

GRAP 108

Statutory Receivables




Accounting Standards Board





Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.



Overview

- What are statutory receivables?
- What accounting problem does GRAP 108 solve?
- What are the key principles of GRAP 108?
- Arrangements for first time adoption?
- Changes to other Standards?
- Potential implications?



What are statutory receivables?



Definition




Receivables that:

- arise from legislation, supporting regulations, or similar means; and
- require settlement by another entity in cash or another financial instrument.



Examples

- 
- Taxes – income tax, property rates
 - Fines – usually breach of law
 - Appropriations, grants and transfer payments i.t.o. budget legislation
 - Other charges – licences, levies



**What accounting problem
does GRAP 108 solve?**

What is the problem?

- GRAP 104 provides guidance for receivables that (a) arise from contracts, and (b) are settled in cash or another financial instrument.
- A contract is an arrangement where:
 - Parties are willing.
 - Rights and obligations for either party.
 - Rights and obligations are enforceable.
- High reliance on fair value, market rates.

What is the problem?

- Receivables from legislation or similar, do not meet definition of financial instrument \neq willing parties.
 - No guidance in Standards. Applied own accounting policies.
- Because parties are not willing, implications for measurement of receivables
 - Fair value and market rates may be inappropriate.



What are the key principles of GRAP 108?



What are the key principles?

Activity	Principle
When to recognise?	<ul style="list-style-type: none">• Statutory receivables can arise from exchange and non-exchange transactions.• Receivables are linked to revenue transactions.• Apply GRAP 9 or GRAP 23
At what amount initially?	Transaction amount = amount in GRAP 9 or GRAP 23.
At what amount at each reporting date?	Cost method.
Disclosure	Users should be able to evaluate the significance of statutory receivables on financial position and performance.

Recognition

Activity	Principle
GRAP 9 Revenue from Exchange Transactions	Recognise revenue based on whether: <ul style="list-style-type: none">• sale of goods (transfer of risks & rewards); or• rendering of services (stage of completion). Contra-entry is a receivable.
GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)	Identify whether entity has control of a resource, recognise revenue or a liability (if conditions exist). Recognise revenue if no conditions, or if conditions, as they are satisfied. If resource is an entitlement to cash or similar = receivable.

Initial measurement

Activity	Principle
GRAP 108	Transaction amount Amount specified, calculated, levied, or charged in accordance with legislation, supporting regulations or similar means.
Equals	
GRAP 9 Revenue from Exchange Transactions	Fair value of the consideration received or receivable.
GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)	Fair value of asset at acquisition.



NB

Examples are illustrative only...

Accounting treatment dependent
on events and circumstances of
transaction.

Example #1

Public Entity X receives a grant, as outlined in the DORA. The DORA indicates that the grant is for R1million.

1 April 20X0

Dr	Receivable	R1million
Cr	Revenue or liability (NX)	R1million

Example #2

Public Entity X charges levies of 1% on goods transported by road across the SA border. Goods to the value of R50million are transported across the border for April.

April 20X0

Dr	Receivable(s) X....Y	R500,000
Cr	Revenue (NX)	R500,000

Example #3

Municipality A levies property rates at the start of the financial year i.t.o legislation.

- By laws outline % property tax is 5% of value in valuation roll.
- Valuation roll = properties of R100million
- Rebates = R1million
- Indigent customers (waive taxes) = R500k

Example #3

R100million X 5% - R1million - R500k =
R3.5million

1 July 20X0

Dr Receivables (X....Y)	R3.5m
Cr Property rates (NX)	R3.5m

Subsequent measurement

Cost method

Cost method	
Transaction amount	Amount initially recognised
<u>Plus:</u> Accrued interest or other charges	<p>Accrue interest if required by legislation or similar.</p> <p>Nominal rate of interest specified in legislation or similar.</p> <p>Interest either exchange or non-exchange, depending on underlying transaction.</p> <p>Other charges = fines, penalties.</p>
<u>Adjust:</u> Accumulated impairment losses	Assess at each reporting date if any indication of impairment of a receivable or group of receivables (or reversal).
<u>Less:</u> Amounts derecognised	<p>Amounts settled, expired or waived.</p> <p>Transfer or risks and rewards to another party.</p> <p>Retained some risks and rewards but transferred control.</p>

Example #2 (contd)

Cost method

- Interest or other charges: Gazette indicates no interest charged, charge penalty for late payment. For May, R20k.
- Payment received of R350k.
- No indicator of impairment.

Example 2 (contd)

Cost method	
Transaction amount	500,000
Accrued interest or other charges	20,000
Accumulated impairment losses	-
Amounts derecognised	(350,000)
Balance at 31 May 20X0	170,000

Example 2 (contd)

Dr Receivables	R20,000
Cr Revenue (NX revenue)	R20,000
[Recognise penalties]	
Dr Bank	R350,000
Cr Receivables	R350,000
[Recognise cash received]	

Impairment of receivables

‘Incurred loss’ approach, i.e. assess if a ‘loss event’ occurred:

- Significant financial difficulty of issuer, e.g. debt rescue.
- Debtor will enter sequestration, liquidation etc.
- Breach in terms of the transaction, e.g. default.
- Adverse changes in economic conditions.
- Consider others.....

Impairment of receivables

- Assess for individually significant debtors, groups of similar individually insignificant (similar characteristics).
- Impairment loss = estimated future cash flows – carrying amount.
- Future cash flows = amount and timing of cash flows. If TVM material, discount using risk free rate (adjusted).

Impairment of receivables

- Reduce debtor directly, or allowance account.
- Impairment loss in surplus or deficit.
- Revise amounts previously recognised if there is a change in estimates, or to reflect discounting (either adjust directly or allowance account).
- Cannot increase receivable > carrying amount would have been.

Example #2 (contd)

Cost method

- In June Debtor B of R100,000 indicates that in business rescue. Will only be able to pay in 1 year. Expected cash flows R85,000 include effect of TVM.
- Based on past experience, loss experience 50% for debtors 60 days overdue.
- Penalties R7,000.
- No further payments received.

Example 2 (contd)

Cost method	
Transaction amount	170,000
Accrued interest or other charges	7,000
Accumulated impairment losses [R100k-R85k]+[(R170k-R100k) x50%]	(50 000)
Amounts derecognised	-
Balance at 31 May 20X0	127,000

Example 2 (contd)

Dr Receivables R7,000
Cr Revenue (NX revenue) R7,000
[Recognise penalties]

Dr Impairment loss R15,000
Cr Debtor B R15,000
[Recognise impairment of Debtor B]

Example 2 (contd)

Dr Impairment loss	R35,000
Cr Allowance account	R35,000

[Estimated impairment using historical experience]

Presentation and disclosure

- Purpose of disclosures is to evaluate significance of statutory receivables on an entity statement of financial performance and position.
- Provide sufficient information to allow reconciliation between statements and notes.
- Apply principles in GRAP 108 + other Standards (e.g. GRAP 1, 9, 23).

Presentation and disclosure

Some of the disclosure includes....

#1 Disclosing a description of:

- How transaction arises, with reference to legislation etc.
- How transaction amount is determined.
- Interest or other charges levied (where applicable), including basis and rate used.
- Basis used to assess impairment, including grouping for collective assessment.
- Discount rate applied.

Presentation and disclosure

Some of the disclosure includes....

#2 Disclosing:

- Carrying amount of statutory receivables separately in notes to the financial statements, distinguishing statutory and other receivables.

#3 Impairment related disclosures



What are the arrangements for first time adoption?

Transitional provisions

Apply GRAP 108 retrospectively, except....

- Derecognition applied prospectively to receivables recognised + if previously derecognised, do not need to apply GRAP 108.
- Impairment applied prospectively.



Transitional provisions

Additional relief granted...

- Not required to change accounting policies for classification and measurement for a period of 3 years from adopting Standard.

Transitional provisions

Need to disclose information on:

- Adoption of transitional relief.
- Which receivables classified and measured using GRAP 108 or another accounting policy.
- Plan for implementing GRAP 108.
- Progress towards implementation.
- Changes in policy from previous years.



Changes to other Standards?

Changes to other Standards

Most significant change....

GRAP 9 for the treatment of interest

→ Can be classified as exchange or non-exchange.

→ Depend on the nature of underlying transaction.

Important for classification in statement of financial performance (revenue) and receivables



Potential implications?



Potential implications

- Entities would have developed their own accounting policies in the past, so potential impact not precise.
- Could have used GRAP 104 as a basis as statutory receivables similar to financial instruments.
- If that is the case.....

Comparison GRAP 108 and 104

Activity	GRAP 108	GRAP 104
When to recognise?	Link to relevant revenue Standard → GRAP 9 or GRAP 23	Party to contractual provisions of arrangement. (May be overlap GRAP 9 and 23)
At what amount initially?	Transaction amount = amount in GRAP 9 or GRAP 23	Fair value (could include transaction costs). Discounted using market related rate of interest.
At what amount at each reporting date?	Cost method	Fair value or amortised cost Interest calculated using effective interest rate. Impairment approach currently similar, but could change in revisions to GRAP 104.



Potential implications

- Separate disclosure of statutory receivables.
- Classification of interest revenue.
- Implies need for policies and systems for identification, classification and recording.



Stakeholder outreach and communication



Outreach activities

- Continuous promotion of GRAP by improving outreach to stakeholders (workshops, meetings, seminars, SAICA webinars)
- Stakeholders should liaise with ASB when requiring any engagements
- Newsletters & Meeting Highlights
- Handbook

Translation

- Standards translated into isiZulu, Sesotho and Afrikaans
- The official version is the English language version
- Available on website

Website

- Overview of changes made to reporting framework for 2018 onwards.
- Three set of Standards:
 - Those entities with a December year-end
 - The Standards applicable for the current year
 - The Standards applicable for the next financial year
- Please register on website if you want to be advised of changes:

<http://www.asb.co.za/GRAP/Subscribe-to-email-alerts>



Submitting comments

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THANK YOU





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