



Comments due by 15 June 2016

## **ACCOUNTING STANDARDS BOARD**

### **INVITATION TO COMMENT ON A PROPOSED INTERPRETATION OF THE STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE**

### **RECOGNITION AND DERECOGNITION OF LAND**

**(ED 139)**

## Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of a proposed Interpretation of the Standards of GRAP (IGRAP) on *Recognition and Derecognition of Land*. Various legislative requirements in the South African public sector govern the ownership, custodianship and/or the use of land. Questions arise as to how these legislative requirements impact the recognition and/or derecognition of land when the accounting principles in the Standards of GRAP are applied. The objective of the proposed IGRAP is to provide guidance on when an entity should recognise and derecognise land as an asset in its financial statements.

The proposals in this Exposure Draft may be modified in the final document in the light of comment received. Comment should be submitted in writing so as to be received by **15 June 2016**. Email responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the Guideline has been issued. Comment should be addressed to:

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## INTRODUCTION

### Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the 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 (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 Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants as at 1 April 2012, to be GRAP for:

- (a) government business enterprises (as defined in the PFMA);
- (b) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and
- (c) entities under the ownership control of any of these entities.

The Board has approved the application of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board to be GRAP for these entities where they are applying IFRSs.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations of the Standards of GRAP is made clear in those Standards or Interpretations of the Standards of GRAP.

All paragraphs in the Interpretations of the Standards of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This



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Interpretation of the Standards of GRAP should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP*, the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

Reference may be made to a Standard of GRAP that has not been issued at the time of issue of this Interpretation of the Standards of GRAP. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Background and objective of this Exposure Draft

During the Post-implementation Review of the Standards of GRAP on *Investment Property* (GRAP 16) and *Property, Plant and Equipment* (GRAP 17), respondents highlighted issues on the recognition and derecognition of land. It was specifically questioned whether land should be recognised and derecognised by an entity based on legal title or control, and it was further questioned at which point land should be derecognised from an entity's financial statements.

As a result, the Board has agreed to include a project on its work programme to develop an Interpretation of the Standards of GRAP (IGRAP) that deals with the recognition and derecognition of land.

The IGRAP explains when an entity should recognise and derecognise land as an asset from its financial statement.

## Due process and timetable

The Board invites comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting.

Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft.

## Request for comment

Comment on this Exposure Draft is invited by **15 June 2016**. The Board requests that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate. The basis for accepting or rejecting significant comment will be published on the website.

The Board would particularly appreciate answers from respondents to the questions posed below.

## Specific matters for comment

1. Do you agree with the proposed indicators of control that are included in paragraph .14 and the explanatory text in paragraphs .15 to .35? If not, please explain your response.
2. The Board proposes some disclosures for the entity that concludes that it controls the land even though it is not the legal owner of the land, and for the entity that concludes

that it does not control the land but is the legal owner of the land. These disclosure requirements are set out in paragraphs .42 to .44. Do you agree with the proposed disclosure requirements? If not, please explain your response.

3. The Board proposes that the proposed Interpretation of the Standards of GRAP should be applied prospectively to binding arrangements relating to land that exist on the date of adoption. Any adjustments that result from the initial adoption of the proposed Interpretation of the Standards of GRAP should be made against the opening balance of accumulated surplus or deficit on the date of adoption.

Do you agree with the prospective application of the proposed Interpretation of the Standards of GRAP and the treatment of any adjustments on the date of adoption? If not, please explain your response.

4. Are there any additional regulatory or other issues that exist in the South African environment that may affect the implementation of the proposed IGRAP?

If yes, please provide details of these regulatory or other issues that should be considered in finalising the proposed IGRAP.

5. In your view, should the National Treasury consider the development of any further implementation guidance in relation to the recognition and derecognition of land? Please explain your response.
6. In your view, overall, does the application of the proposed IGRAP result in financial statements that would be useful to users? Please explain your response.
7. In your view, what are the costs and benefits of the proposals relative to the current accounting that are applied by entities in assessing when land should be recognised as an asset, and when it should be derecognised from the statement of financial position. In relation to quantitative financial costs, the ASB would be interested to understand the nature and estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to the existing accounting.

### **General matters for comment**

As with any other Exposure Draft, comment on any other matter contained in this Exposure Draft would also be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs.