

**BOJANALA PLATINUM DISTRICT MUNICIPALITY**



**POLICY ON PROVISIONS**

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## 1. OBJECTIVE

The objective of this policy is to define provisions, identify the circumstances in which provisions should be recognized, how they should be measured and the disclosures that should be made about them.

*This policy should be read in conjunction with **Standard 19 of the Accounting Standard Board of GAMAP.***

## 2. DEFINITIONS

A **provision** can be defined as a liability of uncertain timing or amount. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement.

A **constructive obligation** is an obligation that derives from an organization's actions where:

- By an established pattern of past practice, published policies or a sufficient specific current Standard, the entity has indicated to other parties that it will accept certain responsibilities, and
- As a result, the organization has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A **legal obligation** is an obligation that derives from:

- A contract (through its explicit or implicit terms);
- Legislation, or
- Other operation of law.

An **onerous contract** is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

### **3. RECOGNITION**

#### **A provision shall be recognized when:**

- Bojanala Platinum District Municipality has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and
- A reasonable reliable estimate can be made of the amount of the obligation.

**If these conditions are not met, no provision shall be recognized.**

### **4. MEASUREMENT**

#### **4.1 Best Estimate**

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

The best estimate of the expenditure required to settle the present obligation is the amount that BPDM would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time.

#### **4.2 Risk and uncertainties**

The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

#### **4.3 Present Value**

Where the effect of time value of money is material, the amount of a provision shall be the present value of the expenditure expected to be required to settle the obligation.

#### **4.4 Future Events**

Future events that may affect the amount required to settle BPDM's obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

#### **4.5 Expected disposal of assets**

Gains from the expected disposal of assets shall not be taken into account in measuring a provision.

#### **4.6 Reimbursements**

Where some or all of the expense required settling a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if BPDM settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement should not exceed the amount of the provision.

#### **4.7 Changes in provisions**

Provisions shall be reviewed at each reporting rate and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.

#### **4.8 Use of provisions**

A provision shall be used only for expenditure for which the provision was originally recognized.

#### **4.9 Application of the recognition and measurement rules**

##### **4.9.1 Future operating net deficits**

Provisions shall not be recognized for net deficits from future operating deficits.

##### **4.9.2 Onerous contracts**

If BPDM has a contract that is onerous, the present obligation (net of recoveries) under the contract shall be recognized and measured as a provision.

##### **4.9.3 Sale and transfer of operations**

No obligation arises as consequence of the sale and transfer of an operation until BPDM is committed to the sale or transfer, that is, there is binding agreement.

#### 4.9.4 Restructuring Provisions

A restructuring provision shall include only the direct expenditure arising from restructuring, which are those that are both:

- Necessarily entailed by a restructuring, and
- Not associated with the ongoing activities of the entity.

A restructuring provision **does not** include such costs as:

- Retraining or relocating continuing staff.
- Marketing, and
- Investment in new systems and distribution networks.

This expenditure relates to the future conduct of an activity and is not liabilities for restructuring at the reporting date. Such expenditures are recognized on the same basis as if they arose independently of a restructuring.

Identifiable future operating net deficits up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract.

## 5. DISCLOSURE

For each class of provision, BPDM shall disclose:

- The carrying amount at the beginning and end of the period,
- Additional provisions made in the period, including increases to existing provisions,
- Amounts used (that is, incurred and charged against the provision) during the period,
- Unused amounts reversed during the period,
- The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate,
- A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential,
- An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, BPDM shall disclose the major assumptions made concerning future events,
- The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.