

Frequently Asked Questions on the Standards of GRAP

These FAQs focus on amendments made to:

- **Standard of GRAP on *Investment Property* (GRAP 16)**
- **Standard of GRAP on *Property, Plant and Equipment* (GRAP 17)**

Disclaimer

These Frequently Asked Questions have been prepared by the Secretariat of the Accounting Standards Board in consultation with the technical division of the Auditor-General of South Africa (AGSA) and the Office of the Accountant-General at National Treasury (OAG). These Frequently Asked Questions have not been approved by the Board. Consequently, they are not authoritative and do not form part of the Standards of Generally Recognised Accounting Practice (GRAP).

The questions and responses outlined in this document are based on queries commonly received by the Secretariat, the AGSA and the OAG and have been compiled to assist preparers of the financial statements. The questions and responses provide a summarised analysis of topical issues and are not comprehensive.

Any examples provided are illustrative only and do not represent a comprehensive list of scenarios or circumstances that may exist in practice. As a result, the examples are not prescriptive and should not be used by analogy to other circumstances. In all instances, readers are encouraged to refer to the relevant Standard of GRAP, Interpretation of the Standards of GRAP or Directive.

The Standards of GRAP apply only to material items. Consequently, the FAQs have been drafted on the basis that a particular issue is material. When considering the FAQs, entities should apply judgement in determining whether an issue outlined in the FAQs is material to its operations.

The questions and responses focus on issues that are of interest to public entities, constitutional institutions, municipalities, municipal entities, Parliament and the provincial legislatures, trading entities and Public Further Education and Training Colleges collectively called "entities" in this document (unless indicated otherwise).

FAQ's on the Standards of GRAP: Amendments to GRAP 16 and GRAP 17 (2015)

FAQ	Subject
1	How should information on the cumulative expenditure on assets in the process of being constructed or developed be presented where an entity does not have this information for prior years?
2	What amount should be disclosed for projects that are taking significantly longer to complete than expected and what does "significantly longer" mean?

FAQ's on the Standards of GRAP: Amendments to GRAP 16 and GRAP 17 (2015)

1 How should information on the cumulative expenditure on assets in the process of being constructed or developed be presented where an entity does not have this information for prior years?

GRAP 16.92(a) and GRAP 17.87(a) require an entity to disclose the cumulative expenditure recognised in the carrying value of investment property and property, plant and equipment in the process of being constructed or developed, respectively. These expenditures should be disclosed in aggregate, per class of asset.

Practice in the past was that entities disclosed this information as a separate class of asset, referred to as "work-in-progress". Users were not able to understand what the nature of the work-in-progress was and therefore found it difficult to hold entities accountable and make decisions.

As part of the amendments to GRAP 16 and GRAP 17, the clarification was made that cumulative expenditure on assets in the process of being constructed or developed should be disclosed in aggregate, per class of asset.

The effective date of the amendments is 1 April 2016, to be applied prospectively. This means that no comparative information needs to be disclosed for the 2016/2017 reporting period. An entity would, however, need to apply the change from 1 April 2016 and it therefore applies to the opening balance. An entity that previously presented capital work-in-progress as a separate class of assets would therefore need to disaggregate the opening balance to the various classes of assets (e.g. buildings, infrastructure assets, etc.).

2 What amount should be disclosed for projects that are taking significantly longer to complete than expected and what does "significantly longer" mean?

GRAP 16.92 requires an entity to disclose the following, in the notes to the financial statements, for investment property which is in the process of being constructed or developed:

- (b) *The carrying value of investment property that is taking a significantly longer period of time to complete than expected, including reasons for any delays.*
- (c) *The carrying value of investment property where construction or development has been halted either during the current or previous reporting period(s). The entity should also disclose reasons for halting the construction or development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.*

The same is required in GRAP 17 paragraph .87(b) and (c) for property, plant and equipment which is in the process of being constructed or developed.

Carrying amount

The carrying amount is defined in GRAP 16 as the amount at which an asset is recognised in the statement of financial position. For work-in-progress, it would be the cumulative cost of the capital work-in-progress less any accumulated impairment losses at the reporting date when the cost model is applied, or the fair value at the reporting date if the fair value model is applied.

The carrying amount is defined in GRAP 17 as the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses. For work-in-progress, it would be the cumulative cost of the capital work-in-progress less any accumulated impairment losses at the reporting date.

An entity discloses the carrying amount recognised and not the total value of the contract or the budget.

FAQ's on the Standards of GRAP: Amendments to GRAP 16 and GRAP 17 (2015)

Significantly longer period of time

The requirement in GRAP 16 and GRAP 17 refers to the period of time that assets take to be completed in relation to the expected project plans.

GRAP 16 and GRAP 17 are not specific in terms of the period of time that would constitute a significantly longer period of time than expected. This would need to be assessed by management on a project-by-project basis, with reference to the nature and circumstances of the project and taking the information needs of users into account. This will apply when construction takes a significantly longer period of time in relation to what was expected or planned for the project.

For example, a five-year project that is meant to be completed in equal proportions over the five years, but where only 20% of the work has been completed at the end of year four, would likely meet the requirement of a significantly longer period of time than expected. It is also likely that users would need this information to hold entities accountable and make decisions.

GRAP 16.92 and GRAP 17.87 do not require the disclosure of an ageing of capital work-in-progress. The disclosure requirement only relates to those assets that are taking a significantly longer period of time than expected to be completed.

Level of disclosure

Both GRAP 16 and GRAP 17 do not require information to be presented on an asset basis. The Standards allow an entity to decide how to present the information required, i.e. individually or in aggregate. An entity could, for example, decide to present the information per asset, per project, or another relevant basis.