



# **ACCOUNTING STANDARDS BOARD**

## **DIRECTIVE 11**

### **CHANGES IN MEASUREMENT BASES FOLLOWING THE INITIAL ADOPTION OF STANDARDS OF GRAP**



## Directive 11

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## Introduction

The Accounting Standards Board (Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (including national and provincial and government components);
- (b) public entities;
- (c) trading entities (as defined in the PFMA);
- (d) constitutional institutions;
- (e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (f) Parliament and the provincial legislatures.

The above are collectively referred to as “entities”.

The Board has approved the application of International Financial Reporting Standards (IFRS<sup>®</sup> Standards) issued by the International Accounting Standards Board<sup>®</sup> for:

- (a) public entities that meet the criteria outlined in the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities*; and
- (b) entities under the ownership control of any of these entities.

Section 89(1)(b) of the PFMA, requires the Board to prepare and publish directives and guidelines concerning the Standards of GRAP as set in paragraph 89(1)(a) of the PFMA. The *Preface to the Standards of GRAP* determines that directives will be used to set transitional provisions and transitional arrangements for the entities required to comply with Standards of GRAP, but that it could also be issued on other topics. Directives issued by the Board in terms of section 89(1)(b) of the PFMA therefore have the same authority as the Standards of GRAP.

Directives should be read in conjunction with the relevant Standards of GRAP or Interpretations of the Standards of GRAP, as well as the *Preface to the Directives*.

## Objective

- .01 The objective of this Directive is to permit an entity to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* (GRAP 3). This Directive should therefore be read in conjunction with GRAP 3.

## Scope

- .02 This Directive shall be applied by entities that apply Standards of GRAP. This Directive can only be applied when an entity elects to change the measurement bases selected for certain assets on the initial adoption of Standards of GRAP.
- .03 This Directive cannot be applied by analogy to any other circumstance, transaction or event other than that outlined in paragraph .02.

## Changes in Measurement Bases Following the Initial Adoption of Standards of GRAP

- .04 GRAP 3 sets out circumstances when an entity may change its accounting policy. Paragraph .13 of GRAP 3 allows an entity to change its accounting policy only if the change:
- (a) is required by a Standard of GRAP; or
  - (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.
- .05 In applying paragraph 13(b) of GRAP 3, this Directive allows an entity, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the entity elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the entity made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.
- .06 Paragraphs .21 to .33 of GRAP 3 describes how an entity should account for a change in an accounting policy. Those requirements shall be applied to the changes in accounting policy described in this Directive.
- .07 In accordance with GRAP 3 an entity shall apply the change in accounting policy retrospectively and provide disclosures that will ensure that the information enclosed in the financial statements is relevant and reliable. Those requirements

shall be applied by an entity that has elected to change its accounting policy in accordance with this Directive.

- .08 Subsequent to the application of this Directive, an entity will be allowed to change its accounting policy in future periods subject to it meeting the requirements in GRAP 3.

### **Effective date**

- .09 An entity can only take advantage of the provisions in this Directive within a period of three years following the expiry of the transitional provisions applied on the initial adoption of the Standards of GRAP, or the effective date of this Directive, whichever is later.
- .10 This Directive shall be applied by entities in preparing their financial statements for periods commencing on or after 1 April 2015. Earlier application is permitted.