAA has adopted International Accounting Standards (IFRS and IPSAS) and directed all institutions in Tanzania to comply with these standards. Consequently, the Local Government Authorities have adopted IPSAS and therefore their Financial Statements are IPSAS compliant. This move has changed completely the presentation requirements in terms of format and contents.

Regarding procurement, reference has been made to the Public Procurement Act and its related regulations and thus the topic is lightly discussed.

Budgeting is another important area forming part of the vast Local Government Accounting. Since the Government issues annual budget guidelines it is emphasized that these guidelines should form part of the bottom up planning process and which is also considered in this manual.

However, the accounting principles and procedures elaborated in this manual remain applicable to all Local Government Authorities and ought to be introduced according to their needs, capabilities and propensity to change.

The Ministry is conscious of the difficult in providing a general accounting guide which does not spill into other related areas of financial management.

Accordingly, Local authorities are advised to rely on detailed budgeting and price determining instructions issued by the Government from time to time where this LAAM's guidance lacks detail.

ABBREVIATIONS

CRD	Council Development Report
CFR	Council Financial Report
GFS	Government Financial Statistics
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
LAAM	Local Authority Accounting Manual
LGA	Local Government Authority
LGLB	Local Government Loans Board
MCR	Minimum Compulsory Reserve
NBAA	National Board of Accountants and Auditors
Planrep	Planning and Reporting

SECTION ONE: ACCOUNTING AS AN INFORMATION SYSTEM

1.1 Introduction

Local Government Authorities are required by law to maintain accounting records so as to demonstrate how taxpayers' money has been put to use.

An additional reason is that even in a very small organization, managers are confronted with such a multitude of complex variables that they can not be sufficiently informed just by observing daily operations. Instead they must depend on the accounting process to convert business transactions into useful statistical data that can be abstracted and summarized in accounting reports.

In today's society many people and agencies outside management are involved in the economic life of an organization. These people frequently require financial data, for example potential lenders need financial data in order to compare prospective investment; creditors must consider the financial strength of an Organization before permitting its sales on credit. As an information system, accounting serves people both inside and outside the organization.

Accounting can be defined as "the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by its users". Every activities undertaken in an accounting process has a particular significance as follows:

- (a) Analyzing – The accounts clerk or other accounting staff will determine the financial significance of each transaction or event in order to record it properly.
- (b) Recording – Writing up the financial data in the books of accounts so that they will be in a permanent easily readable form.
- (c) Summarizing and computing – The process of bringing together and aggregating various items of financial information to determine or explain a result.
- (d) Reporting – Communicating the results. In accounting, it is common to use tabular arrangements rather than narrative type reports. However, a combination of the two is often used.
- (e) Interpreting – Directing attention to the significance of various financial matter and relationships.

Percentages, footnotes etc. are often used to help interpret the accounting information.

The first of these activities are considered to be book-keeping. Although this is a very important role, managers cannot make informed judgements if the original information is inaccurate, accountants spend a large part of their time analyzing and interpreting the meaning of financial data for their service or production managers. Computerized accounting systems help accountants to reduce the amount of time spent on the mechanical role of book – keeping (by for example calculating and extracting balances). However, computers do not eliminate the need for accurate book-keeping, because if wrong data is put into the computer, it cannot print out accurate information.

1.2 Distinction between Local Government accounting and commercial accounting

- (a) While basic principles of accounting are common to both commercial concerns and LGAs, the later differ fundamentally in purpose and constitution, and these differences are reflected in the form and content of their accounts.
- (b) In commerce and industry the objective is to supply goods and services with aim of obtaining a profit. No enterprise will embark upon any commercial or industrial venture unless it has a reasonable hope of obtaining a satisfactory return on the capital it invests in the undertaking coupled with the preservation of the capital.
- (c) The motivation and sole purpose of Local government is the provision of services to the public. LGAs are brought into existence to meet essential social needs for which private enterprise will not or cannot make provision. However, LGAs are permitted to undertake economic (trading) undertakings which are orientated to be self-financing over time.
- (d) An LGA recovers the cost of providing services, in whole or in part, by taxing directly or indirectly all or some of the inhabitants of its area, not by reference to the service which each has individually received, but by the ability of each to contribute to the total cost. The services are there for the individual to use, whether he in fact avails himself of them or not, he has to pay his share of the cost.
- (e) While a customer can decide to change the shop from which he gets his requirements or refrain from buying those requirements altogether, the same cannot apply to public services such as roads, street lighting, preventive health services and curative services.

- (f) The money used by LGAs is public money and the public needs to be able to satisfy themselves, directly or by their appointed representatives, that the money which they have been required to contribute for a specific purpose has been used properly for that purpose only, and it is a function of the LGAs' accounting system to demonstrate such financial stewardship.
- (g) In order to achieve this objective, the accounts must meet the following requirements:-
- Conform to statutory requirements.
 - Distinguish between expenditure having differing incidences of charge.
 - Relate expenditure to approved estimates.
 - Enable the fixing of proper rates of charge and of Local taxation.
 - Provide such financial information as may be necessary for the proper management of the LGAs's services.
 - Present a true, clear and permanent record of all financial transactions of the LGAs.

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1.3 Basic accounting concepts

(a) The Business Entity Concept

This concept stipulates that all the accounts that are kept by an entity are distinct from those of the persons owning or managing the entities

(b) The money Measurement Concept

In accounting as in economics money is used as a measure of value, it is used to express certain facts about a business and in such a way that they can be added or subtracted.

(c) The Cost Concept

Resources acquired by an entity are called assets and normally the price paid to acquire an asset is recorded in the books of accounts and forms the basis for subsequent treatment. Such values may not necessarily reflect the current value of the assets due to appreciation or depreciation over time. These values reflect the historical value of assets that is the price for them at the time of acquisition.

The income of a business is measured by the difference between the sales value of its products compared with the cost of resources applied in producing the products. The costs of resources not yet expended are shown in the balance sheet.

(d) The Going Concern Concept

This accounting system treats the values on the assumption that the entity will continue trading or to function and that it will not be liquidated in the foreseeable future. If the business decides to liquidate or become bankrupt then a different approach to valuation is required.

(e) The Dual Aspect Concept

This concept stipulated that every change in one element of the assets, liabilities or equity is accompanied by another change, numerically equal but of opposite effect in another element. This principle is the fundamental rule of double entry book-keeping. It is the central core of modern accountancy. In the balance sheet this dual aspect is static since it shows the state of an entity at one moment of time. The accounts on the other hand are dynamic, since they record changes in the state of the business over a stated period of time. Briefly stated the dual aspect is: for every value received there is value given and these two aspects must be recorded

(f) The Accrual Concept

In accounting it is necessary to mention the accounting period. Income accruing to the owner of a business is related to the accounting period for which it is due (even if cash is not received during that period) and must be recorded as income earned during that period. Expenses incurred in earning (even if not paid) are included in the accounting period in which they are incurred. The accrual concept is applied both in ascertaining revenue for a period and in ascertaining expenses to be charged against the revenues.

(g) The Realization Concept

Revenue is considered as earned on the day on which it is realizable, i.e. when a legally enforceable claim arises against the customer or payer. Where, however, the customer pays in advance of the supply of goods or services, the payment remains a liability until the goods or services are rendered when the liability is then recognized as revenue.

1.4 Accounting conventions

The accounting concept or principles stated in Para 1.2 above permit many differences in application to actual circumstances and it is, therefore, necessary to set forth a number of conventions expressing the spirit in which the accounting policies are to be applied in practice. The following conventions are generally observed in interpreting the principles.

(a) The Prudence or Conservatism Convention

This convention briefly states that in case of doubt the treatment which minimizes the reported figure of profits and/or assets valuation, or maximizes the reported figure of loss and/or liability valuation shall be adopted

(b) The Consistency Convention

This states that, where there is doubt, a transaction shall be treated in the same manner as other transactions reasonably considered belonging to the same class; and accounting policies shall not be changed arbitrarily and without notice of the effects of the change to those who use the accounts

(c) The Materiality Convention

This means that the size of an amount will influence its treatment in the accounts. Where minute analysis or the calculation of a precisely accurate figure would involve problems, expenses or delay disproportionate to any advantage to be gained from such precision, a reasonable approximation shall be acceptable.

(d) The Substance over Form Convention

The convention states that where there is doubt treatment shall be adopted which exhibits the economic substance of a transaction rather than its legal form.

1.5 Financial and management Accounting

The first most important functions of the accounting process is to accumulate and report accounting information that shows an organization's financial position and results of operations. Usually organizations publish such financial statements at least annually. The accounting process that produces these general purpose reports is referred to as **financial accounting**. Financial accounting is essentially

retrospective, because it deals primarily with historical information, or events that have already happened.

Although financial accounting data is primarily historical the information is also useful for planning and control. A considerable amount of planning must be based on what has happened in the recent past. In addition, historical financial accounting is inherently a control mechanism since it can be used to measure the success of past planning.

A second function of accounting process is to provide management with the data needed for decision making and for efficient operation of the organization. Although management routinely receives the financial reports and special reports prepared for outsiders, they also require various other type of information such as the cost of a particular product or service at different levels of activity, cost comparison of alternative courses of action, and long range budgets.

A decision maker such as a committee or full council cannot make a meaningful financial decision without the use of such information. The provision of information to assist management with decision making about the present and future is ***management accounting***.

SECTION TWO: BASIC ACCOUNTING DOCUMENTS

2.1 Introduction

Basic accounting documents in LGAs are those which form the basis for initiating most accounting transactions. These documents fall under three categories; receipts, payments and order forms.

2.2 Receipts

A receipt is an official acknowledgement of money received. As a matter of principle every acceptance of public money must be acknowledged by means of an appropriate and approved receipt. The term “receipt” includes all formal receipts, licenses, tickets, stickers and any other official document used in connection with the collection of public money and issued upon the authority of the Minister responsible for Local Government.

2.2.1 Types of receipts

There are many types of receipts depending on the nature of transactions prevailing in the local authority. Receipts are designed to meet the requirement of the source of money to be acknowledged but they all fall into three main groups as follows.

(a) General Revenue Earning Receipt

This is a printed open receipt designed to be used in acknowledging the receipt of monies the sources of which are many and varied. It is used in the collection of general revenues e.g. trading licenses, produce cess, inoculation fees, permit fees, etc. It is also used to acknowledge monies paid in at the Head Office by Revenue Collector. A General Revenue Receipt (GRR) form is illustrated at the end of this section as appendix LGA 2/1(a).

(b) Sub treasury Receipt

This is an open receipt used by revenue collectors in acknowledging the receipt of money from various sources within different collection centre before submission to the Main Cashier at the LGAs’ head quarter. A sub treasury receipt form is illustrated at the end of this section as appendix LGA 2/1(b).

(c) Specific Receipts

Specific receipts are designed for specific sources of revenue e.g. Property tax, market fee, etc, and are identifiable as such, the description and detail making it clear that no other revenue is being acknowledged. Having specific receipt designs facilitated the analysis of income collections. A specimen of a specific Receipt appears in Appendix LGA 2/2 at the end of this section.

(d) Fixed Fee Receipts

A fixed fee receipt is for a specific source of revenue for a fixed amount and this amount is printed on the receipt. This appears at the end of this section as Appendix LGA 2/3.

2.3 Issuing Receipts

- (a) Receipts must be properly completed and must contain an adequate explanation of the payment made to the Council
- (b) If a mistake is made in writing out a receipt, the receipt must be cancelled receipts should be retained in the counterfoil book for audit purposes. The Treasurer or his authorized representative signs all such cancellations.
- (c) When it is necessary to alter the value of a fixed fee receipt the whole book should be altered before issue to the Revenue Collector. Alterations should be made by rubber stamp and every alteration initialled by the Treasurer or an authorized representative.
- (d) If the reverse side of the receipt is used to record details, those details should be headed by the date of the receipt, its serial number and the name of the payer.
- (e) When cheques are received their serial numbers must be recorded on the receipt as well as in the Cash Book.
- (f) The serial number of each receipt or license issued for money received must be entered against the receipt entry in the Cash Book.
- (g) The original of the receipt is immediately given to the payer except in:-
 - The case of contra entries when it is pinned to the payment Voucher.

- The case of bank credits e.g. interest allowed by the bank, when the receipt is pinned to the bank statement.
- In the case of sums paid directly into the bank account when the receipt is sent after the local authority has identified the credit in the bank account and entered it in the Cash Book.

2.4 Payments

The term payment is used to describe an event which can be expressed in monetary terms. Payments include ledger transactions and contra entries where no monetary transaction occurs and payments made out of expenditure heads in the Estimates. Payments must be made by means of a document called a payment Voucher shown at the end of the section as LGA 2/4. Usually the payment voucher will be supported by documentary evidence such as a Local Purchase Order, Contract Agreements, claims and invoices etc.

2.4.1 The payment voucher

A voucher is any document that serves as evidence of authority to pay cash or as evidence that cash has been paid. It is used as an action sheet for processing payment. Payment vouchers must contain adequate explanation of the payments being made, and the authority on which they are paid, ego references of payment orders, minutes, and files carrying relevant correspondence. Source documents such as LPOs. Invoices, and goods received notes should be attached.

The voucher must have the following information:

- Name of the- paying organization
- A unique reference number
- The voucher date
- The payee name and address
- Description of payment
- Signature of the person authorizing payment
- Cheque number if payment is by cheque
- The bank account to be credited
- Column for total amount in figures and words
- The vote, sub vote and item number.

2.4.2 Preparation and authorization of payment vouchers

- (a) Payment vouchers must be numbered serially throughout the month and the number recorded in the cash book against the relevant entry.
- (b) Payments to gangs of labourers must be supported by a muster roll certified by the time-keeper. Muster rolls should be checked before payment is made.
- (c) Payment vouchers for stores will have the correctly filled in local purchase order attached.
- (d) Payment vouchers in respect of contracts must bear a certificate signed by the engineer that the work has been satisfactorily completed.
- (e) All payment vouchers must carry adequate explanations of the payments made, and in particular, show rates of payment where appropriate.
- (f) Where appropriate, payment vouchers will have the invoices and other supporting documents attached to them. When a duplicate invoice is attached, because the original has been lost, this should be recorded on the payment voucher and it should be certified that no double payment has occurred.
- (g) Any alteration in a payment voucher must be initialled by the person making it. No alteration affecting the amount of payment voucher may be made after it has passed through the cash book. Errors discovered after that must be corrected by issue of another payment voucher in the case of an under-payment or general receipt in the case of overpayments.
- (h) A running voucher may be kept at the discretion of the treasurer, but it must be ruled off and entered in the cash book at the end of the day.

Payment vouchers are prepared by Accountant, usually in the department ordering the goods or services. The clerk will affix a payment voucher to each invoice; complete the details on the payee and description of payment; also obtain any order numbers or contract numbers relevant to the payment; code the expenditure to vote, sub-vote and item; and make the initial check on rates charged.

The head of department will double check the clerk's work and approve the payment voucher. The voucher and original documents are then passed to the finance department where a pre-audit check is made on the accuracy and validity of the data on the payment voucher. Checks to be made on the payment voucher before a cheque is drawn include the following:

- (a) Invoice details have been correctly entered onto the payment voucher, name and address, invoice number, date and amount.
- (b) Vote, sub-vote and item codes have been completed, are valid codes and appear appropriate.
- (c) Relevant correspondence, local purchase order or contract number is quoted.
- (d) Calculations are correct.
- (e) The payment voucher is authorized by the head of department or other authorized signatory.

The authorizing officer, usually the treasurer, will then sign the payment voucher authorizing payment, and the details will be entered in the vote book.

2.4.3 Contract Payment

Contract payments for capital projects differ from other payments in three important ways.

- (a) The contractors are paid by installment because building and engineering contracts involve large sums of money expended over relatively long periods of time.
- (b) Each installments is based on a valuation of the work done to date by a supervisory architect or engineer, and can only be made on the issue of his certificate.
- (c) Each payment is normally subject to a deduction (the retention sum) which is held until the supervisory architect or engineer is satisfied that the contract has been successfully completed, i.e. on the issue of the final certificate.

Contract payments should be recorded in a contracts register kept by the finance department. Each contract is on a separate page. For each installment, the following details are recorded:

- Total value of work completed to date
- Amount of installment
- Amount of retention
- Cumulative values of installments and retentions
- The value of each installment is found by deducting the total of previous payments from the net amount due on the current certificate after retentions.

2.4.4 Claim forms

Before a local authority can make any payment the payee shall make a claim on the authority indicating the reasons for such payment. For the purpose of proper Local authority financial control claim forms are designed for specific purposes and for completion by the payee prior to payment being made.

Two specific forms exist i.e.

- A form for Special Imprest and travelling allowances Form **LGA 2/5**.
- Retirement of Special Imprest Form **LGA 2/6**.

Local Authorities are required to use and attach them to the payment voucher, as appropriate. These forms are shown at the end of this section.

2.4.5 Cheques

A cheque is a written order on a specially printed paper, signed by designed Local Government Authority Officials, instructing the bank to pay a specified amount of money to a designated person or Organization or Institution. There are three parties of a cheque, namely:

- (a) The Drawer i.e. The LGA which issues the cheque;
- (b) The bank on which the cheque is written; and
- (c) The Payee, the person to whom the cheque is payable.

The cheques will be prepared in the cash office and then signed by two council officers, usually the treasurer and one other officer from the list of authorized signatories, after checking that a properly authorized payment voucher exists.

Cheques can either be open or crossed. A cheque is said to be open if the bearer can cash it at the bank counter. It is said to be crossed if it does not allow the bank to pay cash on demand. In such cases the money is deposited into the bearer's account. These cheques, however, can be negotiated unless specifically stated otherwise in the crossing.

2.4.5.1 Accounting for cheques

All cheques will be entered on the credit side of the cash book as they are written out. After signature they will be recorded in a dispatch book, which will be signed by the person collecting the cheque. Cheques posted will be

signed for by the officer posting the cheque. All payment vouchers, with the supporting documentation should be carefully filed in payment voucher order number after they have been paid and posted to the relevant books of account. Any missing numbers in the sequence should be investigated.

Cheques are accountable documents which must be strictly controlled from the time they are ordered until they have been delivered to the correct payee.

2.4.5.2 The Contents of Cheques

A cheque shall contain the following:-

- (a) Name of local authority
- (b) Emblem of the local authority
- (c) Cheque number and date
- (d) Name of the local bank branch
- (e) The words "pay (name of drawer) or order"
- (f) The words "shillings (amount)" in words
- (g) The amount in figures
- (h) Space for authorizing signatures
- (i) Local authority official stamp

2.4.5.3 Comments about cheques

- All LGAs' payments, except for those through petty cash, shall be made by cheque; cheques shall only be issued on the strength of an authorized payment voucher.
- A cheque shall be signed by not less than two authorized officials of the LGA.
- The cheque number must be quoted on the payment voucher. Cheques shall be issued serially and used in that order.
- When paid cheques are returned by the bank, they must be entered into a cheque register. Each bank account shall have a separate record of cheques. All issues will be made serially from this register.
- Cancelled cheques must be kept in safe custody for audit purposes.
- A dispatch book for signed cheques must be maintained for each account

- Cheque books must be kept in the strong room
- A person who writes out the cheques shall not be a signatory

2.4.5.4 Cashing Council Cheques

The practice of a Council issuing a cheque to a creditor and then cashing it at the creditor's cash office is unacceptable. The cheque should be presented to the bank where the signatures may be verified independently of the Council's officials and cleared, together with other presented cheques, when funds are available.

Appendices

- | | | |
|----|--------------------------------------|------------|
| 1. | General Revenue Earning Receipt | LGA 2/1(a) |
| 2. | Sub treasury receipt | LGA 2/1(b) |
| 2. | Specific Receipt | LGA 2/2 |
| 3. | Fixed Fee Receipt | LGA 2/3 |
| 4. | Payment Voucher | LGA 2/4 |
| 5. | Special Imprest Form | LGA 2/5 |
| 6. | Imprest Retirement Form (Retirement) | LGA 2/6 |

General Revenue Earning Receipt

No: 0001

EMBLEM

KALEMBO DISTRICT COUNCIL

GENERAL REVENUE RECEIPT

CODE NO.....

Date.....

Received from..... Address.....

The sum of T. Shs.....
being.....

T. Shs.....

CHEQUE/CASH

Date.....

Signature.....

Title.....

Sub Treasury Receipt

No: 0001

EMBLEM

KALEMBO DISTRICT COUNCIL

SUB TREASURY RECEIPT

CODE NO.....

Date.....

Received from..... Address.....

The sum of T. Shs.....
being.....

T. Shs.....

CHEQUE/CASH

Date.....
Signature.....
Title.....

Specific Receipt

No: 0001

KALEMBO DISTRICT COUNCIL

EMBLEM

PROPERTY TAX RECEIPT

Date.....

Received from..... Address.....
.....

The sum of T. Shs.....
being property tax in respect of.....
Street or areaEntry No
Of.....for the year ending.....

T. Shs.....
Cheque/Cash

Date.....
Signature.....
Title.....

EMBLEM

No: 0001

KELEMBO DISTRICT COUNCIL

TAX RECEIPT

PARKING FEES
Pick up

Date.....

Vehicle Reg. No.....

Amount Tshs 500 (Five hundred Shillings)

Signature.....Date.....

Title:.....

**THE UNITED REPUBLIC OF TANZANIA
PRIME MINISTER'S OFFICE
REGIONAL ADMINISTRATION AND LOCAL GOVERNMENT**

LGA 2/4

PAYMENT VOUCHER

PV NO: _____

Payee's Name	
Payee's Code	
Address	
VRN	TIN:

Apply Date:	Invoice Number:	Terms of Payment
PO NO:	Invoice Date	Check Status
	Payment Method:	Posting Code:

Amount Payable: Tshs.....

Amount Payable in
Words:.....
.....

Payment in respect of:
.....
.....

To be paid from Bank Account:.....

ACCOUNTING ENTRIES

ACCOUNT CODE	ACCOUNT DESCRIPTION	DEBIT	CREDIT
Totals			

Prepared by:
Name:.....
Designation.....
Signature.....
Date:

Originated by:
Name:.....
Designation.....
Signature.....
Date:

Approved and Authorized by:
Name:.....
Designation.....
Signature.....
Date:

APPLICATION FOR SPECIAL IMPREST

TShs.....

Part A:

Application

- 1. Name of Applicant.....
 Designation.....
 Department.....
 Salary per month Shs.....
 Check No.....
- 2. I apply for Special Imprest for the following reasons:-

- 3. The outstanding balance on my account is Shs.....
 as at.....

Date.....

Signature of Applicant

Part B:

Comments of Head of Department

I recommend/do not recommend the Special Imprest Tshs.....
to be paid to the applicant for the following reasons:

.....
.....

Part C:

Comments of the Treasurer

According to our books, the position in respect of previous special Imprest is
Tshs.....

I therefore recommend that the applicant may/may not be paid the imprest
for the following reasons:

.....
.....

.....
Date.....

.....
Treasurer

Part D:

Director's decision

In the light of the above facts, I approve/do not approve the Imprest to the extent of
Tshs.....

Date.....

.....
Director

KALEMBO DISTRICT COUNCIL

RETIREMENT OF SPECIAL IMPREST

Name of applicant.....
 Designation.....
 Department.....
 Salary per month Shs.....
 Check Number.....
 Reference: PV No:..... Of.....

I certify that I have spent Tshs for the following purposes

Receipt No:	Date of receipt	Expenditure code	Amount

I certify that I spent the above sum of money in accordance with intended purposes

Applicant signature.....

Date.....

Approval of the Treasurer

In the light of the above facts, I approve/do not approve the above retirement for the following reasons:-

.....
.....
.....

Treasurer's Signature.....

Date.....

SECTION THREE: PRIMARY BOOKS OF ACCOUNT

3.1 Introduction

Local Government Authorities are required by law to maintain in proper books of accounts. This legal requirement is elaborated further in the Financial Memorandum issued by the Minister in Compliance with the Local Government Finances Act 1982. In order to comply with the law, a local authority has to maintain a set of books into which all transactions of the authority will be recorded.

The principal books used for bookkeeping purposes in local authority accounting are the financial ledger and the cash book, which is an integral part of the ledger, and these are supported by a number of subsidiary books of accounts.

3.2 The cash book

This is the book into which movement of money (cash, cheques, money orders etc.) is recorded.

When money is received on behalf of the local authority an acknowledgement receipt is issued, a copy of which provides the necessary information for recording in the Cash Book. Where a local authority makes a payment, such a transaction is supported by a payment voucher which provides the basic information for recording in the Cash Book. Receipts form the debit entries into the Cash Book and payments the credit entries.

3.2.1 Types of Cash Books

Different types of Cash Books exist and are designed to suit the needs of an organization. The common types of cash books in use are columnar, Analytical, and control Cash Books.

(a) Columnar Cash Book

This is a cash book LGA 3/1 which is ruled so as to reflect three columns for cash, bank and total. This type of cash book is becoming redundant since all money collected has to be banked after being recorded in a primary collection record; and all payments are required to be made by cheque.

(b) Analytical Cash Book

This is a cash book LGA 3/2 in which receipts are recorded and coded in an analyzed form to reflect the source and committee to which they relate. A

separate analysis is made for receipts and payment. When analysis cash books are in use it becomes necessary to bring the daily receipts and daily payments totals into a main cash book – the Control Cash Book

(c) The Control Cash Book

This cash book LGA 3/3 is used to record the daily receipts totals and daily payments totals and ruled in such a way as provide a daily cash book balance.

3.3 The financial ledger

The financial ledger is the basis of all accounting information and every change in the financial position of a local authority will be recorded in this book, the extent of detail depending on whether or not subsidiary ledgers are used. From this record the financial statements are prepared. The cash book is part of this ledger. It is in this ledger that the double entry system is completed.

The ledger consists of similarly ruled pages and it is usually a book, although loose leave ledgers may be used. Each page of the ledger contains one type of account the title of which appears at the top.

3.4.1 Classification of the Ledger Accounts

Accounts finding their way into the ledger are divided into those relating to persons or entities, which are referred to as personal accounts, and those which bear no relationship to persons, which are referred to as impersonal accounts. Impersonal accounts are further divided into real accounts (for assets) and nominal accounts. The example below illustrates the use of the ledger as a principal book of account.

3.4.2 Example

The following transactions occurred in the month of February 2010 in relation to the books of account of Kalembo District Council

1st Feb 2010 -The District Education Officer remitted the sum of Shs 3,000,000/= being parents contributions (UPE)

1st Feb 2010 - Kingamkono the market master remitted the sum of Shs. 500,000/= being market fees

2nd Feb 2010 -The purchasing officer bought Sunday office stationery at a cost of shs. 90,000/= from goods General Supplies Ltd. On credit

4th Feb 2010 - Makang'wa contractors paid in their employees' development levy of Shs. 150,000/=, for the previous year.

15th Feb 2010 - The council purchased materials from M/S Keshomshahara Supplies at a cost of Shs. 530,000/= on credit, for cleansing Services

28th Feb 2010- The Council purchased a cesspit emptier for Shs. 10,000,000/=. The vehicle was paid for from grant money which was received in 1990 for this purpose.

In order to demonstrate the double entry aspect the above transactions are journalized below, for illustrative purposes, as a first step because in practice only the funding of the capital expenditure would require to be journalized:

	Being cleansing materials purchased on credit	LF8		530
28/2/2010	Capital Expenditure A/C (Cesspit Emptyer) To Capital Cash A/C Being purchase of cesspit Emptyer	LF 13 CB	10,000	10,000
28/2/2010	Capital Receipts Unapplied A/C To Capital Discharged Capital Receipts Applied A/C (Government Grant) Being application of capital receipts to finance capital expenditure	LF13 LF14	10,000	10,000

Appendices

- | | | |
|----|-----------------------|---------|
| 1. | Columnar Cash Book | LGA 3/1 |
| 2. | Analytical Cash Books | LGA 3/2 |
| 3. | Control Cash Book | LGA 3/3 |

COLUMNAR CASH BOOK

RECEIPTS						PAYMENTS						
DATE	PARTICULARS	RECEIPT NO.	CASH	BANK	TOTAL	DATE	PARTICULARS	PV NO.	CHEQUE NO.	CASH	BANK	TOTAL

ANALYTICAL CASH BOOK – RECEIPTS

Date	Particulars	Receipt No.	ALLOCATION TO COMMITTEES										TOTAL	
			Items											
												Total		

Totals transferred to Control Cash Book on daily basis

ANALYTICAL CASH BOOK – PAYMENT

Date	Particulars	PV NO	CHEQUE NO	ALLOCATION TO COMMITTEES										TOTAL
				Items										
												Total		

Totals transferred to Control Cash Book on daily basis

4.

CONTROL CASH BOOK

DATE	PARTICULARS		ENTRIES		BALANCE	
		Ref.	DR.	CR.	DR.	CR.
1.1.2010	Balance brought forward					

SECTION FOUR: SUBSIDIARY BOOKS

4.1 Introduction

Subsidiary books of account and records contain the detail of items shown in total in the main ledger. They constitute an integral part of the accounting system and provide a valuable internal check on the accuracy of posting items in the accounts.

4.2 Reasons for keeping subsidiary books of account

To simplify the work in the ledger while retaining the principle of having a means of referring to the details of any transactions, certain transactions are put onto books of their own thus enabling the work to be handled by different members of staff. All entries in the subsidiary books of account must be supported by documentary evidence e.g. invoices, general receipts, licenses, payment vouchers, etc

4.3 Subsidiary books and records

The main subsidiary books of accounts and records found in LGA are:-

- Receipt Book
- Payments Book
- Receipts Summary Book
- Payments Summary Book
- Journal Voucher and Journal Register
- Petty Cash Book
- Counterfoil Register
- Dishonoured Cheques Register
- Received by the Council
- Issued by the Council
- Register of Sums Due
- Rent Receivable Register
- Market Fees Register
- School Fees Register
- Service Levy
- Trade and Intoxicating Liquor Licenses Register
- Property Tax Register
- Hotel Levy

- Sales and Services Register
- Fixed Assets Register
- Vote Book
- Imprest Register
- Salary Advances Register
- Deposits Register
- Revenue Collector's Cash Book
- Register of Sums Received by Post
- Contracts Register
- Any other register the council deems necessary

4.4 Receipt book

The Receipt Book is divided into sections corresponding to budget heads and sub-heads in the Estimates. This is to show in detail the sources of Council Revenue income and indicates the level of income for each source. The heads and sub-heads in the Receipt Book fall into two classes, namely the Revenue Heads (Nominal Accounts) and the Ledger Receipts (Personal Accounts)

4.4.1 Revenue Heads

These are concerned with money received as revenue, e.g. produce cesses, licenses, grant-in-aid, market fees, and includes earmarked funds e.g. capital grant for construction of a health centre. Daily totals are added up to produce a grand total for the month, and this is extended to a monthly total column. The monthly total is added to the total accumulated from the beginning of the year. The end of year totals of these revenue heads are posted to the Summary of Revenue and Expenditure Book.

4.4.2 Receipts Ledger

These relate to money received for accounts which are kept separately in the ledger in respect of Advances, Deposits and Loans Accounts. The names given to the Ledger Receipts accounts in the Receipts Book fall into two groups, namely Deposits Received Accounts and Advances Recovered Accounts.

4.5 Payments book

The Payments Book is divided into sections corresponding to heads and sub-heads of expenditure in the Estimates. The purpose of this book is to show in detail how revenue collected is spent. The heads and sub-heads in the Payment

Book fall into two classes, namely the expenditure heads and the ledger payments.

4.5.1 Expenditure Heads

Expenditure heads are concerned with both recurrent and capital expenditure, e.g. salaries, transport expenses, purchase of motor Vehicles etc. Daily totals are summarized monthly. The monthly totals are added to the previous month's accumulated total to determine total expenditure to date. The totals of these expenditure heads are then posted at the year end to the Summary of Revenue and Expenditure account in the Receipts and Payments Book

4.5.2 Payments Ledger

These are payments made in respect of Advances, Deposits and Loans Accounts that are kept separately in the Ledger. The names given to the ledger payments in the Payment Book are Advances Made Account and Deposits Refund Account. Treasurers should observe that all sums received and all payments made, except contra entries, are posted ultimately to the Ledger, either in detail if they are in respect of Advances Deposits and Loans Account, or as part of totals if they are revenue or expenditure.

4.6 Completing receipts and payments books

The following points should be observed when completing the Receipts and payments Books:-

- (a) A new set of books should be opened at the beginning of each year. The pages should be numbered and sufficient pages should be allowed for each account to enable the entries for the year to be recorded consecutively. The name of the account and its head and sub-head and the approved estimate for the year should be entered at the top of the page in the space provided. These details should be repeated on succeeding pages as they are brought into use. A few pages should be left between the heads to allow insertion of sub-heads that may be approved during the year.
- (b) All transactions (receipts and payments) entered in the cash book are posted individually to the ledger receipts and payments columns provided in the cash book. The receipts and payments book. Posting to the respective personal accounts in the ledger must be done daily by the ledger clerk who, for internal control purposes, is not involved with the actual receipt or payment of money. Receipt and payment vouchers in respect of revenue and expenditure entered in the Cash Book are entered

in the appropriate account column provided in the Cash Book. Fortnightly totals under each column are posted to the respective account in the Receipt and Payment Book.

- (c) The entries in the Receipts and Payments Analysis Book are totalled every day and a Trial Balance taken out on monthly basis. Accumulated and agreed entries must be inked in eventually to prevent subsequent alterations.
- (d) When a voucher has been entered in the Receipts and Payments books and the ledger, the page numbers in which it has been entered are recorded on the voucher in red.
- (e) At the end of the month the total of the entries are extracted from the cash books and posted in the General Ledger.

4.7 Receipts and payments summary book

This book contains an account entitled "Receipts and Payments account" and summarizes all the items that have appeared in the Cash Book. The important features are as follows:-

- (a) Items are treated in the same way whether cash or bank
- (b) All receipts and all payments are included and no distinction is made between capital and recurrent items
- (c) The balance at the beginning and the end of the periods represents the amount of cash available at the bank and in hand

4.8 Journal voucher and register

The journal is a special book which exists to provide a book of prime entry for a variety of non-cash transactions.

(a) The following are the main purposes of Journal Vouchers:-

- To correct arithmetical errors
- To correct errors in book-keeping principles
- To close Advances and Deposits accounts
- To effect transfers between accounts
- For year end transfers

- To write off items
- For adjustment of stale cheques
- To record salaries
- For Imprest retirement
- To record year end accruals
- To write bad debts and other losses
- And any other entries

(b) Transfers may be made between:-

- Different sub-heads of revenue
- Different sub-heads of expenditure
- Sub-heads of revenue and expenditure and ledger accounts
- Ledger accounts
- Sub-heads of revenue and expenditure i.e. where refunds of revenue for the current year or recovery of overpayments of the recurrent year are involved.

(c) In making out a journal and posting to the Journal Register it should be remembered that:-

- Revenue heads are credit heads
- Expenditure heads are debit heads
- Advance accounts are debit accounts
- Deposit accounts are credit accounts

(d) Each journal voucher must be entered in the Journal Register showing:-

- Its number and date
- The account to be debited and the amount
- The account to be credited and the amount
- The reason for the journalization
- The authorization,
- Accounting period.

Example of a journal voucher and register are given as appendices **LGA 4/1** and **LGA 4/2** at the end of this section.

(e) The journal register referencing system

It is always necessary to raise a large number of journals during the period. It is therefore very important to keep an accurate record of them, and in

particular ensure that each is accorded a unique reference. This is done by recording journals sequentially in a register as each new voucher prepared. A monthly reference can be incorporated i.e. 02/06 would relate to journal 16 of month of February.

(f) Posting of Journal

Journals must be initialled when posted to avoid the possibility of any entries being made twice or omitted.

(g) Stale cheques treatment

A stale cheque is one that remains unrepresented for longer than time your bank allows for them to be paid, usually six months. A stale cheque usually occurs if the payee has lost it, or the council itself raised the cheque for its own use (e.g. safari Imprest) and then found it did not have the funds to draw on it. The amounts of these stale cheques should be debited to the cash book and the individual expenditure account credited.

In case of stale cheque issued to supplier, the treatment is to pass a journal entry debiting the Bank Account and crediting creditor.

4.9 Standing imprest / Petty cash book

4.9.1 The purpose of a standing Imprest

Because of the size of Local Government Authorities it may not be convenient to pay small expenses by cheque or from the main cash book. Such expenses cover small items like postage, stationery, small amounts of hospitality etc. To make it easier to pay for such items, the council may open one or more standing imprests. This is also known as a petty cash system.

A standing imprest should only be used to make small payments. It should not be used to make payments to suppliers, employees or utilities. Each council should set a limit to the value of anyone transaction that can be made from an imprest, and the maximum value of any imprest. *Imprests should only be reimbursed from the main cash book*, to prevent their being used to get around the council's main payments system.

4.9.2 Operating the imprest system

The imprest system for controlling petty cash and other activities uses an advance (a float) issued to the imprest holder. The cash requirements for a period (a week or month) are estimated and an allowance added for abnormal situations. The amount calculated is then advanced to the petty cashier, after the appropriate approvals have been received.

The imprest holder makes payments within the limits set and only on authorised vouchers. At the end of the period, or when cash runs short if earlier, the petty cashier totals all authorised petty cash payment vouchers and prepares a payment voucher for the reimbursement of petty cash from the main cash book. The amount of reimbursement is always the total value of authorised vouchers, and has the effect of returning the petty cash balance to the level of the original advance. If the petty cashier has to seek re-imburement before the end of the period, on a regular basis, the total float may need to be increased.

The payment voucher for reimbursement records the expenditure against the main accounts, as analyzed in the petty cash book. Thus the reimbursement process also serves to transfer amounts spent through petty cash to the council's main ledgers.

4.9.3 Petty cash documentation

Special petty cash vouchers should be used to document the amounts paid out. A petty cash voucher should contain spaces for serial numbers, details of the expenditure, amount, the sub-vote and an authorized signature. (See below). All petty cash payments must have a properly authorized petty cash voucher and where possible receipts attached for expenditure incurred.

4.9.4 The Petty cash book

The petty cash book only has one source of receipts, the main cash book, so no analysis is required of the debit side. Payments may relate to many different types of expenses for several committees, so the credit side has many columns to analyze the expenditure. The column totals at the end of the month are noted on the re-imburement voucher.

Appendices

1. Journal Voucher
2. Journal Register

LA 4/1

LA 4/2

.....COUNCIL

JOURNAL VOUCHER

Date	Particulars or Title of Accounts	Posting Reference	Dr.		Cr.		Remarks
			Tshs	Cts	Tshs.	Cts	

Reasons:.....

.....
 Treasurer

.....
 Accounting Officer

KALEMBO DISTRICT COUNCIL

JOURNAL REGISTER

Journal Voucher Number	Date	Head and Sub-head or Ledger Account	Reference	Debit (Tshs)	Head and Sub-head or Ledger Account	Reference	Credit (Tshs.)

SECTION FIVE: ACCOUNTABLE DOCUMENTS

5.1 Definition

Accountable documents are those LGAs' documents which if misused, mislaid or stolen could cause financial loss to the LGA. In order to avoid such losses, the storage, receipt and issue of such documents must be controlled. All documents, when not in use, should be securely held under lock and key in a safe or strong room.

The accounting officer is responsible for the safe custody of all accountable documents. The accounting officer shall ensure that a register is maintained of all accountable documents and that a receipt is obtained from every officer to whom an issue is made. All officers issued with receipt forms must render a return of used and unused receipts at the end of every month in a prescribed form

5.2 The documents

Examples of accountable documents of LGAs that must be controlled are:

- Receipt books
- Receipt forms, including licences, permits, health fees
- Local purchase orders (LPOs)
- Cheque books
- Stores requisitions
- Invoices
- Revenue collectors cash books
- Revenue stamps
- Delivery notes
- Stickers

5.3 Supply of documents

All the revenue receipts and other accountable documents of the local authority shall be obtained from the sources named by the Minister.

Most of the documents are ordered from the government printers and its subsidiaries, and paid for by the LGAs. Cheque books are purchased from the authority's bank by completing a debit note which is attached in the cheque book. Business licenses are supplied by the Ministry of Trade and Industries.

When documents are received, they should be thoroughly checked in the presence of the supplier to confirm that the forms are serially numbered and consecutive. The documents shall be receipted by the relevant stores officer in order to put the documents on record, and be immediately issued to the treasurer. The treasurer shall keep the documents under lock and key in the strong room safes, under the responsibility of the chief cashier. If any form is missing or defective, the following action shall be taken:

- Announce to all local authorities and news media the invalidity of the form. This acts as a stop order to tell the public that form No is no longer valid for transactions.
- The matter shall be reported to the director/treasurer who shall return the book to the supplier and request another complete book.

If it is necessary to transfer documents from one accounting unit to another, the treasurer must authorize the transfer.

5.4 Accountable document register

Every LGA shall maintain a register of all receipts and issues of accountable documents. A separate register shall be maintained for each different type of document. The details recorded must be sufficient to enable the location, and the responsible officer, for each document to be identified.

5.5 Issue of accountable documents

Documents must be issued in consecutive order, and only to authorized officials. The accounting officer must ensure that numbers issued are not excessive. A signature *must* be obtained from the receiving officer, accepting responsibility for the documents issued.

5.6 Used documents / counterfoils

When the documents have been used, the officer shall return the counterfoils, used books etc. to the treasurer or a senior officer appointed. The counterfoils will then be checked against the collections deposited with the cashier or bank and if satisfied the receiving officer shall insert the date the documents have been returned.

These shall be kept under lock and key in the strong room for at least 5 years after the finalization of audited accounts for the year in which they were used. Under no circumstances should the documents be destroyed before an approval for destruction is obtained from the controller and auditor general.

5.7 Return of unused documents

The register must be completed, showing clearly that the documents have been returned unused. Unused documents must be re-issued and accounted for as usual.

5.8 Obsolete Stocks

When stocks become obsolete, for example development levy receipts which are issued for a particular year, their disposal must be controlled.

The finance committee shall be informed of the intention to destroy the documents and approval sought from the controller and auditor general. The committee must consent before the destruction is effected. The destruction shall be witnessed by two senior officers and a destruction certificate shall be prepared showing the type and serial number of the forms destroyed. The certificate shall be distributed as follows:

- Original to the controller and auditor general
- Duplicate to the treasurer
- Triplicate filed.

5.9 Lost documents

Should an accountable document be lost a loss report shall be written and communicated to the director. A copy of the report shall be sent to the controller and auditor general. The director shall report the loss to the police and publicize the invalidity of the document.

5.10 Handing over procedures

When it is necessary to hand over the control of accountable documents to another officer the following procedure shall be followed:

- a) Both officers shall physically count the documents and verify the numbers with the balance shown in the register of counterfoil receipts.
- b) A hand over certificate shall be prepared by the handing over officer and signed by both officers.

5.11 Dishonoured cheques register – cheques received by the council

The purpose of this register is to provide a record of cheques received by the Council, which for some reason are returned by the Council, which for some reason are returned unpaid by the Bank, and in order to facilitate the follow up for replacement cheques. The register contains the following minimum information:

- (a) Date received
- (b) Cheque number
- (c) Amount of the cheque dishonoured
- (d) Drawer
- (e) Replacement cheque number
- (f) Amount
- (g) Receipt issued
- (h) Date
- (i) Remarks

5.12 Dishonoured cheques register – cheques issued by the council

The purpose of this register is to provide a record of cheques issued by the Council which for one reason or another have been returned unpaid by the bank. It is ruled in the same manner as the register of dishonoured cheques received by the Council. The items in **5.11** above are shown in the register, subject to the following changes:-

- (a) Date issued
- (b) Drawee/payee
- (c) Payment voucher number

5.13 Registers of sums due

Most revenue collectable by Local authorities is assessable in advance against individuals. Special registers are kept to show the amount due and the name of the person liable to pay. To determine the amount payable and facilitate case of

collection different registers, each for a certain type of revenue, are maintained by local authorities as described in the following sections below.

(a) Rent Receivable Register

Where councils provide residential quarters for their staff, have public housing and other rental properties, a Rent Receivable Register contains the following minimum information:

- Property reference number
- Location
- Grade of quarters
- Name of tenant
- Amount of rent payable per month
- Date due and receipt number
- Total rent receivable per month from all tenants
- Date of commencement and termination of tenancy

Whenever there is a variation in collection in any month, the register should indicate clearly the reason therefore.

(b) Market Fees Register

Markets are a major source of revenue for local LGAs. To ensure that all revenue due from those hiring stalls is identified, a record of stall holders is maintained. The market Rents Register contains the following minimum information.

- Stall or room number
- Grade of stall
- Name of tenant
- Amount due
- Date due and receipt number
- Date of commencement and termination of tenancy.

It is important to define the type of trading to be conducted in the markets to ensure that the rate of fees chargeable is properly determined. Local authorities should advertise annually the letting of market stalls in order to maximize income from this source.

(c) School Fees register

To make sure that revenue from this source is properly accounted for a school fees Register shows the following minimum information:

- Name of the student
- Class
- Fees Payable
- Date due
- Receipt number, amount and date paid

A column for “Remarks” is included to record the formal remission of fees, etc

(d) Trade and Intoxicating Liquor Licenses Register

This register contains the following minimum information:-

- The name of the businessman
- Location and address
- Type of trade license
- Amount payable
- Data due
- Date of commencement and termination

(e) Property Tax Register

This register contains the values of all rateable property chargeable to property tax and shows the following minimum information:

- Reference number of property
- Address and Location
- Owner’s name
- Valuation
- Date of valuation
- Date of occupancy
- Balance b/f
- Adjustments
- Total amount due
- Amounts paid
- Receipt No. and date
- Write – offs, voids
- Balance c/f

(f) Sales of service register

Where a local authority sells materials or renders services on a scale which does not justify the operation of a proper trading undertaking, e.g. the sale of

seedlings or provision of vehicle repairs, a register is maintained to control such income sources. When payment is made, the number and the date of the receipt is posted in the register against the customer's name. Ideally, the provision of goods or services should be on a pro-forma basis. Local authorities undertaking large scale trading operations should use commercial accounting principles for such activities.

(g) Service Levy

Is the register used to record revenue data corporate and non-corporate institutions. The register contains the following information:

- Name of the company
- Type of business
- Location and address
- Assessed returns
- Amount payable
- Debt of assessment

(h) Hotel Levy

Is the register used to record revenue data from hotel and guest houses. It contains the following information:

- Name of the hotel
- Location
- Number of rooms
- Category of the hotel
- Rate per room

5.14 Fixed assets register

It is important that the existence of Council assets should be accounted for in a Register of Fixed Assets, LGA 5/2, and the expenditure for acquisition and repairs explained. Such a record enables the Council and management to know what properties etc., are owned by the council and what changes in ownership, if any, have taken place during the period. The record also facilitates the identification of any surplus assets (which could realize income) and periodic rent reviews for leased properties, etc.

The register shows the following minimum information:-

- Type of asset

- Cost price or purchase price
- Date of acquisition
- Additions
- Disposals etc
- Any other pertinent information

Each type of property should be recorded on a separate page in the register

5.15 Contracts Register

Contracts entered into by the council should be recorded in a contracts register, LA 5/3. This record enables the Council and Management to know what contracts are in force and determine its obligations and rights well in advance to ensure effective contract execution.

The register should show the following minimum information:

- (a) Serial number of the contract
- (b) Name and Address of the Contractor
- (c) Date of contract
- (d) Reference to the appropriate authority for award of the contract
- (e) Brief description on nature of the contract
- (f) Date of completion
- (g) Contract sum and variation
- (h) Details of contract payment made
- (i) Security retained
- (j) Remedy for breach of contract
- (k) Retentions, retention period, release of retention money

5.16 Vote book

The Vote Book is a memorandum record intended to assist in controlling expenditure within that authorized in the budget. The Vote Book contains the following minimum information.

- (a) Date
- (b) Commitments
 - Reference
 - Amount
 - Total Outstanding
- (c) Expenditure
 - Reference

- Amount
 - Total Expenditure
- (d) Total Commitments and total expenditure
(e) Balance still available

The vote book is maintained in the spending departments or unit and constitutes a prime source of information for creditor accruals and management information reports.

5.17 Imprest register

The Imprest Register is a memorandum record its main purpose is to facilitate efficient and effective means of imprest recovery. The imprest register contains the following minimum information:

- (a) Date imprest issued
- (b) To whom issued
- (c) Payroll check number
- (d) Payment voucher number
- (e) Amount issued
- (f) Due date
- (g) Date retired
- (h) Payment voucher, receipt, or journal voucher number
- (i) Amount retired
- (j) Outstanding balance
- (k) Remarks

5.18 Salary Advances Register

Councils approve salary advances to their staff for a variety of reasons. To ensure efficient and effective recovery of such advances a memorandum record is maintained for this purpose. The Salary Advances Register shows the following information:

- (a) Month and year the salary advance is granted
- (b) Name of employee
- (c) Personal file number
- (d) Payment voucher number

5.19 Deposits Register

Councils receive deposits of various types. In view of the differing purpose of these deposits a Deposits Register is maintained with a folio provided for every

type of deposit. To ensure adequate control and accounting for these deposits, the deposits register contains the following minimum information:

- (a) Particulars from whom received
- (b) Accounts and/or code number
- (c) Purpose of deposit
- (d) Date of receipt
- (e) Reference number
- (f) Descriptions
- (g) Dr. and Cr. Entries as well as balances

5.20 Revenue collector's cash book

Details of information recorded in the Revenue collector's cash book are summarized below:

- (a) All collectors of revenue e.g. market masters, head teachers etc., should be in possession of a Revenue collectors Cash Book and the official receipts for the types of revenue and other money that they are authorized to collect. All receipts should be entered individually on the debit side of the Collector's Cash Book as they occur and their serial number recorded alongside
- (b) Receipts and licenses and any other type of receipt in the hands of collectors must be checked regularly. The Treasurer, or his authorized representative, shall satisfy himself that:
 - All receipt books issued to the collectors have been recorded in the collector's Receipt Book Register and that they are produced for inspection
 - All receipts issued have been brought to account and their serial numbers and their dates of issue entered in the Collector's Cash Book.
 - The cash in hand agrees with the balance shown in the Collector's Cash Book.
- (c) When the Treasurer is satisfied that all collections have been properly brought to account he will issue a General Receipt for the total collected. If more than one head of revenue is concerned the reverse side of the General Receipt will be used to show the details of the revenue sources. The receipt must show clearly:
 - The type of receipts issued

- Their serial number
- The amounts collected
- The revenue head and sub-head to be credited

(d) When checking the receipts in the hands of the collector, the Treasurer will initial and date the counterfoil of the last receipt or license issued from each counterfoil book or records the number and date of the last receipt issued, together with his initials and the date, on the Collector's Cash Book.

5.21 Register of sums received in the post

This register records the following information:

- (a) A register of Cheques postal orders and cash received through the post shall be maintained by the clerk responsible for the receipt and distribution of correspondence
- (b) The numbers of registered slips must be entered in the register before they are signed. Other particulars that should be entered in the register are serial numbers of every cheque, postal orders etc., the name of the payer and the amount
- (c) The register together with the cash, cheques, postal orders etc., shall be passed to the cashier who will verify the accuracy of the entries, issue the necessary receipts, enter the numbers and dates in the register and sign it.
- (d) The number of the receipt issued will be endorsed on each cheque received, whether through the post or otherwise.

Appendices

1. Market Fees
2. Fixed Assets Register
3. Contracts Register

LGA 5/1
LGA 5/2
LGA 5/3

KALEMBO DISTRICT COUNCIL

MARKET FEES REGISTER

YEAR.....

NAME OF MARKET.....

Month	Stall or Room Number	Name of Tenant	Address of Tenant	Contract Reference	Amount payable	Date due	Receipt Number	Remarks if any

KALEMBO DISTRICT COUNCIL

FIXED ASSETS REGISTER

IDENTIFICATION

Identification Code.....
 Group of Asset.....
 Location.....

Maker/Manufacturer.....
 Supplier.....
 Invoice No.....
 Date.....
 New/Second hand.....
 Guarantee.....

Particulars (Description).....
 Useful life.....Depreciation Rate.....Scrap Value.....

Date	Original Cost	Additions During the Year	Total Cost	Depreciation During the Year	Accumulated Depreciation	Net Book Value

<p><u>Disposals:</u></p> <p>Disposal Date..... Authority..... Amount Realized on Disposal Profit/(Loss) on disposal </p>	<p><u>Transfers:</u></p> <p>Transfer Date..... Reasons..... Authority..... Transferred to..... Compensation/Loss.....</p>
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KALEMBO DISTRICT COUNCIL

CONTRACT REGISTER

Serial No.....
 Name and Address.....
 Of Contractor.....
 Date of Contract.....
 Authority for Award.....
 Date of Completion.....
 Security.....
 Arbitrator.....

Retention Period.....
 Amount.....
 Release Date.....
 Reference.....

Brief description of contract.....

Date	Cost			Payments			Balance
	Orig. Contr. Sum	Variations	Revised contr. Sum	Date	Ref.	Amount	
	Sh	Sh	Sh			Sh	Sh

SECTION SIX: CREDITORS AND DEBTORS CONTROL ACCOUNT

6.1 Creditors

Creditors are people or organizations to whom the council owes money for goods or services provided to it, for example central government departments, local private suppliers, overseas suppliers,

The council will purchase goods and services on credit (i.e. on account) and will have to pay for these at a later date. The date by which payment must be made is usually stated on the invoice, or if it is a purchase made through a contract, the date will be stated on the contract document.

6.2 Debtors

A council may have debtors arising from commercial operations, for example vehicle hire. Other debts will arise from the provision of services, for example rents, market fees, and school fees.

6.3 Books of Accounts

It is important that the authority keeps a record of all those individuals and organizations to which it owes money:

- to ensure that all creditors are paid, if possible by the due date
- to ensure that creditors are only paid once for the amounts owed to them

Obviously it is equally important to collect all the sums due from debtors on time.

The book of prime entry for credit purchases is the purchase day book. This may simply be a file of invoices (as long as the audit trail is preserved), but for simplicity it is referred to here as a purchase day book. Each entry is posted to the credit of the appropriate personal account in the creditors' ledger, and totals are journalized and posted to the creditors ledger control account in the general ledger.

Payments to creditors are recorded in the payments cash book and posted to the debit of the personal accounts, with totals again posted to the creditors control

account. The purchase day book contains analysis columns to summarize transactions for posting to the appropriate general ledger account.

Similarly, in a commercial operation, information from the sales day book and cash book will be used to compile the personal accounts of debtors in the debtors ledger. The individual sales in the sales day book will provide the debit entries for the personal accounts and the individual receipts in the cash book will provide the credit entries.

6.4 Settlement of debtors and creditors account

So far, accounts have been shown as settled by cash payment (for creditor accounts) or cash receipts (for debtor accounts). However there are other ways in which the outstanding balances can be settled. They are:

- The return of goods especially if faulty (goods returned)
- The presentation of a credit note for past overpayment
- A discount off the total value of an invoice for early payment (discounts received / allowed)

Debtors' accounts for certain taxes may be settled by special discounts. In property tax accounts, for example, these are referred to as allowances, and are often given by resolution of the finance committee to charitable organizations or individuals who they feel should not have to meet the full tax charge.

Debtors' accounts may also be settled by writing off money owed as bad debts. In property tax accounts, bad debts are usually known as voids and occur when the owner of the property is either bankrupt or his whereabouts cannot be traced. Creditors' accounts are never settled by bad debts, as it is assumed that even if the supplier has gone bankrupt, the liquidator of the company (and its assets) will seek to recover all debts due to it.

6.5 Control over subsidiary ledger

As a control over the recording systems for creditors and for debtors, a control account for each subsidiary ledger is maintained in the general ledger. These accounts are compiled from the monthly totals in the books of prime entry, and represent the total of the balances on the personal accounts in each ledger.

6.6 Reconciliation of creditors and debtors' ledgers

At the end of each month, the individual balances will be listed from the personal accounts in the creditors and debtors ledgers and the total on each ledger reconciled with the balance reflected in the appropriate control account in the general ledger.

In the event of differences, a full check on the records will be required until reconciliation is effected.

6.7 Register for sundry debtors

Where sundry invoices are issued relating to more than one source of income, a register acting as a day book requires is required to provide analysis of the income in order to summarize the totals which are to be posted to the general ledger.

6.8 Bad debts

A bad debt is an amount due from a debtor which a council will never recover because of the personal circumstances of the debtor.

A journal entry will be made to write the debt out of the appropriate debtors' ledger or register and transfer it to a bad debts account in the general ledger. For example, assume 8,000 Shs owed by Mr Kazi for market fees will never be collected because of the disappearance from the district. The double entry is as follows:

General ledger journal

Bad debts	Dr 8,000 Shs
-----------	--------------

Debtors ledger	Cr 8,000 Shs
----------------	--------------

The personal account in the debtors' ledger is updated as follows, using the same journal references:

Date	Details	Post Ref.	Debit	Credit	Balance
	<i>Balance</i>	<i>b/f</i>	<i>8,000</i>		<i>8,000 Dr</i>
	<i>Bad debts</i>				
	<i>Bad debts</i>			<i>8,000</i>	-

The bad debts are included with expenditures in the end of year's income and expenditure account.

6.9 Provision for doubtful debts

Specific amounts can be written off as bad debts. However, there may be occasions when the council wishes for reasons of prudence to declare that it may not be able to collect all of its debts.

In these circumstances a council may create a provision for doubtful debts, normally based on a percentage of the outstanding balances. The percentage will generally be higher for those debts that have been outstanding for a long period of time. Entries for a provision for doubtful debts could be as follows:

The double entry for provision by journal would be:

Dr: Provision for doubtful debts (Statement of Financial performance) shs 10,000

Cr: Provision for doubtful debts (Statement of Financial Position) shs 10,000

SECTION SEVEN: BANK RECONCILIATION

7.1 Introduction

Local authorities maintain bank accounts into which they deposit cash and cheques received and from which all payments by cheque are made. Additional transactions there in include direct bank debits and credits, inter-account transfers, "Refer to Drawer" cheques, bank charges and interest transactions.

At the end of every month (or more frequently by arrangement) the bank sends statements to local authorities which are needed for reconciliation purposes. In theory the balance shown in the Bank Statement should agree with the balance shown in the Cash Book. In practice, however, the two balances rarely agree for the following reasons:-

- (a) Cheques issued (whether or not sent to creditors) and recorded in the Cash Book and not presented for payment.
- (b) Cheques and cash received and paid into the bank not credited in the Bank Statement.
- (c) Bank charges and interest entered in the Bank Statement not entered in the Cash Book.
- (d) Errors in the Cash Book and /or the Bank Statement:-
 - arithmetical errors
 - Cheques drawn on the authority's other bank accounts
 - Cheques debited by the bank drawn by other payers
- (e) Cheques deposited but "Referred to Drawer" by the bank.
- (f) Direct Bank Credit or Direct Bank Debit.
- (g) Inter-account transfers originated by letter and not by cheque.

To bring these items into account a reconciliation statement for all bank account (including project, deposit and trading accounts) needs to be prepared at least monthly.

7.2 Purpose of a reconciliation statement

A bank reconciliation is undertaken to agree and prove the accuracy of the balances shown in the council's /Cash Book and Cash held at bank. Differences are identified and action taken to rectify them as appropriate. This is particularly critical at the end of the year when the correct cash at bank figure needs to be

shown in the Balance Sheet. Any errors in each record should be rectified accordingly, any communication with the bank being forwarded in writing.

7.3 Reconciliation procedures

The bank reconciliation is a three stage process:

- (a) Tick off items appearing on the bank statement with those appearing in the cash book for the month, or on lists of uncredited deposits and unrepresented cheques from last month's reconciliation statement.
- (b) Sort out all items which remain unticked. Identify those items that are omissions from or errors in the cash book and adjust the cash book as necessary. Appropriate documentary evidence will have to be prepared to support the entries in the cash book, such as debit notes for bank charges.
- (c) Classify the remainder as unrepresented cheques, uncredited deposits, bank errors and transactions to be investigated and agree the adjusted cash book and bank balances.

Current financial memoranda require a reconciliation to be done at the end of every month. The statement must be signed as correct both the council director and treasurer.

7.4 Bank reconciliation approaches

(a) The Four-Lists Approach

This approach requires the preparation of four lists as detailed below:-

List A

Amounts entered in the Receipt Bank Column in the cash Book but not entered in the Bank Statement, Viz cheques and cash in transit (deposits)

List B

Deduction items entered in the Bank Statement but not yet recorded in the cash book e.g. bank charges for stamps new cheque books and interest on overdraft

List C

Cheques issued by the Local authority which have not been presented to or paid (cleared) by the bank

List D

Credits originated by the bank in the Bank Statement but not in the Cash Book e.g. interest allowed on the bank balances, and payments (direct bank credits) made directly into the bank account by other parties.

From these lists the Bank Reconciliation Statement is prepared. The format and procedure will depend on the types of balance as reflected in the Bank Certificate. Thus, where the bank balance recorded on the Bank Certificate is from the point of view of the bank a credit balance i.e the authority is not overdrawn in the bank's books, then the Reconciliation Statement should be as follows:-

BANK RECONCILIATION STATEMENT

MONTH..... YEAR.....

Balance as recorded in the
Bank Statement and Certificate Tshs. XXX

<u>ADD:</u>	List A	Tshs.	<u>XXX</u>		
	List B	Tshs.	<u>XXX</u>		
			Total (i)		Tshs. <u>XXX</u>

<u>DEDUCT:</u>	List C	Tshs.	<u>XXX</u>		<u>XXX</u>
	List D	Tshs.	<u>XXX</u>		
			Total (ii)		Tshs. <u>XXX</u>

NOTE: (a) If total (i) is greater than (ii) subtract total (ii) from (i) as follows:

			Total (i)		Tshs. <u>XXX</u>
	Less:		Total (ii)		Tshs. <u>XXX</u>
			Balance according to Cash Book		Tshs. <u>XXX</u>

In this case, the balance in the local authority cash book will be a debit balance.

(b) If on the other hand total (ii) is greater than total (i), subtract total (i) from (ii) as follows:-

			Total (ii)		Tshs. <u>XXX</u>
	Less:		Total (i)		Tshs. <u>XXX</u>
			Bank Account overdrawn according to the cash Book		<u>XXX</u>

Where the bank balance recorded in the bank certificate is, from the point of view of the bank, a debit, i.e. the local authority is overdrawn in the books of the bank, then the Reconciliation Statement should be as follows:-

BANK RECONCILIATION STATEMENT

MONTH..... YEAR.....

Bank overdraft as recorded in the
Bank Statement and Certificate Tshs. XXX

<u>ADD:</u>	List C	Tshs.	XXX		Tshs.	XXX
	List D	Tshs.	<u>XXX</u>		Tshs.	<u>XXX</u>
			Total (i)		Tshs.	<u>XXX</u>

<u>DEDUCT:</u>	List A	Tshs.	XXX			
	List B	Tshs.	<u>XXX</u>			<u>XXX</u>
			Total (ii)		Tshs.	<u>XXX</u>

NOTE: (a) If total (i) is greater than (ii) subtract total (ii) from (i) as follows:

			Total (i)		Tshs.	XXX
	Less:		Total (ii)		Tshs.	<u>XXX</u>
	Bank balance as recorded					
	In the Cash Book				Tshs.	<u>XXX</u>

If the total of additions above is greater than the total cheques and cash in transit plus bank deductions the result would be an overdraft according to the Cash Book. But if the total of all cheques and cash in transit to bank plus deductions (if any made by the bank) is greater than the outstanding cheques and bank credits, the bank balance according to the Cash Book would be a Debit Balance.

All reconciliations must show in detail the particulars of outstanding items e.g.

- (i) List of unpresented cheques: date, cheque no, name of payee and amount
- (ii) Particulars of bank deductions: date, particulars, amount, action taken etc

(b) The Nil Balance Approach

This approach is widely used in central Government. A few Local Authorities have also adopted it due to its simplicity and brevity. To illustrate the principles underlying this approach the following worked example is given.

Example

Using the Nil Balance method adopted in central Government Accounts, prepare a Bank Reconciliation Statement as at 31st December 2010 in respect of Kalembo District Council from the following information:-

- (a) The Bank Statement shows a balance of Tshs. 359,621 (credit balance)
- (b) Cheques totaling Tshs. 8,234.50 remain unrepresented
- (c) A cheque for Tshs. 5,639.50 for purchase of stores was entered in the Cash Book as Tshs. 5,693.50
- (d) Receipts dated 29th October 19xx and totaling Tshs. 2,965.50 were entered in the Cash Book but are not yet reflected in the Bank Statement.
- (e) A further three receipts for Tshs. 9,615.75 were received by the bank, the relevant pay-in-slips only being received by the Council on 9th November 19xx
- (f) A cheque for Tshs. 1,200 as a refund of safari imprest was dishonoured by the bank
- (g) A cheque for Kalembo District Council totaling Tshs. 3,125.00 was wrongly debited to this account
- (h) The Cash Book balance was Tshs. 349,116.25

Solution

KALEMBO DISTRICT COUNCIL

Bank Reconciliation Statement as at 31st October 2010

Balance as per Bank Statement Tshs. 359,621.00	Balance as per Cash Book Tshs. 349,116.25	Difference Tshs. 10,505.25
Deduct: Council's unpaid cheque		8,234.50 2,270.75
Add: Difference in amounts of cheques: (Tshs. 5,693.50 – 5,639.50) Receipt in CB not in Bank		54.00 2,966.00

SECTION EIGHT: TREATMENT OF DISHONoured CHEQUES

8.1 Introduction

A cheque is said to be dishonoured when the bank to which the cheque is presented for payment returns it unpaid. Whatever the reasons for returning it, the bank balance according to the Cash Book is affected and has to be adjusted.

8.2 Cheques issued by the council

- a) Cheques dishonoured for technical reasons e.g. an alteration in the date not initialled by both signatories. Such cheques should be corrected and returned to the payee. If this can be done at once there is no need for any entry to be made in the books, but if there is any delay before the error can be corrected, it should be dealt with.
- b) Cheques returned by the bank because there were insufficient funds in the account are treated differently. Unless the Council has made arrangements in advance (prior to presentation of the cheques) for additional credit in excess of the balance in the account, the bank will usually refuse to honour the cheque(s). Where a cheque is dishonoured, it will be marked R/D which means "Refer to Drawer".
- c) The approach in (b) above avoids the problems of cancelling the original payment voucher and cheque; subsequent payment depends upon following usual the payment voucher and cheque preparation procedures. By returning the cheques to the Council formal liability is established in the Council's accounts. However, such a liability exists even if the creditor retains the cheques, as the cheque is included in the monthly unrepresented list.

The reference above to "payment by cash" raises technical issues, bearing in mind the general principle established elsewhere that all Council payments above a specific amount should be paid by cheque.

- d) The position of the Creditor in handing over the Refer to Draw cheque and the issue of the Receipt needs to be examined. Effectively the creditor is lending money to the council.

A review of Council accounts shows the practice of issuing cheques to creditors on the understanding that these will not be presented until funds are available at the bank

This practice, if merely short – term and genuinely awaiting funds, may be acceptable. However, where it effectively avoids Government policy which prohibits short term bank borrowing – and where the accumulating unrepresented cheques represents extended borrowing from the private sector against which funds are not shortly realizable, - then this practice should cease. Bank balances in the council’s accounts show technical overdraft positions as a result.

8.3 Cheques received by the council

Cheques received by the Council may be dishonoured for a number of reasons. The council should be cautious to minimize the number of such cheques by:-

- a) Not accepting cheques from anyone whose credit is suspected to be poor
- b) Insisting on payment by banker’s cheque Telegraphic Transfer (TT) or where the Council doubts the credit worthiness of the customer.

When a cheque which has been paid into a council bank account is dishonoured, whatever the reason, a payment voucher is prepared and entered in the Cash Book credit Column, and debited to an advance account headed “Name of person from whom it was received” quoting cheque No..... dated.....for..... drawn by..... On branch..... for Tshs.....returned unpaid. The person from whom the cheque was received should be informed at once.

If the cheque has been dishonoured for technical reasons for which the Treasurer is to blame e.g. an improper endorsement or for which the drawer is to blame e.g. the amount in words and figure differ, it may be possible to correct it and re-present it at once. But if the cheque has been rejected because there are no funds available, action to recover the amount due should be initiated through the Director.

8.4 Alternative Accounting Treatment

An alternative approach is to enter the Return to Draw cheques in the Cash Book on the side and cancel the receipt. A contra entry is generated for the income account. This immediately reduces the income recorded by the local authority and avoids an overstatement of cash collected.

This approach should be considered when a reasonable period of time has elapsed (say one month) and certainly at the year end when all outstanding R/D cheques should be reviewed and adjusted in the accounts via the journal.

Accounting entries:

- **Upon receipt of cheque**

Dr: Bank Account

Cr: Income account e.g. Property tax

- **During R/D a voucher is made:**

Dr: Property Tax

Cr: Bank Account

- **Then at the end of month, recognition of income is made by Journal Voucher entry**

Dr: Debtors Account

Cr: Income Account (Property Tax)

Alternatively if the council made payment and it happened that the cheque issued to a customer was return as a dishonoured cheque

Accounting entries are as follows:

- **Upon issuing of cheque**

Dr: Expenditure item e.g. stationery

Cr: Bank Account

- **Upon return of dishonoured cheque:**

A receipt is issued and the following entries should be made in the cash book:

Dr: Bank Account

Cr: Expenditure item e.g. Stationery

- **Then at the end of month, recognition of expenditure is made by Journal Voucher entry**

Dr: Expenditure item e.g. Stationery
Cr: Creditor

SECTION NINE: LEDGER ACCOUNTS

9.1 Introduction

9.1.1 General Ledger

The general ledger is the summary of all transactions which the authority has entered into in the current accounting period, the brought forward balances from the previous accounting period, and the closing balances from the current period. The transactions are summarized into accounts which are kept on the double entry basis. Different formats for accounts are possible, but the principles are the same in each case.

The balances on the ledger accounts are used in the preparation of periodic financial reports and the annual financial statements.

9.1.2 Subsidiary ledgers

In order to reduce the volume of details in the general ledger and to allocate the work of recording transactions to various members of staff, most transactions are individually recorded first in subsidiary ledgers, and only the totals are then posted to the appropriate general ledger account. The main subsidiary ledgers are the cash book which records all cash receipts and payments, and the creditors (accounts payable) ledger and the debtors (accounts receivable) ledger which hold all the details of individual creditors and debtors.

9.2 Control accounts

It would be possible to maintain individual creditor and debtor accounts in the general ledger. However in order to further reduce its volume, the transactions regarding each main class of debtor and creditor may be summarized in a debtors or creditors control account. In local authorities control accounts can exist for general debtors and creditors but also for specific types of debtors such as those for property tax, rental income from council properties etc.

Control accounts are summaries of individual accounts, showing the totals of purchases or sales on credit and how these transactions have been settled. They are normally summarized from totals of credit purchases or sales in the day books and cash payments and receipts in the cash book. When individual

transactions are posted to subsidiary ledger accounts, totals of transactions are posted to the appropriate control account.

The control account therefore allows a reconciliation of the individual account balances on the subsidiary ledgers with the total on the control account.

9.3 Posting to the general ledger

Transactions are posted to the general ledger by means of journals. To maintain the double entry system all journals must balance i.e. the total of the debit entries must equal the total of the credit entries.

The journal will state each ledger account name, its code, and the value of the debit or credit entry for that account. The journal should be signed by the person authorizing the entries and signed by the person posting the transactions to the appropriate ledger accounts once the posting is complete.

The entries should be recorded on the ledger accounts exactly as stated on the journal. The journal number is entered as the posting reference. In the date column of the account enter the date of the journal, not the date of the posting.

9.4 Form of ledger account

The accounts in the General Ledger should:

- (a) Be prepared by double entry.
- (b) Be maintained punctually.
- (c) Be titled so as to define their purpose and, in the case of personal accounts, identify the person or groups of persons concerned.
- (d) Be arranged and grouped with due regard to their nature, and bring together the totals which may enhance supply of information to different users as and when required.
- (e) Be adequately described in detail and referenced to its corresponding debit or credit and supported by an accurate and adequate narration.
- (f) Be entered as a total, where practicable, and supported by appropriate subsidiary books of accounts.
- (g) Be securely bound, although in loose leaf form, and each page or folio consecutively numbered.

9.5 General ledger content

The General Ledger constitutes the official record and classification of all of the local authority's financial transactions in each year including, in Balance Sheet form, a complete statement of the authority's financial position at the close of the financial year.

The accounts in the General ledger may be grouped as follows:-

- (a) Personal Accounts divided into:-
 - Cash
 - Debtors
 - Creditors
 - Stores
- (b) Impersonal Accounts i.e. Revenue
- (c) Holding (Suspense) Accounts
- (d) Provisions Account
- (e) Reserves
- (f) Capital Accounts
- (g) Balance Sheet

9.6 Personal accounts

Personal accounts record amounts owned, owed to or owed by an organization. These include cash, debtors, creditors and stock. The balance shown on each of these accounts at the year end is carried directly to the Balance Sheet.

9.6.1 Cash Account

The Council's cash account is an integral part of the financial ledger system (the analyzed chronological record of receipts and payments), and is a summary of all the detailed prime records (invoices, paying-in-slips, etc.) which generate an entry in the accounts.

9.6.2 Debtors

Personal accounts include individual debtor accounts, (personal accounts with employees e.g. imprest, advances, and revenue collection with collecting officers). Debtors' accounts in the General Ledger will mostly be Total or Control accounts in which each entry will be the aggregate of a number of identical transactions which will have been entered individually in a subsidiary Debtors' Ledger as and when they occurred.

The following are examples of such Total or Control Accounts and their supporting subsidiary Debtors' Ledgers:-

Total Account in General Ledger	Subsidiary Debtors' Ledger
Ratepayers' control A/C	Rate book
Development Levy Control A/C	Development Levy Register or Ledger
Tenants' control A/C for Housing Rent	Housing Rental or Housing Tenants Ledger
Sundry Debtors' Control A/C for Miscellaneous Income	Sundry Debtors' Ledger

9.6.3 Creditors

Personal Accounts in the General Ledger which relate to creditors are subject to the same explanations as have been made for debtors' accounts; that is, the majority of individual accounts with creditors will be found in subsidiary books of accounts.

Examples of Total Creditors' Accounts and their supporting subsidiary books of accounts are as follows:-

Total Account in General Ledger	Subsidiary Records
Sundry Creditors Control A/C for trade supplies and Services	Subsidiary individual Creditors A/Cs payment schedules
Employees Control A/C for salaries and wages	Salaries Registers payroll
Storekeeper's Control A/C for stores	Stores Ledger

9.6.4 Stores

Goods purchased in advance of requirements may be held in one of the stores of the Council until required. The stores account (unallocated) in the ledger is

therefore a holding account controlling individual transactions of purchase and issues.

9.7 Impersonal accounts

Impersonal accounts record all items of income and expenditure. The balances of the individual income and expenditure accounts are carried to the revenue account and the surplus shown in the balance sheet is the surplus for the year added to any balance brought forward from the previous years.

9.8 Revenue (Recurrent) Accounts

These are accounts which record current transactions relating to day to day operations of the local authority's services. They are Nominal Accounts the balances of which are transferred to Fund Accounts at the end of the accounting year. It is common practice to open a revenue expenditure and income account in the General Ledger for each major service of a local authority and to keep this account as a Total Account, the detailed transactions relating to it being recorded as they occur in subsidiary Expenditure and Income analysis ledgers.

The revenue accounts are the basis for the preparation of monthly management accounting reports and for detailed budgetary control

(a) Expenditure Accounts

The expenditure should be analyzed by departments, within each department it should be analyzed over services and, within each service, further analyzed over objective and then subjective headings. The expenditure should be allocated to each expenditure head by the use of expenditure codes entered on the prime documents. The main source of entry to expenditure codes is by way of payments to creditors, employees and by journal entries. Expenditure should be debited to the relevant impersonal account, the credit entry being made to the cash book

(b) Income Accounts

As with expenditure, income received should be analyzed by department and within each department by service. Separate treatment applies to three types of income.

(i) Cash Income

The officer responsible for collecting cash income should keep a book, showing amounts collected and paid in to the municipality's bank account. Periodically, the amounts collected should be totaled and written into the amount, the income being credited to the appropriate impersonal accounts, and then debited to the account of the collecting officer. The amounts received from the officer should be credited to his account and debited to the cash account.

(ii) Credit Income

This is income which should be taken into account when the amounts fall due e.g. rents, rates and debtors' accounts

(iii) Government Grants

A separate account should be opened for each grant due from the government. The account should show the amount due for the year, installments of grant received, and the balance payable at the year end.

9.9 Holding accounts

A Holding Account may be either a personal or impersonal account depending on the nature of the items included. Some items of expenditure cannot by their nature be immediately allocated to specific services and have to be charged to an intermediary account in which they are aggregated and then recharged to service accounts on an agreed (usually user) basis. Examples of such accounts include Central Printing Works, Transport Pools, Administration, Building Expenses, etc. Expenditure is initially charged and held in the "Holding Accounts" pending recharge to service and other accounts on a monthly (often provisional) basis and fully at the year end.

9.10 Provision accounts

In Local Government Authority accounting as in commercial accounting, a distinction is made between Provisions and Reserves. In Local authority accounting the term provision is defined as meaning "amounts set aside to meet specific commitments, known contingencies and diminutions in values of assets existing as at the date of the balance sheet where the amounts involved cannot be determined with substantial accuracy". Renewals and Repairs Funds, which

are built up to meet future expenditure on repairing, maintaining, replacing and renewing buildings, vehicles and plant clearly come within this definitions.

9.11 Reserve accounts

Reserves are appropriations from accumulated surpluses to provide for future unknown liabilities and to strengthen the general financial position of the LGA.

9.12 Capital accounts

The term “Capital Accounts” in local authority accounting has a different meaning from that in use in commercial accounting. The difference arises because of the absence of proprietary capital, in the commercial sense, in LGA accounts.

The grouping of capital accounts in the General Ledger is as follows:-

- (a) Capital Outlay Accounts – relating to the acquisition or construction of long-lasting realizable assets such as land, plant, vehicles, buildings, etc.
- (b) Other Long Term Outlay Accounts – relating to expenditure on long-lasting but unrealizable works such as roads, sewages, street – lighting, etc.
- (c) Deferred Income – refers to income received from Government and Donors not yet discharged/used.
- (d) Capital Fund Accounts – relating to capital money available but not yet applied to financing capital expenditure.

SECTION 10: RESERVE PROVISION AND HOLDING ACCOUNTS

10.1 Reserves

The law empowers local authorities to maintain such reserves, renewals or special funds as the Minister may approve or direct. The purpose of maintaining a general reserve fund is to provide a sufficient working balance and for meeting unforeseen contingencies. Other reserves are designed for more specific purposes.

10.2 Accounting for Reserves

Reserves are appropriations of the revenue account surplus, and the main reserve account is known as the General Reserve Fund. To create such a reserve, debit the Revenue Appropriation Account with the amount required to be transferred and credit the General Reserve Fund.

10.3 Minimum Compulsory Reserve

Local authorities are statutorily required to place funds in the Minimum Compulsory Reserve (MCR) with the Local Government Loans Board. This reserve is maintained at a set percentage of the authority's recurrent income of the previous year before grant is included and varies from year to year. The appropriation of the initial contribution to the MCR, and the annual adjustment, whether an increase or decrease, is effected through the General Fund Appropriation A/C. An example is set out below.

YEAR 1 – APPROPRIATION A/C

	Tshs.	Tshs
Initial Appropriation to MCR (LGLB)	100,000	B/F surplus from General Fund (for year 1) 200,000
Net surplus c/f to surplus and deficit a/c	<u>100,000</u> 200,000	
		<u>200,000</u>

YEAR 2– APPROPRIATION A/C

	Tshs.	Tshs
Increase Appropriation to MCR (LGLB) 20,000		B/F surplus from General Fund (for year 2) 300,000
Net surplus c/f to surplus and deficit a/c <u>280,000</u>		
300,000		<u>300,000</u>

MINIMUM COMPLULSORY RESERVE (LGLB)

Tshs.	Tshs
Balance c/f Year 1 100,000	Year 1 appropriation from General fund Appropriate A/C 100,000
Balance c/f Year 2 120,000	Balance b/f Year 2 100,000 Year 2 increase in Appropriation 20,000

10.4 Investment of Reserves

As the General Reserve Fund (arising from accumulated surplus and deficits) is utilized as working capital there is no specific investment of the surplus cash which it represents. Specific reserves may be invested and the funds held against specific future contingencies.

The MCR (LGLB) is exceptional in that the reserve funds appropriated are placed with another organization and constitute an asset for the local authority. The funds placed with the LGLB are a liability of that organization to the local authority.

After appropriation of the MCR, therefore, the local authority draws a cheque and pays it to the LGL, creating an investment (LGLB) account parallel to the MCR (LGLB) A/C

Statement of Financial Position as at.....

<u>RESERVES</u>		<u>INVESTMENT</u>	
MCR (LGLB)	120,000	LGLB	120,000
General Fund Reserve	X		
CURRENT LIABILITIES		CURRENT ASSETS	
Creditors	Y	Debtors and Cash	X + Y

(NB: other accounts not shown)	
--------------------------------	--

10.5 MCR Borrowing Entitlement

The creation and placing of the MCR with the LGLB entitles the local authority to short and medium term borrowing facilities. Any such borrowing transactions are distinct from the original appropriation transaction, and must not be placed in the Appropriation A/C or through the Reserve or Investment Accounts.

10.5.1 Interest on MCR Deposits

Regulations require that all interest on MCR deposits with the LGLB be credited to the General Fund Account. At present the LGLB does not pay interest (This depends upon minister responsible for Local Government's decision) and has not done so since the scheme was created.

On strict accounting grounds the local authority should accrue interest and show the LGLB as a creditor. In the absence of any indicated interest rate, and to avoid overstating income, accrual is not recommended at the time. However, this issue should be noted for future reference and appropriate accrual made in the accounts when definite arrangements have been made.

10.5.2 Provisions generally

The term "provisions" in LGAs accounting means a charge made to the revenue account to meet specific liabilities, the amount of which is not known and cannot be estimated with reasonable accuracy. Examples of provisions in local authority accounts are those for bad debts, repairs and maintenance, and renewals and replacements.

10.6 Renewals funds

10.6.1 Purpose

The purpose of a renewals fund is to equalize the cost of renewals and replacements of assets of a number of years, usually the expected life time of

each asset in question. Renewals funds are restricted to vehicles, plant, machinery and furniture.

The fund is built up by annual contributions to the fund from the revenue account calculated to ensure availability of funds to replace the asset after the expiry of its working life (less estimated residual or sale values)

Where the items in the Renewals Fund are numerous, the Renewals Fund Account in the General Ledger is kept in total only, the details appearing in a Renewals Fund Schedule.

The rate of contribution to a Renewals Fund in respect of every asset included in it should be reviewed frequently, particularly in an era of continually rising prices. Inflation adjusted contributions, based on future projections of price increases, provide for replacement rather than historic cost values.

10.6.2 Accounting for Renewals Funds

The transactions involved in accounting for a Renewals Fund are:

Dr: The appropriate service revenue account
CR: The Renewals Fund Account

Where a local authority operates a transport pool, the contribution to the Motor Vehicles Renewals fund is made from the Transport Holding account. The following example demonstrates the construction of a renewals fund schedule and the Renewals fund Account.

Example

The following particulars relate to four vehicles

In December 20x9 the Land Rover was sold for Tshs . 1,800,000/= and replaced at a cost of Tshs. 2,500,000/= . Prepare the Renewals Fund Schedule and Renewals Fund Account for the years 20x8 and 20x9. See attached schedules.

10.6.3 Investment of Renewals Funds

In order to ensure the availability of the funds set aside for the future purchase of the replacement asset, the cash equivalent of the fund contributions is invested in an interest yielding asset.

The statutory requirement is that renewals funds are invested with the LGLB and this requires separate book-keeping transactions and the creation of a specific

asset account. The renewals fund cash flow is therefore lost to the local authority but is preserved from being appropriated to other purposes. Interest earned should therefore at a minimum equate with the rate of inflation and, properly, show a real rate of return if funds are to be made available to replace the asset in full.

The statement of financial position for renewals fund investments will show:

<u>RESERVES/PROVISIONS</u>	<u>INVESTMENTS</u>
Renewals Fund 100,000	LGLB (Renewals) A/C 100,000

10.6.4 Interest on Renewals funds

Regulations provide for all interest earned on LGLB deposits to be credited to the General Fund Account. Therefore, to ensure that interest is credited to the Renewals Fund, a contra expenditure entry is required debiting the General Fund Account, where the renewals contribution is being charged, and crediting the Renewals Fund Account.

10.7 Maintenance funds

10.7.1 Purpose

Maintenance funds are set up for the purpose of equalizing maintenance costs, usually for public housing, staff quarters, public buildings vehicles and equipment. They differ in nature from those set up to equalize replacement costs as the latter are normally concerned with the financing of capital expenditure while maintenance funds are concerned with financing revenue (recurrent) expenditure.

10.7.2 Maintenance Costs

The usual practice is to treat maintenance costs as part of the running costs of the year in which they fall to be met, and this is reasonable and equitable enough if maintenance costs occur evenly over the lifetime of the asset.

This is rarely the case in respect of buildings and vehicles which tend to make few demands for repair and maintenance during the early years of their life but which, as they become older, are subject to sudden and heavy repair costs, which constitute a heavy burden in the year of their occurrence if charged fully in that year.

Such funds, for example, Housing maintenance funds are not the subject of any statutory regulation but are simply a form of provision which a Local Authority may make if convinced of its financial merit and prudence. Those accounting procedures follow the same pattern as those of renewals funds. One exception is apparent, however, in that the utilization of a housing maintenance fund does not create an asset and therefore no capitalization is involved.

The balance on the maintenance fund is shown on the liability side of the financial position and is prudently balanced by an asset (investment in realizable securities or cash) which is readily available when maintenance expenditure has to be incurred. The accounting transactions are similar to other fund accounting arrangements.

10.7.3 Separation of funds

Separation maintenance funds are required for each category of asset and must take into account issues of inflation, the predictability of repair and maintenance costs, and notional or real interest earned on the balances.

There is a tendency for repair and maintenance needs to be deferred leading to the need for major works to rehabilitate buildings. This is frequently shown and financed through the capital budget but funds may be appropriated from the housing maintenance fund for the whole or part of the rehabilitation.

10.8 Holding Account

10.8.1 Definition

Holding accounts may be maintained for common facilities such as printing works and transport pools. Holding accounts facilitate the allocation of costs currently held centrally and arbitrarily charged to one committee's budget even through benefiting other committees and departments.

Example

At the beginning of the year an estimate of the expenditure for the transport pool is made. The estimates reflect the individual items of expenditure on revenue service account and rechargeable services and are shown as contra credits in the holding account.

At the end of the financial year the expenditure on the holding account is charged to revenue account in an equitable manner. i.e. relating to the use of vehicles, square footage of buildings etc. This account does not in normal circumstances

have a balance on it at the end of the year since all the expenditure is recharged to the appropriate revenue account.

However, residual and small balances (debits or credits) are permissible if the recharging system is based on estimated or standard unit costing methods and the total recovery can not be precisely determined in advance.

Monthly recharges are recommended as a means of charging users budgets to show their true use of resources and to provide an early indication of any potential over or under recovery. An alternative approach is to allocate the balances remaining proportionately to the charges allocated to users during the year.

SECTION ELEVEN: PAYROLL ACCOUNTS

11.1 Introduction

Labour costs constitute a large portion of the total costs of operating most organizations. In local authorities, payroll costs account for over 60% of the total operating costs. The task of accounting for payroll costs is therefore very important to local authorities because of the large amounts involved. As a matter of principle, every employee must be paid on time, and the payment must be accompanied by a detailed explanation of the computations used in determining the net salary received by each employee. Payroll computations involve many repetitive calculations for large numbers of employees. This characteristic of payroll computation has made the payroll area ideal for computerization. Local government authorities have their payroll prepared centrally at the treasury with the use of computers. The task of the local authorities is to provide the Treasury with prompt, accurate and up to date data for each employee to enable the preparation of payroll. These data are supplied by filling forms designated Computer Processed Payroll Data Sheets.

11.2 Preparation procedures

(a) First appointment

Whenever an employee is engaged for the first time, the human resources department should open a file in the Registry. This file should contain, among other things, the full name of the employee, monthly salary, date of employment,

month of annual increment, and amount of annual increment. The file should then be sent to payroll section. The payroll section should extract the necessary data from the file and complete the Computer Processed Payroll Data Sheet should be sent to treasury for inclusion of the new employee in the payroll. The computer output from the treasury will contain, in addition, an identification number (also called the check number) which is permanent and personal to the employee. It should be noted that all such input data should be sent to treasury before the 5th day of the month for which the payroll is being prepared. In case the first appointment is effected after the 5th day of the month, the new employee's first salary should be paid by the council through a payment voucher. A list of all employees whose salaries are paid through a payment voucher should be prepared and submitted to treasury by the 5th day of the subsequent month for reimbursement.

(b) Payroll amendment

The payroll data of an employee will not remain the same throughout his term of employment with the council. Changes may occur in respect of monthly salary, allowances, deductions, etc. All these changes, whenever they occur, must be communicated to the treasury by the employee's local authority. A local government council will notify the treasury of such changes by completing a CPPDS. These are the forms designed to record all amendments, changes or corrections of errors in connection with an employee's payroll data. These forms, when completed, must be sent to treasury before the 5th day of the month for which the payroll is being prepared. It should be noted that the forms are only filled for an employee whose payroll data need to be changed. If the payroll data of all employees of a council remain the same as the previous month, and then the council should not fill any form in that month.

(c) Payment of salary to employees

As pointed out earlier, all information needed by the treasury to process payroll in any month must be sent by each council before the 5th day of that month. After a council has sent all input data to treasury, it will wait until it is notified by the treasury that their payroll is ready. It is however the responsibility of the council to keep on inquiring whether or not the treasury has completed the preparation of payroll. When the payroll is ready, the council should send the designated/responsible person to the treasury to collect the payroll output. The payroll output include payroll sheets, payroll summary and, schedules of deductions. Together with these, will be a cheque for the net salary of the employees whose salaries are paid by the treasury and another cheque for the

deductions withheld from the employees' salaries. All deductions must be sent to the council except for income taxes

On receiving the payroll output from the treasury, each council should sort the payroll sheets by department, and a reconciliation of the payroll summary with the net salary payable should be done. Occasionally, there will be employees who, because of acceptable reasons, may have requested to be paid their net salary well before receiving the payroll from the treasury. In this situation, when the council receives the payroll sheets from the treasury, such employees are cancelled from that month's payroll sheets and their total net salary should be paid to the council. When proof reading and reconciliation is completed, payroll vouchers are prepared for each department, indicating the amount of salary payable at each paying station. Since one section may have the salaries of employees belonging to different departments, one cheque should be written for each paying station for the salaries of all employees paid at that station. Cheques for such salaries are payable to the respective employees' bank account.

(d) Unclaimed Salaries

A register should be maintained detailing the names of all employees who have not claimed their salaries, their check numbers, and the departments to which they belong.

The employee who did not receive his/her salary during the pay days will be required to write a letter asking for the same, detailing the reasons which made him/her unable to collect the salary at the material time. If the request is approved, then a payment voucher will be written and a cheque drawn in the name of the employee.

(e) Payroll deductions

It is a usual practice for employers to make some deductions from their employees' salaries. Such deductions could be statutory e.g. income tax or voluntary and consented by the employee concerned e.g. insurance premium. The most common deductions applicable to local authority employees include income tax, Local Authority Pension Fund (LAPF), subscriptions to credit societies, Trade unions and insurance premiums.

As noted before, the computer payroll output includes a schedule of payroll deductions. This schedule which is produced separately from the payroll sheets

and summary sheet must be collected from the treasury by the designated/responsible employee of the council. In addition, the treasury transfers funds to the council director for the total amount of deductions with the exception of the deductions paid directly by the treasury. Subsequently, the council should prepare payment vouchers and cheques in favour of the institutions to which the deductions are to be paid.

(f) Casual Labourers

Occasionally, some jobs may arise in a council which are temporary in nature and thus, the need for temporary workers. The maximum term of employment for casual labourers is normally 3 months although the term can be renewed whenever necessary. Casual labourers must be adequately supervised. The supervisor must maintain a daily attendance register in which each casual worker must sign in the morning on reporting for work and in the afternoon when leaving the work place. Payment to casual labourers involve listing the workers in form HMW I and having the treasurer reviewing and approving the list before actual payment. The cashier should effect payment of wages to the casual labourers on the basis of the approved HMW I which indicates the names and the amount due to each one of them. Normally, there are no deductions applicable to casual labourers.

(g) Deleting an employee from the payroll

A council should remove its employee(s) from the payroll under such circumstances as death, retirement, termination, transfer, etc. It is important that information flows promptly and accurately from the human resources department to the payroll section. Applications for burial and terminal benefits, or letters of transfer should prompt deletions from payroll. The council should notify the treasury of such deletion by completing the computer processing data sheet. If the deleted employee had an outstanding loan, imprest, etc. payable to the council, this amount should be recovered from the terminal benefits if it is not a case of transfer. In the event the outstanding amount cannot be fully recovered from the terminal benefit, the balance should remain in the Council's books of account until a proper authority as per the financial memorandum to write it off is obtained.

(h) Transfer of an employee to another council

It is a usual practice for Local Government employees to be transferred from one council to another. The salary particulars of the transferred employee will be removed from the former council and taken to the new council in the following procedure. Computer processed data sheet will be completed by the former council and sent to the treasury requiring it to remove the name of such employee from its payroll. The former council should also complete Computer processed data sheet and send it to the council to which the employee has been transferred.

The new council should fill in a Computer processed data sheet in respect of the employee and send it to the treasury so that his/her salary will be included in the payroll of that council.

If the employee had outstanding imprests, loans, etc. payable to the former council, this will be indicated in the completed computer data sheet which will be sent to the receiving council. This latter should receive all such deductions from the treasury and send them to the former council on a monthly basis. Where the council receives the transferred employee(s) after the 5th day of a month, the salary payments should be made through a payment voucher for that particular month. A list of all employees paid via payment vouchers should be prepared and sent to the treasury for reimbursement.

11.3 Payroll Preparation

The payroll is a schedule showing Gross Pay, Deductions and Net Pay. In effect the payroll is a Journal Voucher in Summary Form.

In completing the payroll, one line is used for each employee. When all the details for all employees are entered in the payroll the amount columns are totaled. The next step is to prove the accuracy of the Payroll by ensuring that:

- (a) Basic Pay + Allowances + Overtime + Others = Gross Pay Column
- (b) The sum of all deductions = Total deductions column
- (c) The Gross Pay Column – the total deductions column = Net pay column

11.3.1 Recording the Payroll

When the column totals have been verified, it is necessary to record the payroll accounting entries in the General Journal. There are several entries to make which should cover:

- (a) Recording the pay-roll summary figures from the payroll
- (b) Recording the employer's liability in respect of:

(i) PAYE	}	
(ii) CWT	}	
(iii) Local Authority Pension Fund	}	Third Party dues
(iv) Trade Union contribution	}	
(v) WADU	}	

The information for entry (a) is obtained from the first column totals of the payroll. In preparing this entry the Payroll accountant must be aware of the following:

- The total Gross Pay figure represents the wages/salaries expense to the council and is recorded as a debit to an expense account
- Each of the deductions will be made from the employee's earnings on behalf of third parties and, until remitted, represents a liability of the employer. Each deduction total, therefore, is recorded as a credit to an individual liability (creditor) account.
- The Net Pay figure represents a liability to the employees and is credited to a liability (control) account called payroll payable (salaries and Wages) control A/C

Accounting Entries

Assume the payroll has the following figures:

(i) Gross Pay	Tshs. 5,000,000
Less:	
(ii) PAYE	200,000
(iii) SACCOS	100,000
(iv) LAPF Contribution: Employees' Contribution	250,000
(v) Trade unions	50,000
(vi) WADU deductions	150,000

(vii) Imprests (recovery)	50,000	
(Viii) Advances (recovery)	100,000	
(ix) Insurance premiums	50,000	
(x) CWT	200,000	<u>1,150,000</u>
(x) Net pay		<u>3,850,000</u>

The entries in the General Journal for payroll summary figures are as follows:

Date	Particulars	Dr.	Cr.
	Finance and Administration		
	- Salary Expenses	2,000,000	
	Works		
	- Salary expenses		
	Etc	3,000,000	
	PAYE		200,000
	SACCOS		100,000
	LAPF Contribution		500,000
	- Employee		250,000
	Union contributions		50,000
	WADU deductions		150,000
	THB deduction		200,000
	Imprest recovery		50,000
	Advances		100,000
	Insurances Contribution		50,000
	Payroll Payable		3,850,000
		5,000,000	5,000,000

To record the Payroll for the months of.....

These entries allocate the employee costs to each department or committee and create a liability for monies to be paid to third parties.

Where the Council makes a contribution from its own funds e.g. to the LAPF, then this cost is journalized as follows.

	Dr.	Cr.
Finance and Administration		
- Salary expenses works	100,000	
- Salary expenses	150,000	
LAPF contribution		
- Employer		250,000
	250,000	250,000

The next series of entries arises when the liability is liquidated i.e payment is made to third parties:

Dr. Individual liabilities a/cs
 Cr. Bank (with total of individual liability a/cs)

11.4 Treatment of Unclaimed salaries

Salaries may remain uncollected for some time. Regulations require salaries remaining uncollected for a week or more for whatever reasons to be rebanked. The entries that arise are:

Dr. Bank
 Cr. Deposit A/C

If the salary is reclaimed, the entries arising are:

Dr. Deposit A/C
 Cr. Bank

SECTION TWELVE: ACCOUNTING FOR CAPITAL EXPENDITURE

12.1 Definition

In Local Government accounting, capital expenditure refers to those outlays which contribute a longer term benefit than that of a single accounting period. It differs from revenue expenditure in that while the latter supplies goods and services required for the day to day conduct of a local authority, capital expenditure is on relatively durable goods such as plant, properties and equipment and the like. It should be noted that capital expenditure has to a certain extent the same meaning as development expenditure in Central Government terminology while revenue expenditure can be equated to recurrent expenditure.

12.2 Classification of Capital Expenditure

It is common practice to classify capital expenditure as capital outlay or other long term outlay. Capital outlay relates to disposable or “derecognizable” assets while other Long Term Outlay relates to indisposable or “recognizable” assets. The two terms alienable and inalienable differ from “realizable” in that many of local authority’s fixed assets have little or no commercial value and, at any rate, their market value does not compare with their cost, which is the value at which they stand in the local authority’s accounts.

12.3 Financing expenditure

(a) Sources of Financing

Local Government Authorities receive substantial grants from central Government to finance capital expenditure. There are however, other sources of financing capital expenditure which include:

- Revenue Contribution
- External Borrowing (Outside the Local Authority)
- Capital Receipts
- Renewals Fund
- Donations/Donor financing.
- Contribution in kind

All money received for capital expenditure shall be recorded in the capital accounts and banked in the capital or development bank account.

(b) Basic Book-keeping

The necessary book-keeping entries required in accounting for capital expenditure will be as follows:

Upon receipt of the fund – through grant

Dr: Bank
 Cr: Deferred Income

During purchase of assets

Dr: Asset Account
 Cr: Bank Account

At the end of the year, depreciation is recognized as follows:

Dr: Deferred Income
 Cr: Provision for depreciation

12.4 Capital accounts

The following paragraphs demonstrate briefly the various accounting procedures applicable to transactions of capital nature.

(a) Capital Receipts

The term capital receipts usually denote capital income from the sale of capital assets. However, for convenience, and in the context of the LGAs where such transactions are extremely limited, capital receipts here means all money received for the purpose of financing capital expenditure, which also includes government grants, revenue contributions, etc.

There are three stages to be recorded, which are to:-

- Record the capital receipt
- Record the Payment and
- Apply the capital receipt to the discharge of financing of the capital expenditure

(b) Derecognition of fixed assets

An item of property, plant and equipment is derecognized upon disposal or when no future benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposable proceeds and the carrying amount of the asset) is included in the statement of financial performance in the year the asset is derecognized.

The residual values, useful lives and methods of depreciating property, plant and equipment are reviewed, and adjusted as a replacement if recognition criteria are satisfied.

(c) Retention of Capital Expenditure in the Accounts

It is common practice to retain capital expenditure on capital outlay at cost in the accounts until the asset is disposed off.

(d) Capital Expenditure Financed by Loan

- By convention loan financed capital expenditure is written down annually through the revenue account, in parallel with loan (principal) repayments (annuity installment method which also reduces loans outstanding).
- Alternatively, instead of writing down capital expenditure, loans outstanding may be reduced and capital discharged (debt redeemed) increased, which would ensure that the combined balances on these two accounts equate to the capital expenditure balance.
- Whatever accounting treatment is adopted the effect of debiting loan repayments through the revenue account is to link financing of the assets with accounting for them.

(e) Capital Expenditure at Historic Cost and Depreciation

- Capital expenditure appears in the statement of financial position at either the original historic cost or the reduced balance. It is important to realize that under this method of financing through the loan, the expenditure on the fixed asset has been funded but the liability has not been discharged. The liability will be discharged when the loan is repaid.

(f) Recording the Sale of an Asset

- The entries are a credit to the capital cash account and a debit to Capital Receipts Unapplied (Sale of Vehicle A/C)
- IPSAS 17 para 69, the depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.
- Depreciation of an asset begins when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use held for disposal unless the asset is fully depreciated. However, under usage methods depreciation the depreciation charge can be zero while there is no production.
- The current valuation and measurement of fixed assets in the statement of financial position is a precondition to ensure that user charges and replacement provisions do not merely reflect historic costs.

12.5 Loan financing

(a) Sources and Types of Borrowing

LGAs are allowed by statute (Act no 9 sec 11) to borrow from the Local Government Loans Board (LGLB) and other financial institutions.

Treasurers are advised to consult technical sources before entering into loan agreements and to become fully appraised of the accounting transactions and methods of interest calculations.

The accounting treatment of short, medium and long term borrowing is similar but depends upon the details of the loans which may be:-

- Fixed or variable interest rate
- Fixed period or open ended
- Equal annual installments or annuity basis
- Maturity basis

(b) Borrowing Records

Every loan, whether for less than one year or longer, should have its own subsidiary ledger folio in a loans ledger. Loans from one organization or several may be aggregated in the General Ledger Loans Outstanding A/C under one account if the number of loans is manageable. The total on this account is reconciled with the totals of the pages in the subsidiary loans ledger.

Short term loans (less than one year) are obtained usually to meet cash flow needs until income is received. They are repayable in full at the end of the agreed period.

(c) Interest Payable

Interest is usually payable half yearly or immediately on repayment of the principal if the loan is for shorter period. However, practice varies and care should be taken to conform to the precise terms and conditions of the loan agreement. Interest should be accrued at the year end for part periods and charged to the Interest Payable Account.

(d) Accounting Matters

If short term monies are borrowed from the LGLB, against the authority's MCR contribution, the loan and the repayment must be treated independently of the MCR transactions. The loan transactions must not be offset against the MCR A/C or Appropriation A/C.

Short term borrowing appears under current liabilities in the statement of financial position.

Borrowing for more than a year involves similar treatment. Care must be taken that a full year's interest is accrued in the accounts especially where interest payments fall due on dates other than 30th June.

(e) Accounting for Principal

Only interest accrued may be charged to the recurrent account. All principal, whether annuity, fixed installment, or maturity based, must be treated outside the recurrent account. The effect of the principal transactions is reflected in the statement of the financial position at the year end.

An exception to this structure is where an earmarked loan, e.g. An annuity or fixed installment loan is raised for a specific purpose e.g. Roads or Housing. Depending on the accounting policies of the authority (re-depreciation, capital charges accounting, etc) the annual installments of interest and principal may be charged direct to the service expenditure account for which the loan was raised.

As fixed installment loan repayments result in high charges of principal and interest in the early years this method is not to be recommended. While the principal element remains constant the interest, calculated on the reducing principal balance, also reduces annually. Reference should be made to the use of Sinking Funds to equalize the annual cost of such loan arrangements, i.e. the annuity calculation method. Reference should be made to the section on capital accounting to note the linkage between capital expenditure and loan financing transactions.

12.6 Hire purchase financing

Hire purchase, leasing and similar financing methods enable a local authority to avoid incurring capital expenditure. However a liability extending beyond the financial year is incurred and, where not shown in the balance sheet, should be shown as a note to the accounts as an off-balance sheet liability.

12.7 Earmarked general borrowing

Where monies are borrowed for a specific purpose the annual interest cost and principal redemption should be charged directly to the recurrent account to which it relates (e.g. Housing, Water, Sewage, Works, Refuse Collection, etc.). This general principle is subject to review if the borrowing period is substantially less than the projected life of the asset required, in order to avoid an excessive charge on tax payers or users in the early years of repayment.

12.8 Depreciation

12.8.1 Introduction

Depreciation is an issue in several places in this manual. It is a concern in that, generally, local authorities are required to make provision for replacement of assets at the end of their useful lives.

Yet the convention is that, as the original capital funding of the asset is either from local revenues or central government grant, to provide for depreciation

would result in a duplication of the charge to the general public, and especially where local taxpayers are concerned.

Buildings by convention are not depreciated yet, in the case of local authority trading ventures and the lack of provision for sustaining the value of building through renewals and repairs funds, some charge in the recurrent accounts is justified.

In relation to vehicles, plant and equipment, a clearer case exists for depreciation charges. In an inflationary context it should be based on the replacement value concept.

Note should therefore be made of the sections on renewal fund accounting which emphasizes the creation of a fund for the purpose of replacing items in the future. This method is a proxy for depreciation but emphasizes more than just the charging of the recurrent accounts for the use of an asset.

The following section examines the technical accounting aspects of depreciation or its equivalents with a view to focusing on the accounting changes likely to arise if depreciation charges per se are introduced.

Depreciation calculations follow normal methodologies and need no elaboration. The subsequent section reviews current (varied) local authority practices and makes recommendations to bring the accounting entries into line with acceptable practice.

12.8.2 Technical Issues

The IPSAS 17, "Accounting for Depreciation", states that provision for depreciation of fixed assets having a useful life should be made by allocating the cost (or revalued amount), less estimated residual value of the assets as fairly as possible to the periods expected to benefit from their use.

In recent years instead of depreciation the historic cost of the asset, it has become acceptable to allocate revalued amounts and impairment (to compensate for inflation) to ensure funds are set aside to replace the asset by preserving the capital of the organization.

Charging depreciation in the accounts of businesses receives its support from the matching concept. Realized revenues have to be matched with the costs which yielded those revenues.

Where an LGA trading undertaking is concerned, since the use of depreciable assets yields revenues, some proportion of the cost of those assets should be

allocated to the revenue account thus producing a more correct measure to operating surpluses.

In an LGA, where the asset is financed by loan, the loan redemptions (principal repayments) through the revenue accounts will be equal to depreciation charges assuming:

- That the whole of the capital cost is financed from loan; and
- That the loan redemption period is the same as the estimated useful life of the assets.

If these apply, and if for example the loans are redeemed using equal annual installments of principal, then the revenue charge will be exactly the same as if an asset was depreciated using straight-line depreciation and any loan repayments were merely a financial position transfers.

Consequently, the argument about depreciation producing more correct costs in the revenue account applies equally to principal repayments in lieu of depreciation. However, charging principal repayments in lieu of depreciation does not perform the same function in an LGA.

Where an individual asset is purchased and financed from loan, then the LGA begins with nil capital. After borrowing the capital required, investing it in the asset and repaying the loan, the asset depreciates until, when the asset expires, the loan has been repaid.

Consequently, the LGA is still left with no capital. Thus, if depreciation is to be substituted for loan repayments, principal repayments must be taken out of the revenue account so that they become financial position transfers as in business. This avoids a double charge in the recurrent account for the annual “use” of the asset.

12.8.3 Impairment

Impairment occurs when carrying value exceeds recoverable amount.

The Council should assess at each reporting date whether there is an indication that an asset may be impaired if such indication exists or when annual impairment testing for an asset is required, the council makes an estimate of the asset recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash generating unit fair value less costs to sales and its values in use and is determined for an individual asset, unless the asset does not generate cash inflow that are largely independent of those from other asset or group of asset. Where the carrying

amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written to its recoverable amount. In assessing value in use the estimated future cash flows are discounted to their present values using pretax discount rate that reflects current market assessment of the time value of money and the risk specific for the asset. Impairment losses of continuing operations are recognized in the statement of financial performance in those expenses category consistent with the function of the impaired asset.

12.8.4 Current Practice

Where a Local Government Authority decides to depreciate assets it should set up a depreciation provision account rather than reduce the value of the assets on the capital Expenditure Statements as it sometime occurs. A corresponding entry is made in the financial performance statement of the local authority, to the service head to which the asset relates.

12.9 Revaluation of assets

Where a LGA revalues assets, a Revaluation Reserve account should be established; increases in values should not be credited to recurrent account.

SECTION THIRTEEN: FUND ACCOUNTING AND OTHER SPECIALIZED ACCOUNT

13.1 Introduction

A Local Government Authority may maintain accounts other than normal local authority services revenue and capital accounts. These include utilities accounts, trust fund accounts, and trading accounts. Where a LGA operates these accounts, separate books of accounts must be maintained for each type of fund.

In addition, LGAs are called upon to manage public monies for which a trustee relationship is imputed (e.g. receiving and disbursing donations for public projects) which need to be accounted for.

The operation of informal trading accounts, whilst not giving rise to the need for separate final accounts, requires specific accounting treatment.

13.2 Definition and application

The establishment of a fund intends the separation of specified transactions for a particular purpose, usually with a time frame extending beyond one financial year.

Examples have already been given of Repairs and Maintenance and Renewals Funds, where funds are accumulated over several years with the purpose of equalizing the impact of expenditure between earlier (non-repair) years, or to provide for the replacement of a vehicle or item of equipment when it has reached the end of its useful life.

Other funds accumulate transactions e.g. relating to housing or water functions where financial management requires the calculation of rents or user charges which, taking one year with the next, meet the outgoings of that function.

This does not preclude the LGAs utilizing local revenues to make contributions to such funds. However, this is by specific resolution and budget appropriation rather than including automatically the net deficit on the funds in the annual budget.

Funds with net deficits or surpluses have these balances carried forward into the next financial year.

The following sections on housing and water accounting allow for either approaches depending upon national or local policy decisions and circumstances.

13.3 Utilities' accounts

These are accounts for various utility services under the management of a Local Government Authority and include such services, as water, electricity and telephones. These services, however, are managed by separate corporations in Tanzania and, except for water, need no further discussion in this manual.

The principle feature of utility accounts lies in their operation on a non-profit making basis although they are expected to be self-financing taking one year with the next. Rather than being a charge on tax payers (these are national services) the tendency is to ensure that the tariffs levied on users cover both the recurrent operational and financial costs and asset use (depreciations).

Where operated as Local Government Authority services, separate accounts are maintained to identify – if not ensure – that the annual deficits or surpluses are not included in the local authority's budget (for direct local or indirect national taxpayer financing) but are financed through an adjustment of tariffs.

13.4 Water distribution accounting

Two examples are known to exist in Tanzania where the Local Government Authority purchases bulk supplies of water from the water supplier and sells it to local users. Whether as agent for the supplier or with the intention to operate on its own account, raising annual surpluses for reinvestment in reticulation (distribution networks), this aspect of local authority finances needs separate accounting treatment.

In the own-account arrangement public assets are created; in both instances debtor and creditor relationships arise. By undertaking water operations the local authority is required to set up income and expenditure accounts, cash books, stores accounts, etc. These require separate presentation in the authority's final accounts as outlined below.

13.5 Form of water distribution accounts

(a) Agency Basis

Agency Income and Expenditure Account

Maintenance of Distribution Network Minor works Administration Bad Debts	Sales – Residential - Commercial - Industrial Miscellaneous Income Deposits Rechargeable Work Income Net Deficit
--	--

Capital Expenditure Account

Distribution Storage Vehicles Equipment	Balance to Agency A/C
--	-----------------------

Agency A/C with Water Supplier

Net Deficit to Water Supplier Capital Expenditure Sales Proceeds	Net Surplus due to Water Supplier Capital Finance
--	--

Water Cash Book

Capital Finance received from Water Supplier Temporary Loan from Water Suppliers	Payment on account to Water Supplier – Sales
--	---

Temporary Loan A/C

	Cash from Water Supplier
--	--------------------------

Debtor Control A/C

--	--

Creditors Control A/C

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No explanation is needed for the majority of the above accounts but there is a clear need, on an agency basis, for the local authority to arrange its accounts to show the nature of the relationship. This may be contrasted to the “Own Account Basis” approach reviewed below.

(b) Own Account Basis

Here the local authority undertakes on its own (i.e. for the local tax payers) account to purchase bulk supplies, distribute them, collect the income and raise surpluses for the development of the local distribution network. Additional policy objectives may be to finance water supplies to rural areas from the urban surpluses; the effect of these objectives should be shown separately in the accounts.

It would be unusual for the authority to attempt to utilize the surpluses to subsidize other local authority functions but, by implication, accumulating deficits will ultimately fall on the general revenues of the authority.

The usual ledger accounts will arise from the transactions undertaken to purchase and supply water and develop the water service. Only the Income and Expenditure Account is shown below as an example of what may be needed.

Income and Expenditure Account

Administration	Sales – Residential
Urban – Distribution	- Commercial
- Storage	- Industrial
- Operations (RM)	(No income from rural)
Rural - Boreholes	Connection charges
- Operations (RM)	Penalties
Financing charges (2) e.g. debt charges)	Miscellaneous Income
Revenue contribution capital	Rechargeable works charges
Depreciation (1)	* Net deficit
Bad debts/provisions	
Rechargeable works	
* Net surplus	

13.6 Financial Management Accounting Issues

The question of a water distribution service on an “own account basis” also entails specialized financial management treatment (e.g. re depreciation policy) and a knowledge and understanding of multiple and tariff setting issues and their relation to water unit costs. These should be clearly defined in the contractual arrangements with the water supplier and, depending on whether or not an agency arrangement exists, guidance on how water debtors to be treated, how debts are collected, written off or otherwise provided for.

Multiple-tariff setting and cross-subsidization policy exceed the remit of an accounting manual but should be noted for particular attention.

13.7 Housing accounts

Where a local authority embarks on the provision of public housing and owns large housing estates, it is necessary to maintain separate public housing accounts (as distinct from staff housing holding accounts). The accounts are normally kept on a non-profit basis (taking into consideration financing charges and diminution in asset values) but this approach is subject to overall policy constraints.

In the case of public housing provision local authorities are constrained by the Rent Restriction Act. It is therefore unlikely that, over time, rents will meet the operational and administrative outgoings let alone asset replacement charges

Despite this, it is recommended that public housing be treated as a separate cost centre and the annual deficit be subjected to specific budgetary resolution and provision if the general revenues of the local authority are required to cover the annual deficits.

This covering of the annual deficit is shown as a credit in the Housing Income and Expenditure Accounts, viz contribution from General Fund Account, and a debit to the committee responsible for housing matters.

13.8 Trust and trustee accounts

13.8.1 Types of Trustee Accounts

It is generally accepted that the financial activities of a local authority are, in a sense, undertaken by the authority as trustee for the rate or tax payer. There are, however, certain activities where the authority is required to act as trustee

for beneficiaries other than the ratepayers. The main types of trustee accounts include:

- (a) Local Authority Provident Fund
- (b) Other miscellaneous trust funds (e.g. charities)
- (c) Donations collected on behalf of community projects
- (d) Project accounts (external aid funded)

13.8.2 Form of Accounts for Trust Accounts

The main accounting feature of trust funds is that their assets and liabilities are distinguished from those of the local authority. It is necessary, therefore, that separate accounts and balance sheets are prepared for each fund and that these are excluded from the consolidated Statement of Financial Position.

Although separate Statements of Financial Performance are maintained with separate Statements of Financial Performance, the accounts of trust funds should be published with the annual accounts of the LGA.

13.8.3 Accounting for Trust Accounts

A local authority may maintain a number of trust fund accounts but where the movement of these funds is minimal it is sufficient to group them together in one summary. For the more substantial funds, however, a summary of income and expenditure and a balance sheet should be published with a brief description of the funds, its purpose and details of substantial movements during the year. Trust Fund deeds may specify the minimum information and supporting notes required.

In the instance of donations there is a tendency for local authorities to place funds collected in a "Deposits" account and to disburse them, sometimes over a period of time, without any public accounting for either the income or expenditure. This is not acceptable.

There are strict regulations concerning the registration and collection of funds for such purposes and local authorities should adhere to them. Reports on the transactions should be made to the appropriate local authority committee on the collection and use of such funds.

Although the sums of money involved may be minor a separate bank account should be established for each collection. Local authority and public donations should not be combined. The accounting for these monies on this basis does not require their inclusion in the final accounts of the authority.

13.9 Trading undertakings

13.9.1 Introduction

Local Government Authorities are permitted to operate trading undertakings and these form part of their local government function. The term “trading undertaking” for accounting purposes is usually taken to mean the provision, as an entirely separate function, of some service or commodity on a self-financing basis, charges being broadly sufficient to meet the cost of provision of the goods or services.

Trading undertakings are operated and managed in the same way as commercial and industrial concerns, with the major exception that, although they aim to be financially self-supporting, profit is not their primary objective. The objective is to provide economic activities which the private sector is not prepared to undertake, particularly where the investment is of a marginal or long term nature.

Increasingly, considerations of financial rates of return on capital, with allowance for depreciation and other financing charges, are determining whether or not trading undertakings are embarked upon, or retained by a local authority.

This section addresses the historic problems of Local Government Authorities, the different methods under which trading may be undertaken, and the form and contents of the accounts that are required.

13.9.2 Form of Accounts

The accounts of trading undertakings are kept on an income and expenditure basis and the final accounts will show an operating surplus or deficit which is functionally a profit or loss. The surplus or deficit may be transferred to the General Revenue Fund in the case of minor trading undertakings but in the case of major trading undertakings the accounts stand on their own. The authority’s financial statements will show a statement of financial performance and a statement of financial position separately and in consolidation with the authority’s accounts as per IPSAS 6.

13.9.3 Contents of the Accounts

The main classifications of expenditure are as shown below:-

- Employees
- Running expenses
- Debt charges or Depreciation
- Revenue contributions to capital
- Taxation

The expenditure of a local authority falls into of the above headings irrespective of whether it is a normal local authority service or a trading undertaking. However, variation to suit the nature of the trading undertaking is encouraged and the following outline is preferred as it leads to appropriate management decisions on costing and pricing, volume and break even, issues. It follows conventional commercial practice.

13.9.4 Accounting for Trading Undertakings

Reference should be made to the International standard guideline on current cost accounting in inflationary conditions. Formerly in the LGA context historic accounting methods were applied. However, the implications of the need for current cost accounting should not be ignored in inflationary conditions.

There are three types of current cost accounts:-

- The use of replacement costs
- The use of realizable values
- The use of a mixture of realizable values, replacement costs i.e. mixed values
- That based on the concept of deprival value

Each of these methods shares certain common factors:-

- (a) They use the transactions basis of accounts; and recognized when income is realized.
- (b) They use current values for assets in the financial position. This means that the trading undertaking will record income when an asset is revalued upwards and loss when the current value falls.

The authority should be concerned to establish prices and rents which will more than recover historic operational and asset costs and the costs of capital used. This need tends to be disguised or overlooked at budget time, if the accounts are prepared without reference to market conditions. Consideration of these factors will take into account social and economic policy imperatives.

In considering changes to practices that are desirable reference is therefore made to the known accounting needs of local authorities from which conclusions may be drawn when future investments in trading activities are proposed.

- Depreciation. This, rather than debt charges, is essential in a trading environment, based on a real replacement cost approach
- Revenue contributions to capital. This is not appropriate. Small purchases of assets are written off immediately to operations accounts. Large items are purchased and financed on capital account. Financing is effectively from accumulated surpluses/profits, from reserves, or from the initial capital provided.
- Transfers to or from General Fund. This is not appropriate for genuine trading undertakings although in reality may be necessary to deal with underlying cash flow problems. Formal Council approval is required in authorizing such transactions.
- Investments. Where such transfers in (iii) occur they may be described as subventions or contributions. Depending upon the intention and need they should be classified and allocated to the Council's recurrent or capital account. In the latter case the transfer is a distinct investment and should be categorized as such.

Examples

The specific treatment of an undertaking depends upon the underlying policy position:

(a) Social Policy

May well be a social policy issue, the intent being to provide subsidized meals and non-monetary benefits. The net annual cost is therefore charged as recurrent expenditure, preferably recharged to user departments from a Holding Account.

(b) Block – making

An alternative to commercial purchases, to provide low cost inputs to local authority projects (capital or recurrent); prices should be fixed to recover costs in full. Annual losses and profits should be carried forward to the next period and absorbed there in. If this is not feasible, in the case of losses, there should be a specific charge to recurrent expenditure account and consideration given to closing the operation if not viable. Examination of the rate of return achieved is a valuable guide in making this decision.

(c) Agricultural Equipment and Hire

This should be shown as a separate cost centre or activity in the accounts in trading undertaking format (unless there is some element of subsidy or social policy), where it may be treated in the normal be shown in a separate section of the budget and accounts.

(d) Casual Hire of Local authority equipment

These are a marginal case of trading undertaking treatment

(e) Carpentry, Petrol Station, Hotel

Such activities require trading undertaking treatment

13.10 Investments

(a) Subscribed shares

Where the local authority subscribes for a share holding in the various investments, this should be reflected in the capital transactions of the authority and shown as a long term investment in the statement of financial position.

Most investments are financed by revenue contributions to capital. If the shareholding has no value subject to insolvency, the winding up of the investment or formal resolution of the Council, the investment and its financing should be written off from the accounts.

Dr: Deferred Income Account
Cr: Investment Account

Where in the past improper accounting treatment has occurred i.e. the local authority originally charged the investment directly to recurrent (i.e. revenue) account, no such journal entry is needed. A report on the position of the wound up investment should be formally made to the Council to apprise them of the situation.

It should be noted that the direct charging to recurrent account of the purchase of shares is incorrect and should not have occurred. Where the investment still has value a correction to the accounts should be made viz:-

Dr: Investment A/C
Cr: Deferred Income Account

Dividend treatment is dealt with under

Local authorities receiving shareholdings by statutory or other formal transfer should bring such transactions into the accounts at nominal values

A shareholding in an investment may result in the receipt of a dividend. When the dividend is declared the local authority should bring it into its accounts in the year to which it relates:

Dr: Dividends Receivable Account
Cr: Statement of financial performance (Income)

When the dividend is received the transactions are:-

Dr: Dividends Receivable Account
Cr: Bank Account

(b) Subventions

A local authority may have made contributions to the Investment projects to meet annual losses, provide working capital or deal with cash flow problems. Without full knowledge of the reason for past subventions the only acceptable treatment is to assume that it was for recurrent support. Most subventions identified in local authority accounts have been charged to recurrent account as expenditure. A clearer treatment of such outlays is preferred. The formal relationship between the investment and the Council should be established – is it a joint venture between Councils or a partnership of council and Investment. The treatment of such subventions depends upon these formalities

The accounts (and the budget) of the local authority should state the reason for the payment. A contribution towards the latter is just that, recurrent account expenditure, but should be shown as a trading account transaction. A subvention, in support of social policy decisions (such as a subsidy to transport costs) is again recurrent expenditure, but its nature requires it to be placed under the appropriate service head.

Assistance with working capital may technically be a short term loan implicitly repayable at some future date. It should therefore be shown as a current asset in the statement of financial position and should not have been charged to the statement of financial performance. To bring it into account, the entries are:

Dr. Short Term Investment Account
Cr. Bank Account Account

In the latter case, if the Investment is insolvent, the local authority will have to write off the loan. No formal entries are required if originally charged to revenue

(c) Joint Ventures

A joint venture relationship requires that the local authority brings into its accounts annually both a share of profits or losses (surplus or deficit) and a share of the assets and liabilities. This is a complex and rare relationship on which further notes of IPSAS 8 should be referred.

13.11 Project Accounts

A local authority may be involved as the administrator of external aided projects, may make a contribution in cash or kind towards the project, or may receive benefits in the form of recurrent account financing and technical assistance, or capital assets (building, vehicle, equipment).

13.11.1 Form of Accounts

If separate bank accounts are established the local authority may be sole or joint signatory, with reporting and accounting responsibilities to an external aid agency and/or Ministry. The forms of accounts will be specified by the financing agency.

13.11.2 Accounting Implications

For national accounting purposes it is assumed that all such projects are included in Ministry budgets and accounts. Where the local authority makes a financial contribution or subvention, or allocates staff and resources (petrol, repairs and Maintenance, stationery) in support of such projects, this should be clearly identified with a formal budgetary approval and shown clearly in the accounts.

Where the authority receives capital assets, project specific but in which the ownership immediately or subsequently passes to the authority, this should be reflected in the books of accounts (effected by journal entry) when ownership passes.

Example

Vehicle valued Tshs. 15,000,000 received in support of two year Malaria Control Project:

Journal Entry:

Dr. Capital Expenditure (Vehicle) Account
Cr. Deferred Income Account (Donation)

The authority may wish to provide for the replacement of the vehicle at the end of its life in order to continue with Malaria control after external aid assistance ends, it should therefore make an annual renewals fund contribution and charge it to the recurrent account head of the Malaria Control cost centre.

13.12 Grant accounting

13.12.1 Direct Grants

Local authorities receive funds from the Central Government to meet the whole or part of expenditure for specific services. These funds are known as direct grants.

Although nominally 100% of cost for some services, in practice the grant is related to standard costs of items, which tend to be below the real costs incurred by the local authorities. This difference is met from General Fund sources.

In addition, while the local authorities may be disbursing salaries which include government approved increases, the grant received may be paid at the old salary levels.

There will thus be a temporary shortfall in cash flow of the authority's service bank accounts (e.g. education and health) to be temporarily financed from General Fund sources.

In principle a debtor should be set up for the grant due and the grant credited to the income account. This is essential where payment has already been made of the grant aided expenditure.

13.12.2 Allocating Direct Grant

All direct grant receipts should be allocated to the committee or department where the relevant expenditure is incurred but which is aggregated with expenditure on other services.

Under a cost centre/activity centre budgeting and accounting system, grant is allocated specifically to the relevant cost centre. Thus grant and the expenditure on the related service may more easily be compared and the local authority's contribution from its own funds made more visible.

All direct grants should be allocated to a cost centre income code and should not be treated as a general fund income. That procedure is confined to general needs or equalization grants.

With the possibility that grant receivable differs from that paid even if only in the current financial year, local authorities should consider setting up Grant Control A/Cs in the ledger rather than crediting grant to the recurrent account when it is received.

13.12.3 Creating Grant Debtors

Under the Income and Expenditure system, because grant receivable may be different from grant paid, an intermediate account is used.

The debit (grant receivable) is raised via journal periodically, viz:

DR: Deferred Income Account
CR: Grant receivable

When the grant is received the transactions are:-

DR: Cash
CR: Deferred Income Account

Any differences on the Grant Control A/C represents monies due from (or to) the Government. At the year end the balance on the account is treated as a current asset.

Each grant sources should have its own ledger control account

13.12.4 General or Indirect Grants

Needs, equalization or general grants are credited to the general revenues of an authority as they are not specific to any one committee or cost centre. Their calculation is usually based on historic factors (e.g. population, age groups, expenditure and income) and is usually subject to adjustment in subsequent years.

There is a strong case to include grant projections as income and to treat the transactions as debtor items through a control account.

Receipts on account of grant are credited to the control account and thus do not distort the authority's surplus and deficit calculations at the year end. Indirect grant adjustments in subsequent years are similarly treated.

SECTION FOURTEEN: FINAL ACCOUNTS AND FINANCIAL STATEMENTS

14.1 Purpose of financial statement

- Provide information about the source, allocation and uses of financial resources.
- Provide about how the LGA financed its activities and met cash requirement.
- Provide information that is useful in evaluating the Local Authority's ability to finance its activities and meet its liabilities and commitment.
- Provide information of financial condition of the LGA and charges it.
- Provide aggregate information useful in evaluating LGA performance in terms of service costs, efficiency and accomplishment of financial statements.
- In order to meet these objectives the financial statements provide about any LGAs:

Assets
Liabilities
Net assets/equity
Revenue
Expenses
Cash flow

- **The financial statements will show:**
 - Financial position
 - Financial performance
 - Cash flow
- Assist users to make economic decision

- Timing and certainty of the generation of cash and cash equivalents.

It should be noted that the responsibility for preparation of consolidated financial statement of the Government as a whole to be presented to the Controller and Auditor General.

14.2 General procedures for closure of final accounts

To close the accounts on time detailed planning is required well before the year end. A programme must be prepared, of closing down procedure, and instructions given to service departments and all sections of the Treasurers department. Such a programme should include instructions relating to:

- Dates by which all adjustments and transfers must be completed.
- Dates by which lists of outstanding items of income and expenditure are to be completed.
- Final machine tabulation dates.
- Latest date for the closure of the accounts (the statutory date being 30th September for the production of the final accounts).

14.2.1 Closing the Accounts

At the end of the financial year and prior to the preparation of the final accounts and the statement of financial position, the various accounts maintained by the local authority have first to be closed. The first step in closing the accounts is to ensure that all “out standings” are brought into account, the information being requested from spending departments in the form of schedules and lists of financial data.

Immediately after the year end certain in work needs to be carried out as follows:-

- (a) Extraction of the initial Trial Balance at 30th June, tracing and rectifying any imbalance and obvious errors of coding misallocation.
- (b) Reconciliation of cash books with bank statements and adjustment of differences. Reconciling inter-fund indebtedness.
- (c) Reconciliation of subsidiary ledgers with the General Ledger accounts, viz:
 - Each Debtor’s Control A/C with the General Ledger Income Control A/c
 - Salaries and Wages Control A/C with expenditure and deductions analysis

- Capital assets ledger with capital account.
- (d) Identification and inclusion of creditors and debtors from:
- Information submitted by service departments
 - Periodical payment registers or occasional charges register.
 - Other accruals arising e.g. dividends and service accounts
- (e) Clearance of holding accounts and their recharge to service accounts.
- (f) Inter-departmental adjustments for services rendered e.g. cess-pit emptying, which have not been billed or paid through the payments system.
- (g) Insurance premiums paid by the Council.
- (h) Financial adjustments between service accounts, in relation to the appropriation of land
- (i) Financing of capital expenditure from loans, grants, capital fund etc, advances from a consolidated loans fund, or capital fund; debiting of repayment of principal and interest to appropriate recurrent accounts.
- (j) Details of stocks and materials held at the year end should be scheduled and forwarded for inclusion in the accounts.
- (k) Calculation and allocation of depreciation charges.
- (l) Adjustment for pre-payments (payments in advance)

Much of this work is of a routine nature and is attended to on a monthly basis during the year e.g. bank reconciliations, income control account comparisons with subsidiary ledgers, and provisional monthly cost allocation of holding account expenditure to ensure that budget heads show true costs incurred. These tasks should not all be left to the year end.

Detailed comments are made in the next sections on issues or transactions arising during the final accounts process

14.2.2 End of year Adjustments

Where separate ledgers are kept, i.e. expenditure and income (previously receipts and payments) ledgers, it is advisable that adjustments are made before the transfer of data to the general ledger.

The basis of accruals must be determined to reflect payments made in the following financial year for goods and services received in the year of account, and a scrutiny of debtors made to establish the extent of bad and doubtful debts, for which accounting provision should be made.

A specific exercise is the examination of outstanding advances and imprests to endure expenditure implications are brought in as creditors in the appropriate year. This is frequently overlooked as a source of accruals information. Also included should be advances obtained by staff at other authorities and not yet redeemed.

In dealing with unpaid suppliers prepare a list of outstanding creditors, debiting the amounts due to individual expenditure accounts and crediting the creditor's control account, and carrying forward the balance therein. Inclusion in the creditors list depends upon goods and services having been received in the year under closure.

14.2.3 The Journal

Many final accounts transactions do not pass through the books of prime entry. These transactions are usually originated in the journal, sometimes referred to as the "Journal Proper". Both end of year adjustments and final closing entries are made through the journal.

These adjustments are generated by the closing of the associated subsidiary ledger, as listed earlier, and the clearance of holding and other accounts; the final closing entries clear the balances on the subsidiary ledgers to the General Ledger.

14.2.4 Expenditure and Income Ledgers

The summarization of individual expenditure and income accounts in their respective ledger provides the material for posting to the appropriate service revenue account, capital accounts and other accounts in the General Ledger.

14.3 Final accounts

After all personal accounts have been closed and all necessary transfers and adjustments made in the impersonal accounts, the balances remaining in the books are dealt with by transferring those which relate to the running of services during the year to a summary revenue account and marshalling the remainder in one or more financial position before carrying them forward into the next year's accounts.

14.3.1 Summary Revenue Accounts

A local authority summary of Revenue Accounts may be likened to the income and expenditure account of a non-profit making institution. It performs the same function as that of a commercial or industrial undertaking in that its purpose is to bring together in one final account the current expenditure and income of the year and to establish whether and to what extent total income has been sufficient to meet total expenditure or otherwise.

Expenditure of a capital nature or relating to special funds will not be brought into this summary. Income and expenditure of utility services such as water and trading undertakings appear in their own respective accounts. All are brought together in due course into one consolidated account.

The preparation of a summary revenue account demands both the selection of the individual expenditure and income accounts from which balances are to be transferred and internal agreement on the extent of detail to be presented to the public.

14.3.2 Presentation of Councilors' Report and Financial Statements

(a) Council Information

(b) Councilors' report

(c) Financial Statements:

- Statement of Financial Position
- Statement of Financial Performance
- Statement of changes in net assets
- Cash flow statement
- Statement of financial performance – by function
- Statement of comparison of budget and actual amounts – by nature
- Statement of comparison of budget and actual amount – by function
- Notes to the financial statement

14.3.3 Brief description of the final accounts format

(a) Council formation

This will cover the following areas:

- Place of business
- Bankers
- Lawyers
- Director
- Auditors

(b) Councilors Report

It covers the following areas:

- Introduction
- Vision of the council
- Mission of the council
- Core values
- Functions of the council
- Solvency
- Membership of the councilors
- Employees' welfare
- Statement of councilors' responsibilities
- Financial position
- Financial performance
- Own source revenue
- Related party transaction
- Charitable and political donations
- Ratio analysis
- Implementation of the plan and budget
- Future plans of the council
- Community contribution
- Constraints and challenges
- Environmental issues
- Disadvantaged groups
- Corporate Governance
- Auditors

(c) Financial Statements include:

- Statement of Financial Position
- Statement of Financial Performance
- Statement of changes in net assets
- Cash flow statement
- Statement of financial performance – by function
- Statement of comparison of budget and actual amounts – by nature
- Statement of comparison of budget and actual amount – by function
- Notes to the financial statement

Note: The format of the above financial statements attached in the following pages

**THE UNITED REPUBLIC OF TANZANIA
PRIME MINISTER'S OFFICE - REGIONAL ADMINISTRATION AND LOCAL GOVERNMENT
KALEMBO CITY/MUNICIPAL/DISTRICT/TOWN/TOWNSHIP/VILLAGE COUNCIL**

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 20X2

	<u>Notes</u>	<u>20X2</u> TZS '000	<u>20X1</u> TZS '000
Revenue			
Taxes	9	xxxx	xxxx
Fees, fines, penalties and licenses	10	xxxx	xxxx
Recurrent grants	11	xxxx	xxxx
Transfer from other Government entities	12	xxxx	xxxx
Revenue from exchange transactions	13	xxxx	xxxx
Finance income	14	xxxx	xxxx
Gain on foreign currency translation	15	xxxx	xxxx
Other revenue	16	xxxx	xxxx
		-	-
Expenses			
Wages, salaries and employee benefits	17	xxxx	xxxx
Supplies and consumables used	18	xxxx	xxxx
Grants and other transfer payments	19	xxxx	xxxx
Finance costs	20	xxxx	xxxx
Other expenses	21	xxxx	xxxx
Loss on foreign currency translation	22	xxxx	xxxx
Depreciation of property, plant and equipment	24	xxxx	xxxx
Impairment of property plant and equipment	24	xxxx	xxxx
Amortisation of intangible assets	25	xxxx	xxxx
		-	-
Share of associates surplus/(deficit)		xxxx	xxxx
Surplus/(deficit) during the year		xxxx	xxxx
Owners		xxxx	xxxx
Non-controlling interests		xxxx	xxxx
		-	-

The notes on pages xx to xx form part of these financial statements

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 20X2

	<u>Notes</u>	<u>20X2</u> TZS '000	<u>20X1</u> TZS '000
ASSETS			
Non Current Assets			
Property, plant and equipment	24	xxxx	xxxx
Intangible assets	25	xxxx	xxxx
Forestry assets	26	xxxx	xxxx
Investment property	27	xxxx	xxxx
Investments in associates	28	xxxx	xxxx
Other financial assets	29	xxxx	xxxx
		-	-
Non Current Asset Held for Sale	30	xxxx	xxxx
Current Assets			
Inventories	31	xxxx	xxxx
Other financial assets		xxxx	xxxx
Receivables and prepayments	32	xxxx	xxxx
Cash and cash equivalents	33	xxxx	xxxx
		-	-
TOTAL ASSETS		xxxx	xxxx
LIABILITIES			
Non-current liabilities			
Long-term borrowings	35	xxxx	xxxx
Employee benefits	37	xxxx	xxxx
Provisions	38	xxxx	xxxx
		-	-
Current liabilities			
Payables	34	xxxx	xxxx
Long-term borrowings	35	xxxx	xxxx
Short-term borrowings	36	xxxx	xxxx
Employee benefits	37	xxxx	xxxx
Provisions	38	xxxx	xxxx
Deferred income		-	-
TOTAL LIABILITIES		-	-
NET ASSETS		xxxx	xxxx
NET ASSETS			
Contributed capital		xxxx	xxxx
Reserves		xxxx	xxxx
Accumulated		xxxx	xxxx
Minority Interest		xxxx	xxxx
TOTAL NET ASSETS		-	-
The notes on pages xx to xx form part of these financial statements			

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STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 20X2

	Attributable to controlling interest				Grants applied TZS '000	Grants unapplied TZS '000	Total net assets			
	Contributed Capital TZS '000	Accumulated Surplus/deficit TZS '000	Available for Sale financial assets TZS '000	Revolution surplus TZS '000			Total	TZS '000	TZS '000	TZS '000
Balance at 1 July 20X0	X	X	X	X	X	X	X	X	X	
Changes in accounting policy		X				X				
Restated balance	0	0	0	0	0	0	0	0	0	
Additional capital contributed	X									
Changes in value of Available for sale financial instruments			X(X)							
Changes in revaluation surplus/(deficit)				X(X)						
Addition of unapplied funds						X	X	X	X	
Changes in grants applied/unapplied						(X)	-	-	-	
Transfer to and from surplus/deficit		X(X)								
Balance at 30th June 20x1	0	0	0	0	0	0	0	0	0	
Additional capital contributed	X									
Changes in value of Available for sale financial instruments			X(X)							
Changes in revaluation surplus/(deficit)				X(X)						
Addition of unapplied funds						X	X	X	X	
Changes in grants applied/unapplied						(X)	-	-	-	
Transfer to and from surplus/deficit		X(X)								
Balance at 30th June 20x2	0	0	0	0	0	0	0	0	0	

Note: Grants applied and unapplied relate to development grants
The notes on pages 14 to 53 form part of these financial statements.

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CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 20X2

	<u>20X2</u>	<u>20X1</u>
<u>Note</u>	TZS '000	TZS '000
Cash flows from operating activities		
Surplus/(deficit) before taxation	X	X
Adjustments for:		
Depreciation and amortization	X	X
Foreign exchange loss	X	X
Investment income	X	X
Interest expense	X	X
Changes in working capital items:		
Increase in trade and other receivables	X	X
Decrease in inventories	X	X
Decrease in trade payables	X	X
Cash generated from operations	0	0
Interest paid	X	X
Net cash from operating activities	XX	XX
Cash flows from investing activities		
Purchase of property, plant and equipment	X	X
Investments with LGLB	X	X
Purchase of intangible assets	X	X
Purchase of investment property	X	X
Acquisition of investments	X	X
Net cash from investing activities	0	0
Cash flows from financing activities		
Proceeds from borrowings	X	X
Repayment of borrowings	X	X
Development Grants Received	X	X
Grants refunded/transferred	X	X
Net cash used in financing activities	0	0
Net increase in cash and cash equivalents	XX	XX
Cash and cash equivalents at beginning of period	X	X
Cash and cash equivalents at end of period	XX	XX

The notes on pages xx to xx form part of these financial statements.

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STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 20X2

	20X2	20X1
	TZS '000	TZS '000
Revenue		
Taxes	XXXX	XXXX
Fees, fines, penalties and licenses	XXXX	XXXX
Recurrent grants	XXXX	XXXX
Transfer from other Government entities	XXXX	XXXX
Revenue from exchange transactions	XXXX	XXXX
Finance income	XXXX	XXXX
Gain on foreign currency translation	XXXX	XXXX
Other revenue	XXXX	XXXX
	-	-
Expenses		
Administration	XXXX	XXXX
Education	XXXX	XXXX
Health services	XXXX	XXXX
Water and sewerage	XXXX	XXXX
Roads	XXXX	XXXX
Agriculture and livestock extension services	XXXX	XXXX
Finance costs	XXXX	XXXX
	-	-
Share of associates surplus/(deficit)	XXXX	XXXX
Surplus/(deficit) during the year	XXXX	XXXX
Attributable to:		
Owners	XXXX	XXXX
Non-controlling interests	XXXX	XXXX
	-	-

The notes on pages xx to xx form part of these financial statements.

**THE UNITED REPUBLIC OF TANZANIA
PRIME MINISTER'S OFFICE - REGIONAL ADMINISTRATION AND LOCAL GOVERNMENT
MVUMI CITY/MUNICIPAL/DISTRICT/TOWN/TOWNSHIP/VILLAGE COUNCIL**

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT - BY NATURE FOR THE YEAR ENDED
30 JUNE 20X2**

**Budget approved on the Cash Basis - According to Local Government Finance Act 1982 as amended in 2000
Section 43**

	Original Budget A	Final Budget B	Actual Amount C	Diference B-C
	TZS '000	TZS '000	TZS '000	TZS '000
Own Funds:				
Rates	X	X	X	X
Development Levy	X	X	X	X
Property levy	X	X	X	X
Fines	X	X	X	X
Licences	X	X	X	X
Packing fees	X	X	X	X
	0	0	0	0
Grants:				
Administration	X	X	X	X
Education	X	X	X	X
Health services	X	X	X	X
Water and sewerage	X	X	X	X
Roads	X	X	X	X
Agriculture and livestock extension services	X	X	X	X
Equalisation Grant	X	X	X	X
From NGOs	X	X	X	X
Foreign - disclose separately	X	X	X	X
Local Individuals	X	X	X	X
	0	0	0	0
Finance:				
Proceeds from Long term borrowing	X	X	X	X
Proceeds from Short term borrowing	X	X	X	X
	0	0	0	0
Others:				
Trading Activities	X	X	X	X
Sale of property plant and equipment	X	X	X	X
Other receipts	X	X	X	X
	0	0	0	0
TOTAL RECEIPTS	0	0	0	0

PAYMENTS:

Staff Salaries, allowances and benefits	X	X	X	X
Medical Expenses(To Employee)	X	X	X	X
Incapacity, death benefits & retirement benefit	X	X	X	X
Travelling and Transport	X	X	X	X
Supplies and service provision	X	X	X	X
Printing, Stationery, Photocopying and Binding	X	X	X	X
Small Office Equipment	X	X	X	X
Grants and other transfer payments	X	X	X	
Hire of facilities and equipments	X	X	X	X
Information and Communication	X	X	X	X
Repairs, maintenance and fuel	X	X	X	X
Water and electricity	X	X	X	X
Other expenses	X	X	X	X
Finance costs and principal repayment	X	X	X	X
	0	0	0	0
NET RECEIPTS/(PAYMENTS)	0	0	0	0

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT - BY FUNCTION FOR THE YEAR ENDED
30 JUNE 20X2

Budget approved on the Cash Basis - According to Local Government Finance Act 1982 as amended in 2000
Section 43

	Original Budget A TZS '000	Final Budget B TZS '000	Actual Amount C TZS '000	Diference B-C TZS '000
Own Funds:				
Rates	X	X	X	X
Development Levy	X	X	X	X
Property levy	X	X	X	X
Fines	X	X	X	X
Licences	X	X	X	X
Packing fees	X	X	X	X
	0	0	0	0
Grants:				
Administration	X	X	X	X
Education	X	X	X	X
Health services	X	X	X	X
Water and sewerage	X	X	X	X
Roads	X	X	X	X
Agriculture and livestock extension services	X	X	X	X
Equalisation Grant	X	X	X	X
From NGOs	X	X	X	X
Foreign - disclose separately	X	X	X	X
Local Inviduals	X	X	X	X
	0	0	0	0
Finance:				
Proceeds from Long term borrowing	X	X	X	X
Proceeds from Short term borrowing	X	X	X	X
	0	0	0	0
Others:				
Trading Activities	X	X	X	X
Sale of property plant and equipment	X	X	X	X
Other receipts	X	X	X	X
	0	0	0	0
TOTAL RECEIPTS	0	0	0	0
PAYMENTS:				
Administration	X	X	X	X
Education	X	X	X	X
Health services	X	X	X	X

Water and sewerage	X	X	X	X
Roads	X	X	X	X
Agriculture and livestock extension services	X	X	X	X
Finance costs and principal repayment	X	X	X	X
Other expenses	X	X	X	X
	0	0	0	0
NET RECEIPTS/(PAYMENTS)	0	0	0	0

SECTION FIFTEEN: BUDGETING

15.1 Introduction

A budget is an estimate of future income and expenditure for achieving the financial and operational goals of the local authority. It is an essential tool for effective financial control. The description below is an outline of the present budgetary situation and will be supplemented by a detailed annual budget guideline issued by the Government.

15.1.1 Advantage of Budgeting

Since a budget is a forecast of future events, it benefits a local authority in many ways:

(a) It increases the Chief Executive Officers' awareness

The Local authority is compelled to make estimates of future economic conditions including costs of different services expected to be offered to the public and a timely estimation of revenue expected to be raised to meet increased costs.

(b) It gives an advance warning

A budget shows in advance the expected future financial results of the local authority.

(c) It coordinates departmental activities

The budget provides the Chief Executive Officers with an opportunity to coordinate the activities of the various departments within the local authority.

15.2 Local Government Authority budget

The approved budget represents the policy of the full council expressed in financial terms. It must include budgets for:-

- Services
- Capital
- Sources of Revenue

The budget is a summary of the Council resolutions, in monetary terms, to collect certain sums of money from specific groups of people (taxpayers, service users) and to spend it in various ways for the benefit of the inhabitants of the locality. Care must be exercised in framing Council budgets in order to inspire public confidence.

15.3 Budget Period

A local authority budget covers a period of twelve months, July to June each year. From January onwards each year, each committee meets to prepare budget proposals for the following financial year. Departmental Heads advise their respective committees on Governmental discussed and recommended by them are included in the budget.

With the assistance of the chairmen of the committees and Heads of Departments, the Finance Committee considers the draft estimates and prepares the final draft which is submitted to full council in May. The council weighs the needs of each committee against the needs of other committees and agreement is reached on priorities. The budget process takes into account the political, economic and social forces originating in the community and represented in the Council Chamber.

The income proposals of each committee are discussed and compared with the expenditure requirements of the committees. A local authority should not budget for a deficit balance. Where such a situation is projected efforts must be made to reduce costs if income sources cannot be raised.

In May each year, not later than the 31st day, the budget must be approved by the Council.

15.4 Budget compilation

15.4.1 Revenue (Income) Budget

A Revenue Budget consists of the sources of revenue approved by the Council By – Laws. It must consider the collection trends, the yields from each source,

and the costs involved in collecting each type of income. The costs of collection should not exceed the expected income. Income estimates should not be inflated on the groups that future collections will be more efficient than past experience has shown achievable unless new factors have been brought into account.

Income estimates take into account the following:-

- (a) An up-to-date list of revenue sources together with the by-law establishing the source of income.
- (b) A schedule of tariffs, fees, and charges for each source of income.
- (c) A schedule of income showing the trend of actual collections of each income source per month.
- (d) A cash flow schedule showing the peak periods of collecting periods.
- (e) Advice of Heads of Departments responsible for the service.
- (f) Actual income collected during the past year and the approved figure of estimates during the same year.

15.4.2 The Personnel Budget

The personnel Budget is prepared by the Human Resources Department. It conforms to the various committee resolutions passed during the year in connection with recruitment, dismissal, promotion, superannuation benefits, etc.

The Personnel Budget shows clearly for each council department the establishment and scales, names of employees, their check numbers, salaries, incremental dates and location of the employees.

The Treasurer compiles the draft budget and submits it to the finance committee for scrutiny.

The Personnel Budget is not an independent budget; it is part of the Recurrent Expenditure Budget and provides supplementary information on personnel. The totals of the Personnel Budget for each department are included in the recurrent expenditure budget.

15.4.3 Recurrent Budget (other charges)

The Recurrent Budget for other charges refers to financial costs other than personnel emoluments. Heads of departments compile recurrent expenditure costs and channel them through their respective committees from the month of January each year. The respective committees consider, review, amend or

delete items in the proposals as submitted by Heads of Departments and thereafter pass resolutions to endorse the budget proposals.

In considering the budget proposals the following aspects must be taken into account;

- The resolutions passed in connection with expenditures during committee and council sessions in the year
- The scope and quality of services expected to be provided
- The volume of work required to render the services
- Quality and type of labour, materials, requirements and other cost elements
- Price levels of each cost element

In so far as is practicable budgets should take into consideration the effects of future projections of inflation.

The Treasurer combines the Personnel Budget and the other charges Budget to establish the Recurrent Expenditure budget.

15.4.4 Development Budget

The procedure for the preparation of the Development Budget is similar to the recurrent Budget. The difference arises from the fact that most of the data originates from the Ward Development Committees. Heads of Departments take into account proposals submitted to them by Ward Development Committees. As these come from the village Government they touch upon the needs of the people. Heads of Departments convert these proposals to financial terms. All costs that relate to services are shown separately from costs that relate to capital works. These development (or capital) proposals are tabled in the same way as for the Recurrent Budget.

The Council Director shall forward the budget proposal to the Regional Secretariat for scrutiny and advice and then the proposal shall be forwarded to the Ministry for inclusion of the grant portion of the budget.

The Finance Committee scrutinizes the Recurrent Budget and Development Budget and forwards the Development Budget to the District Development Committee where it is discussed and Government inputs and advice are given. It is then referred to the full council together with the Recurrent Budget for approval.

The council Director forwards the approved Recurrent and Development Budget to the District Development Committee where it is discussed and Government

inputs and advice are given. It is then referred to the full council together with the Recurrent Budget for approval.

15.4.5 Treatment of Unspent Balance of Development Fund in the Budget

Unspent balances at the end of the year are carried forward to the next year and do not form part of the estimates of that year.

The budget process is a continuous exercise which commences as soon as the new financial year begins. Resolutions with financial consequences which are not provided for in the current budget are passed during the period prior to the commencement of the July Budget committee sessions. After the budgets have been approved by the full council, the Treasurer consolidates the estimates of personal emoluments, other charges and the development budget as approved by the council.

15.4.6 Budgeting for a Surplus

A local authority is required to budget for a surplus in its recurrent budget. Its total income estimates must exceed expenditure estimates in order to achieve this requirement.

15.4.7 Reserves

Section 36 of the Local Government Finance Act 1982 requires local authorities to maintain a reserve fund with the LGLB. The fund, is derived from the Council's own revenue sources and it comprises 10% of the council's Estimated Income

If at the end of the financial year the statement of Income and Expenditure shows that actual revenue under "own income sources" was collected in excess of the estimates an additional deposit shall be made with the LGLB to the extent of the difference between the estimated 10% and the actual outcome. When there is a decrease in own sources of income, the LGLB is not required to refund the difference.

15.5 Budget format and contents

The order of the papers in the Estimates shall be prescribed by the annual budget guidelines and shall include the following:-

- The Memorandum.
- Summary of estimated revenue and expenditure.
- Estimates of Revenue (Income).

- Estimates of Expenditure.
- Estimates of Development Expenditure.
- Budget by nature and by function.

15.6 Supplementary estimates

A supplementary Estimate is an additional estimate of expenditure not in the original budget. Before excess expenditure is incurred, a supplementary estimate application is made to the Finance and Administration Committee

Should any committee need to incur expenditure which has not been included in the approved estimates, the Treasurer submits to the appropriate Committee a Supplementary estimate supported by a detailed statement of the proposed expenditure. The statement indicates where anticipated savings may be made under other heads of expenditure.

The supplementary estimate is submitted to the full council by the finance committee for approval

15.7 Reallocation (Virement)

If it is foreseen that an item or items of expenditure will exceed the annual approved budget, a proposal to reallocate expenditure is submitted to the finance and Administration committee by the Treasurer. The application to reallocate expenditure is supported by a Memorandum giving full reasons for the inadequacy of the money voted for. After consideration by the Finance and Administration committee, the application is forwarded to the full council for approval.

- No funds may be reallocated for any purpose in respect of which provision has not been made in the approved estimates without the prior consent of the full council.
- No funds shall in any way be reallocated for any purpose where the item in the estimates relating therefore was disapproved by the full council.
- No funds may be reallocated relating to development expenditure for any purpose without the approval of the full council.

Where the full council has approved the supplementary budget then the Treasurer should prepare a certified true copy of the council's resolution showing the items and amounts both from which and to which reallocation has been made.

SECTION SIXTEEN: STORES PROCEDURES

16.1 Receipt of stores

All deliveries to stores must be checked before being signed for by the storekeeper. Unnecessary losses due to errors or deliberate attempts to defraud local authorities can be avoided if proper inspection and testing of deliveries is effectively carried out. When suppliers know that regular inspections and testing are being carried out, it is much more likely that the council will be assured of correct deliveries. The inspecting and testing of deliveries involves:

- Checking that the number of packages received agrees with the supplier's delivery note.
- Checking that the goods agree with the local purchase order and payment voucher.
- Checking the goods against the invoice details.
- Examining the goods for any sign of rough handling or damages.
- Examining the goods to ensure they agree with standards of quality specification.
- Ensuring that the goods conform to the specifications where appropriate e.g. quality, performance etc.

When deliveries do *not* conform to either standards, specifications, or samples the supplier must be notified *immediately* of the deficiency, and arrangements should be made to make good the deficiency. If payment has already been made with the order, then no further orders should be placed with that supplier until the deficiency has been corrected.

Where goods received or service rendered is highly technical thus requiring a qualified officer to conduct the examination or testing then such assistance should be sought before payment is made. A signed certificate of the examination and testing should be attached to the payment voucher. If it is not possible to make such an inspection, the supplier's delivery note should be marked "goods not yet inspected".

16.2 Completing a stores receipt voucher

Goods which have passed through the inspection and testing process will be receipted by the stores officer who will record the details of the goods received on to the goods received note or stores receipt voucher.

The details required to be entered:

- Purchase order or contact number.
- Suppliers name and address.
- Whether it is a part of [mal delivery or returned goods.
- Details of goods received: description, unit of measurement, quantity.

The storekeeper must sign the receipt voucher and the head of department signs to approve payment for the goods. The payment voucher number is entered on to the receipt voucher when it is raised. If the goods received had a local purchase order raised then this must be used for payment and the lower portion signed by the storekeeper. If the form is a combined local purchase order and payment voucher, then this is processed for payment. If the form is not a combined one a separate payment voucher will need to be raised.

16.3 Requisitioning stores

A requisition for stores is prepared by a department requiring the supply of materials or machinery from the store. The requisition for stores provides all the necessary details to allow the issue of the correct items. It also enables a change to be made to the correct sub-head in the expenditure ledger.

A storekeeper may only issue stores on the authority of a stores requisition signed by an authorized official. The requisition for stores will be completed in triplicate. The first copy and second copy are sent to the stores. The third copy remains in the book of the requisitioning officer.

When a requisition for stores is received by the storekeeper he will either:

- Issue the goods if they are in the store or
- Send a purchase requisition to the purchasing officer.

16.4 Completing stores issue vouchers

Stores may only be issued on office council issue voucher form, which are subsequently numbered. The issuing office will quote the requisition number on the issue voucher, the expenditure head and sub-head to which the account is to be debited; and work or service for which goods or materials are to be issued by the authorized officer.

Stores may be issued for the following purposes:

- For local authority services
- For sale, where this has been authorized by the finance committee
- For loan to other departments.

Stores Issue vouchers will be prepared, addressed to the requisitioning officer, who will sign them and return the original to the stores officer who in turn will file it on an "Issue file" for audit and record purposes and the duplicate should be forwarded to the treasurer. The triplicate copy will remain with the requisitioning officer also for record purposes.

16.5 Maintaining a stores ledger

Stores ledgers whether in a book, on card, loose-leaf binder form, or computer, will be kept by each council in respect of each store, and all receipts and issues shall be entered in them. The stores ledgers may be kept by the finance department staff rather than the store keeper. Following this pattern the ledger shall have its pages numbered consecutively together and record the following:

- Details of item including mark, manufacturer's number chassis number, engine number, model and year where possible.
- Cost price or estimated present value if cost is not known.
- Each entry should be made on a separate line of the ledger and a balance arrived at after taking into account the previous balance.
- Stores should be brought on charge in the unit of quantity in which the issue is to be based.
- Each entry will be supported by properly filled in and signed receipt or issue voucher.
- Balance per ledger should be compared with physical stock on hand in the store.
- All corrections to manual records will be made by drawing a line in red ink through the incorrect words or figures and writing the correct entry above. All corrections must be initialled by stores officer.

A separate page will be kept for each article and when the second last line on any page of stores has been used up the receipts and issue of each article should be added up and the totals carried forward, quoting the page number where they have been transferred to.

The major purpose of maintaining allocated and unallocated ledger is that the value of stores received, issued and in hand are recorded.

When goods are issued the rate and price must be inserted on all copies of the stores issue voucher must be sent to the treasury for attachment to the journal voucher. The rest of the issue vouchers will be distributed as explained earlier in this section

16.6 Bin cards

The storekeeper needs to keep a separate record of stock movements. The bin card records only physical stock quantities received and issued; it does not normally include stock prices. A typical bin card is shown below:

Bin Card				
Part No		Location		
Date	Reference	Receipts	Issues	Balance

Where a separate bin card is kept by the storekeeper it needs to be regularly reconciled with the stores ledger balance and physical stock.

16.7 Returns to stores

Goods that have previously been issued from the stores and which are not required should be returned to the stores.

New materials issues in excess of requirements and used materials, which in the opinion of the treasurer have not deteriorated in value, will be taken on charge again in the unallocated stores ledger at the price of issue and original accounting entries will be reversed.

Where returned stores are unfit for general purposes they will be held as surplus stores in the allocated stores ledger. These will be issued as soon as possible to other works on-going within the council to avoid the use of new materials.

When goods are returned to the store e.g. from a building site, a receipt voucher should be prepared in triplicate; and signed by the officer returning the goods.

The stores officer as a receiving officer should also sign the receipt voucher handed over to the officer returning the goods. The original copy should be filed, the duplicate copy should be handed over to the officer returning the goods and the triplicate will remain in the receipt voucher book.

16.8 Sale of stores

In general councils do *not* exist to trade in goods and services. Therefore the sale of stores should be confined either to specific and approved projects or items that are obsolete or damaged. In the case of the latter, they should be sold by public auction after public advertisement. The total selling price realized shall be credited to an appropriate revenue sub-head.

16.9 Loan of stores

Consumable stores should not be issued on loan. Items of small equipment may be loaned with the approval of the appropriate officer (e.g. head of department) for council use only.

Where issue of stores on loan has been sanctioned, the stores officer will be required to maintain a loan register to record the issue and return of loaned stores. An issue voucher need not be prepared in this case, although the loan register must be signed by both the receiving and distributing officer.

16.10 Reconciliation of stores balances

For unallocated stores a reconciliation must be made at least quarterly between the balance on the stores control account in the ledger which should be compiled from receipt and issue vouchers; and the value of the balance of stores as recorded in the stores ledger, at the price of issue. If significant differences between the two ledgers (stores and advance account) are discovered, the director must be notified and investigations be held.

At the end of the financial year the reconciliation between advance account in the treasury's ledger and the stores ledger must be prepared and supported by a valuation certificate as follows:

"I certify that the stock ofon hand at 31st December was Shs.....

which is in agreement with the balance in the stores ledger, also that the value of the stock at the price of issue is in agreement with the balance on the Treasury Advance Account.

.....
Treasurer

.....
Director

.....
Date

If there should be discrepancy either between:

- The actual stock and ledger balance
- The value of stock and the balance on the advance account

Stocktaking, either at the year end or on a continuous basis should take place for all stores. A stock valuation certificate must also be prepared as at 30th June each year for *all stores*. This should be attached to the list recording the total value of financial balances for unallocated stores.

16.11 Boards of survey

The finance committee may appoint a board of survey, consisting of a chairman and two other independent officials to conduct a physical inventory of all stores at any time during or at the end of a financial year. Members of a board of survey will not include councilors, members of the police and judiciary, staff from the office of the Controller and Auditor General, or employees involved in the operation of stores. Where specialized stores are to be surveyed a suitable qualified officer should be appointed to serve on the board.

The duties of an annual board of survey shall be as follows:

- To check the stock on hand and compare with the ledger balances
- To compile a list of discrepancies if any
- To obtain explanations for surpluses and deficiencies found during checking
- To record an opinion as to the condition and adequacy of storage facilities

- To record details of any difficulties experienced in carrying out their duties
- To report, and recommend the method of disposal of any surplus and unserviceable stores produced to the board.

All items checked will be initialled by the checking officer against appropriate balance in the stores ledger. The date of the checking should also be entered after initials. All reports of the boards of survey shall be kept in a file for subsequent audit and stock verification.

16.12 Loss of stores

Losses of stores fall into two categories:

- Loss caused by theft, fraud, or other irregularity
- Loss caused by depreciation, shrinkage and acts of god e.g. floods, earthquake.

All losses involving council property must be reported to the director of the council who in turn should take relevant action. The following must be established in connection with stores lost:

- To ascertain the initial value in order to facilitate police investigation and prosecution where necessary, and write off where appropriate, and
- To assess the current value taking into account the condition of store and the length of period they have been in use. This is important in the event of the council deciding to surcharge any officer responsible for the loss.

The method used in assessing the value of lost property must be recorded and certified by the director of the council. Any large losses should be reported to the office of the Controller and Auditor General. All losses of stores may be written off by resolution of the finance committee or full council subject to any limit that the Minister shall set for requiring his or her approval.

SECTION SEVENTEEN: STORES ACCOUNTING

17.1 Stores as an accrual

Earlier in this manual, we looked at debtors and creditors as two types of accrual (together with accrued and prepaid expenses and income). A third major type of accrual is stores (stock). It is important that we take proper account of stock in the calculation of our purchases expenditure in our statement of financial performance and our assets figure in our statement of financial position, so as to ensure that accounts reflect the matching or accruals concept. This concept requires us to match resources used in a particular accounting period to the services provided and the income generated in that period.

Charging the statement of financial performance with the expenditure as it is incurred contradicts **Section 40 (l) of the Local Government Finances No 9 Act 1982** which requires the statement of financial position of the authority to show all assets and liabilities of the authority. It also contradicts the matching concept and may lead to the expenditure on purchases in the income and expenditure account being overstated in years when stores are being accumulated and understated in years when stores are being reduced. We therefore need to ensure that stores held at the year end are adequately reflected in the financial statements.

17.2 Allocated and unallocated stores

The cost of *allocated stores* is directly charged to the item of account which covers the work or purpose for which they are to be used.

Unallocated stores are those stores which are paid for out of an advance account, to be charged to the appropriate account as they are issued.

17.3 Accounting for allocated stores

Allocated stores should be charged to the income and expenditure account by adding the opening value of the stock to the value of purchases made on the relevant expenditure account and subtracting the value of the closing stock. The valuation of the closing stock could be on any reasonable basis including latest purchase price, and the basis of the valuation should be disclosed in the notes to the financial statements.

The valuation of the closing stock should be made on the basis of the balances held in the stores ledger, before debiting the expenditure account for losses or deterioration. These write-offs of stores should be disclosed as separate item of account.

Example

Chamwino council operates an education store. At the beginning of the year, it had an opening balance of education materials of shs 1,560,000. It made cash and credit purchases of shs 2,300,000 during the year and had a closing value of items in stock (as per the stores ledger) of shs 1,370,000 shs. Upon investigation by a board of survey, 26 items valued at 210,000 shs were found to have been damaged by rainwater from a leaking roof and could be sold for just 50,000 shs.

What was the value of purchases charged in the year? What was the value of stock written off?

Solution

The value of purchases charged in the year would be given by:

Opening stock	1,560,000
Add purchases	2,300,000
Less closing stock	<u>(1,370,000)</u>
Purchases charged	<u>2,490,000</u>

In addition, a write-off of the value of the damaged stores would be required. The write-off is the difference between valuation and expected realizable value, which in this case is 160,000 shs (i.e. 210,000 - 50,000 shs)

The accounting entries for allocated stores are therefore:

At start of year:

Dept expense account	Dr	1,560,000	
Opening stock account	Cr		1,560,000

Bringing down opening stock into the expense account.

During the year:

Dept expense account	Dr	2,300,000	
Bank (or creditors) account	Cr		2,300,000
Purchase of stores on cash or credit			

At end of year Closing stock account	Dr	1,370,000	
Dept expense account	Cr		1,370,000
To include the value of unused stores as an asset in the balance sheet			

Stores losses account	Dr	160,000	
Closing stock account	Cr		160,000
Loss / damage to stores			

The closing value in the statement of financial position would therefore be 1,210,000 and the total charge to the income and expenditure account 2,650,000.

17.4 Accounting for unallocated stores

For each store of unallocated items (also known as a central store), a stores advance account is kept as a control account, to which all stores are charged in the first place. As stores are issued the stores advance account is credited and the individual departmental purchase accounts debited with the value of issues. The balance on the control account should be reconciled on a regular basis to the total of the balances on individual stock ledger accounts. To facilitate such reconciliation, the stores control account may be broken down into broad categories e.g. small tools, building materials, aggregates.

Any write-offs of unallocated stores may be debited either to a general expenditure account, or to the user accounts pro rata to the value of issues.

17.5 Issue pricing

Unallocated stores will have a valuation assigned to them as soon as they are taken on to ledger charge. The valuation will be the total cost of each article or unit of quantity including charges for commission, freight, insurance, packing, inspection, transport and customs duties. Where several items are received on one invoice, the amount of these charges should be divided in the proportion which the purchase price of each item bears to the total purchase price shown on the invoice.

- (a) Changing purchase prices, and the difficulty of identifying the actual price paid for each item if they have been purchased at different times.
- (b) Keeping the detailed records required.

A number of different methods have been designed to price issues from unallocated stores. We will restrict ourselves to looking at the two easiest methods for operating manual records - FIFO and LIFO.

17.6 FIFO (first in, first out)

FIFO assumes the first item paid for is the first item used. Issues are therefore priced at the eldest price of stock in the store. Stock left in store is valued at the latest prices paid. In times of inflation issues will be at the cheaper prices and closing stock valued at later, higher prices.

Example

Stores data for part number 12345 for October 20x1

	Receipts	Purchase Price	Issues
1/10	150 units	Shs 450	
5/10	100 units	Shs 460	
6/10			80 units
12/10			100 units
20/10	90 units	Shs 480	
24/10			80 units

Calculate the issue prices and closing stock valuation using FIFO.

A summarized version of the unallocated store ledger card will be used to calculate the answer.

Unallocated Stores Ledger :Stock Number 12345

Date	Receipts			Issues			Balances		
	Units	Rates	value	Units	Rates	Values	Units	Rates	Values
		shs	shs		shs	Shs		shs	shs
1/10	150	450	67,500				<u>150</u>	450	<u>67,500</u>
5/10	100	460	46,000				150	450	67,500
							<u>100</u>	460	<u>46,000</u>
							<u>250</u>		<u>113,500</u>
6/10				80	450	36,000	70	450	31,500
							<u>100</u>	460	<u>46,000</u>
							<u>170</u>		<u>77,500</u>
12/10				70	450	31,500	<u>70</u>	460	<u>32,200</u>
				<u>30</u>	460	<u>13,800</u>			
				<u>100</u>		<u>45,300</u>			
20/10	90	480	43,200				70	460	32,200
							<u>90</u>	480	<u>43,200</u>
							<u>160</u>		<u>75,400</u>
24/10				70	460	32,200			
				<u>10</u>	480	<u>4,800</u>	80	480	<u>38,400</u>
				<u>80</u>		<u>37,000</u>			

Summary – Using FIFO issues will be charged as follows:

6/10 shs 36,000
 12/10 Shs 45,300
 24/10 Shs 37,000 Shs 118,300

The closing stock is valued at shs 38,400

17.7 LIFO (last in, first out)

Under the LIFO method the newest price is used for issues. The stock left in store is therefore valued at old out of date prices.

Example

Stores data for part number 12345 for October xxxl as above. Calculate the issue prices and closing stock valuation using LIFO.

Date	Receipts			Issues			Balances		
	Units	Rates	value	Units	Rates	Values	Units	Rates	Values
		shs	shs		shs	shs		shs	shs
1/10	150	450	67,500				<u>150</u>	450	<u>67,500</u>
5/10	100	460	46,000				150	450	67,500
							<u>100</u>	460	<u>46,000</u>
							<u>250</u>		<u>113,500</u>
6/10				80	460	36,800	150	450	67,500
							<u>20</u>	460	<u>9,200</u>
							<u>170</u>		<u>76,700</u>
12/10				20	460	9,200	<u>70</u>	450	<u>31,500</u>
				<u>80</u>	450	<u>36,000</u>			
				<u>100</u>		<u>45,200</u>			
20/10	90	480	43,200				70	450	31,500
							<u>90</u>	480	<u>43,200</u>
							<u>160</u>		<u>74,700</u>
24/10				80	480	38,400	70	450	31,500
							<u>10</u>	480	<u>4,800</u>
							<u>80</u>		<u>36,300</u>

Summary – Using LIFO issues will be charged as follows:

6/10 shs 36,000
 12/10 shs 45,200
 24/10 shs 38,400 shs 120,400

The closing stock is valued at shs 36,300

17.8 Impact of using different pricing methods

In the above examples we have three sets of figures for issue prices and stock valuation at the end of the month.

	<u>FIFO</u> Shs	<u>LIFO</u> Shs
Total Issues	18,300	120,400
Closing stock	<u>38,400</u>	<u>36,300</u>
Total purchased	<u>156,700</u>	<u>156,700</u>

Note that FIFO gives a higher stock valuation with the lowest issue charge and LIFO vice versa. Both methods give the same total as the price actually paid is the same in each case. Each method is a way of charging stock out at cost. If there is no inflation both methods give exactly the same answer.

17.9 Stores overhead account

There are a number of administrative expenses in maintaining stores. These include the cost of personal emoluments of the storekeeper, the costs of maintaining the physical fabric of the store, heating and lighting the store and other establishment costs such as postages, telephones, and stationery.

For *allocated stores*, these can be included in the departmental accounts, either as a separate cost centre or included within the main departmental accounts.

For *unallocated stores*, the costs should be charged to a separate account called a *stores overhead account*, and the cost recovered from the user departments. If the cost is borne by one department such as finance, other user departments will be obtaining the benefits of a central store (such as bulk discounts/saving storage costs) for free. There will also be no incentive for user departments to examine carefully the costs of a central store in comparison with the benefits.

The mechanism for doing this is to charge a *percentage on-cost*, usually on the value of stores, which is then credited by journal to the stores overhead account. If the percentage has been estimated accurately, the costs on the stores overhead account should be fully recharged.

Example

Personal emolument	768,000
Premises	659,000
Supplies and services	<u>443,000</u>
Total budgeted cost	<u>1,870,00</u>

If the budgeted value of stores to be issued is shs 5,500,000, the percentage on cost rate will be:

$$\frac{\text{Budgeted cost}}{\text{Budgeted issues}} \times 100$$

$$\text{In this case } \frac{1,870,000}{5,500,000} \times 100 = 34\%$$

Each issue would then attract a 34 % on-cost. So a stores issue of 100,000 shs would result in an extra charge to the departmental account of 34,000, making a total of 134,000.

The journal entries would be:

Dr: Departmental Account	134,000	
Cr: Stores Control Account		100,000
Cr: Stores Overhead Account		34,000

17.10 Year end balances on stores overhead account

Unless we are very fortunate it is always likely that there will be some balance of either a credit or debit at the year end on the stores overhead account. If this is a small balance, we could carry this forward as a small asset or liability on the balance sheet, and seek to eliminate it in the following year by either increasing or reducing the percentage on-cost. If however it is a large balance, we would be misstating expenditure in the Council's income and expenditure account if we were not to apportion the balance to the relevant user accounts for the year in question.

We would normally do this on a pro rata basis to the value of issues. For example a debit balance of 500,000 shs was outstanding at the year end, and the issues during the year were:

Education	4,500,000	Works	1,500,000
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We would apportion the balance in the ratio of 75 : 25 (i.e. Education would incur costs of 375,000 and Works 125,000 shs)

17.11 Other types of overhead accounts

It is possible to have overhead accounts for a number of different activities, where the costs need to be recovered from a number of different users. Perhaps the most common in local authorities is the *vehicle overhead account*. In operational terms, the existence of such an account means that control of all the authority's vehicles is centralized under a transport manager, instead of each department managing one or two vehicles on its own. In accounting terms, it means the costs of operating all the vehicles are grouped together in one or more overhead accounts (including drivers' salaries, depot costs, fuel, insurances etc) and the costs are recovered by charges made to council departments and external users. These charges will normally be based on a daily rate (inclusive of driver but exclusive of any special allowances and fuel). The charges will be standard for each type of vehicle although those to external users may attract an additional premium to provide contributions towards the cost of replacement. Existence of such a vehicle pool should allow vehicles to be more efficiently utilized as well as generating economies in the provision of spare parts and routine maintenance.