

MALUTI-A-PHOFUNG LOCAL MUNICIPALITY

ACCOUNTING JOURNALS AND VOUCHERS POLICY

1. OBJECT OF ACCOUNTING JOURNAL ENTRIES POLICY

The object of this policy is to:

- | Provide for recording of accounting transactions by way of journal entries in an orderly and accountable manner,
- | Improvement efficiency and organization of the municipality's accounting system by ensuring a systematic cross reference between sources documents, journals and transaction entries in the accounting system.

2. LEGISLATIVE CONTEXT

Section 62(1)(b) and (c) of Municipal Finance Management Act stipulates that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

3. DEFINITIONS

Journal: a record that keeps accounting transactions in chronological order, i.e. as they occur.

Ledger: is a record that keeps accounting transactions by accounts.

Account: a unit to record and summarize accounting transactions.

Double-entry: means recording of accounting transactions using two sides, i.e debit and credit.

"Balanced" journal entry: is when the sum of the debit side amounts equals the sum of the credit side of the journal.

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4. GENERAL CONDITIONS

1. All accounting transactions that are recorded through journal entries must show the date of entry, affected accounts name, amounts, whether those accounts are recorded in the debit or credit side of the accounts and the narration or description of the entry recorded.
2. All journals must be supported by relevant source documents which gave effect or necessity to the journal compilation.
3. When a journal entry is posted to the individual account in the General Ledger, a reference must be made to the account / vote number of the affected General Account Ledger to indicate the entries made in the account.
4. All journals must only be prepared and signed for by the authorised officials, and be approved by the Chief Financial Officer or duly delegated official in the Finance Department.
5. All journals must be compiled, signed, reviewed and approved prior to processing in the accounting system.

5. PRINCIPLES FOR JOURNAL ENTRIES

The determination of when to debit and credit an account shall be based on the principle of normal balances of the five types of accounts. Accounts have normal balances on the side where the increases in such accounts are recorded.

The following is a list of the five types of accounts and their normal balance sides.

- | Asset accounts - debit
- | Liability accounts - credit

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- | Equity / Net Assets - credit
- | Revenue accounts - credit
- | Expense accounts - debit

Ordinarily, journal entries shall take the following format:

<i>Date</i>	<i>Ref. Number</i>	<i>Accounts</i>	<i>Debit</i>	<i>Credit</i>
XX	XXX	Name of the account to be debited	Amount	
	XXX	Name of account being credited		Amount
Narration or short description of the transaction.				

6. STEPS FOR PREPARING JOURNAL ENTRIES

As a norm, a journal entry shall be prepared to adjust or correct account balances in cases where current account balances do not represent correct balances due various reasons. e.g Correction of an error, changes in accounting practices, etc.

As a minimum, the following steps shall be observed and followed in preparing journal entries.

Step 1: Identify a specific account that requires correction.

Step 2: Identify the correct account balance that must be on the account.

Step 3: Analyze the difference between the correct and the current account balances

Step 4: Identify which general ledger accounts are to be affected by the transaction.

Step 5: Prepare appropriate journal entries to adjust / correct such differences.

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7. PROCESSING OR RECORDING JOURNALS ENTRIES IN THE ACCOUNTING SYSTEM

Recording of journal entries into the accounting system / posting to the General Ledger Accounts shall be recorded done on the basis of double-entry accounting system, and shall only be in respect of journals that have been duly prepared in accordance with the general conditions and principles as contained in this policy.

Once a journal transaction has been processed in the financial system, and exception report of must be generated from the financial system the accounts be analyzed to ensure that the journal entries are balanced. i.e the sum of debit side amounts must be equal to the sum of credit side amounts.

The Chief Financial Officer or the designated senior official in the finance department shall authorize the exception reports and attach copies of such authorised reports to the journals and other supporting documents to be filled together for future reference.

8. RECORD KEEPING

All journals and supporting documents to the journals shall be filed systematically in a secure place, preferably according to sequence number or any other system as may be prescribed by the Chief Financial Officer.