

GRAP 109

Accounting by Principals and Agents




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 principal-agent arrangements?
- What accounting problem does GRAP 109 solve?
- What are the key principles of GRAP 109?
- Arrangements for first time adoption?
- Changes to other Standards?
- Potential implications?



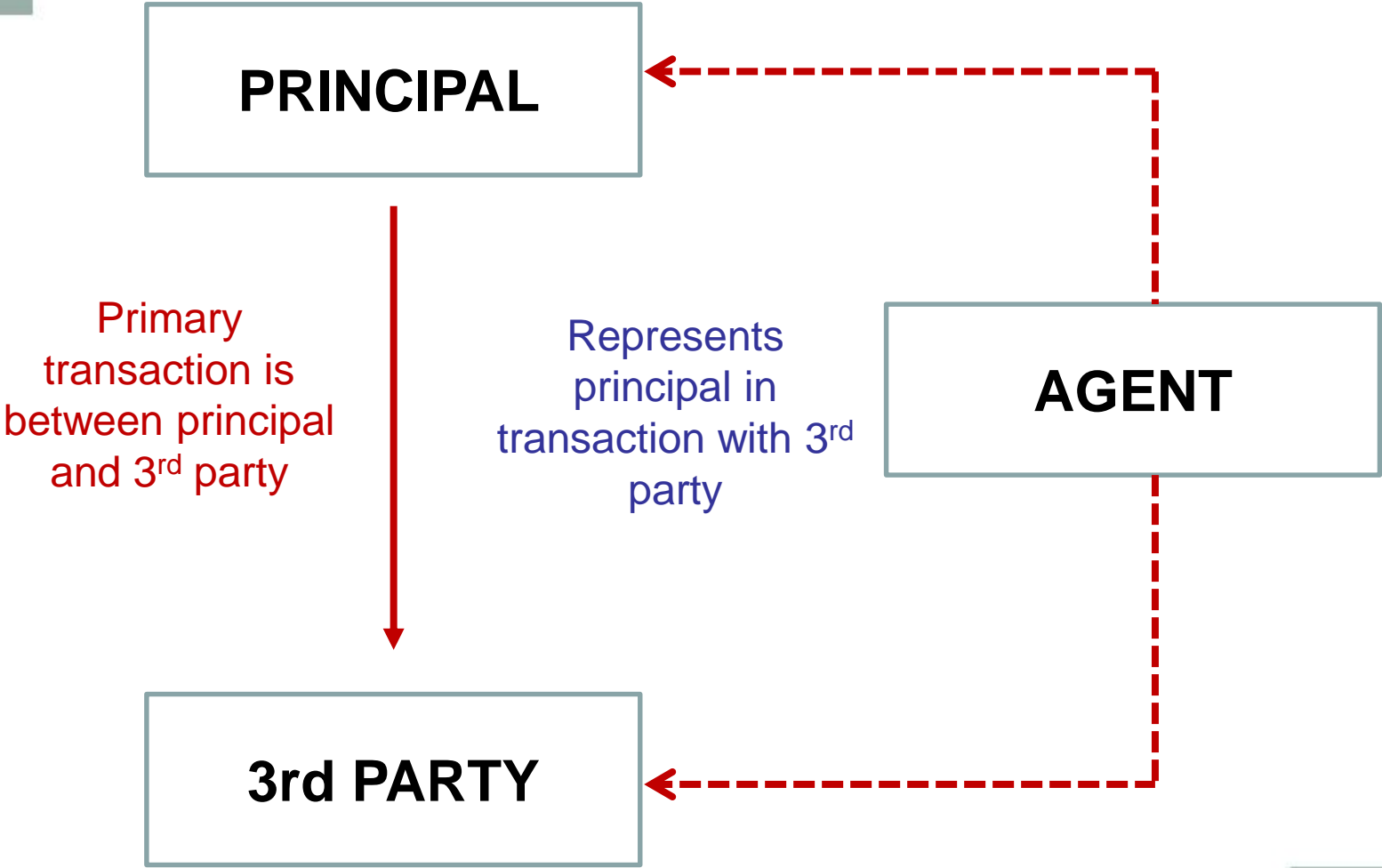
What are principal-agent arrangements?



Definition

- Binding arrangement,
- One entity (an agent) undertakes transactions with 3rd parties,
- On behalf of another entity (principal)

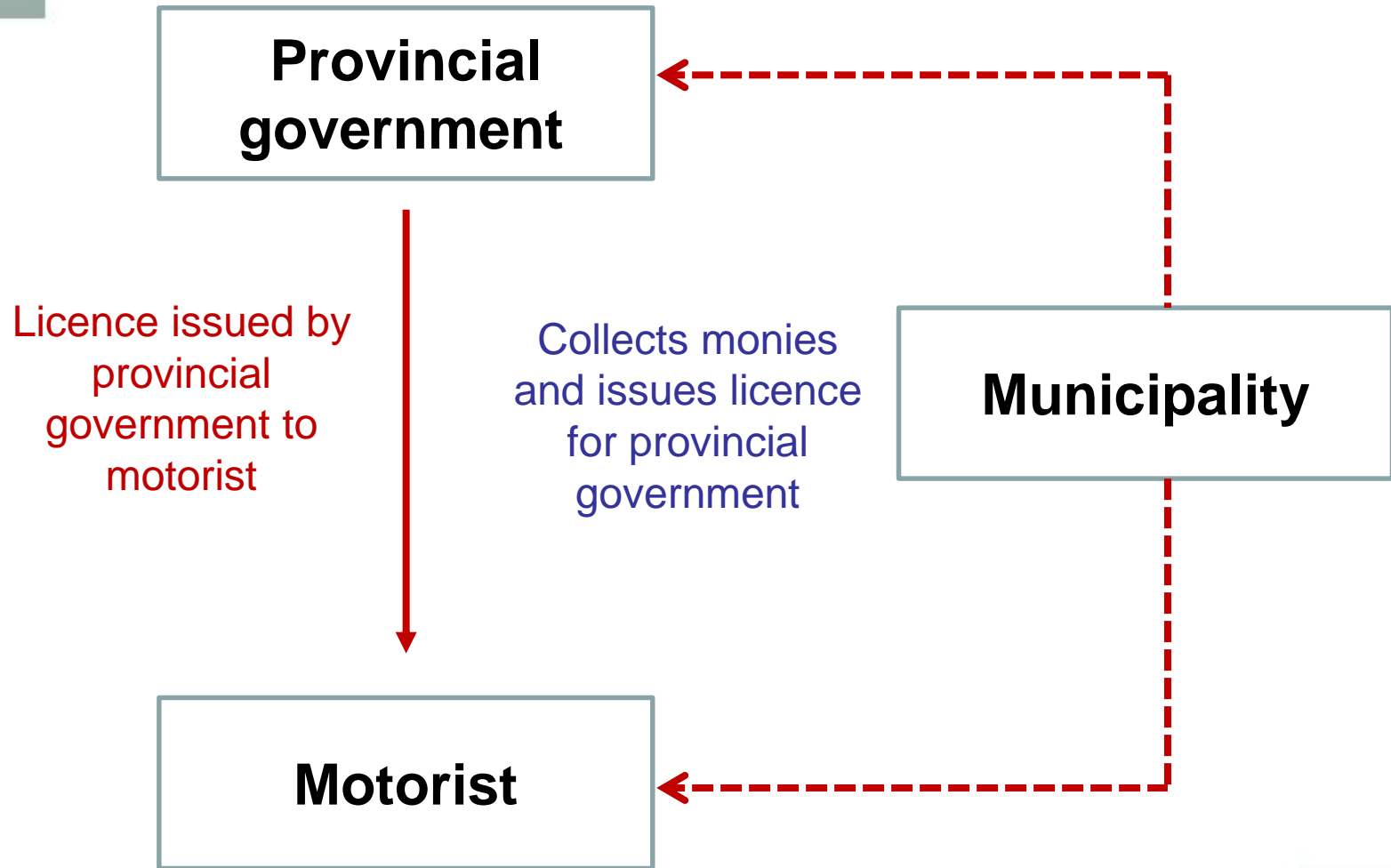
Definition



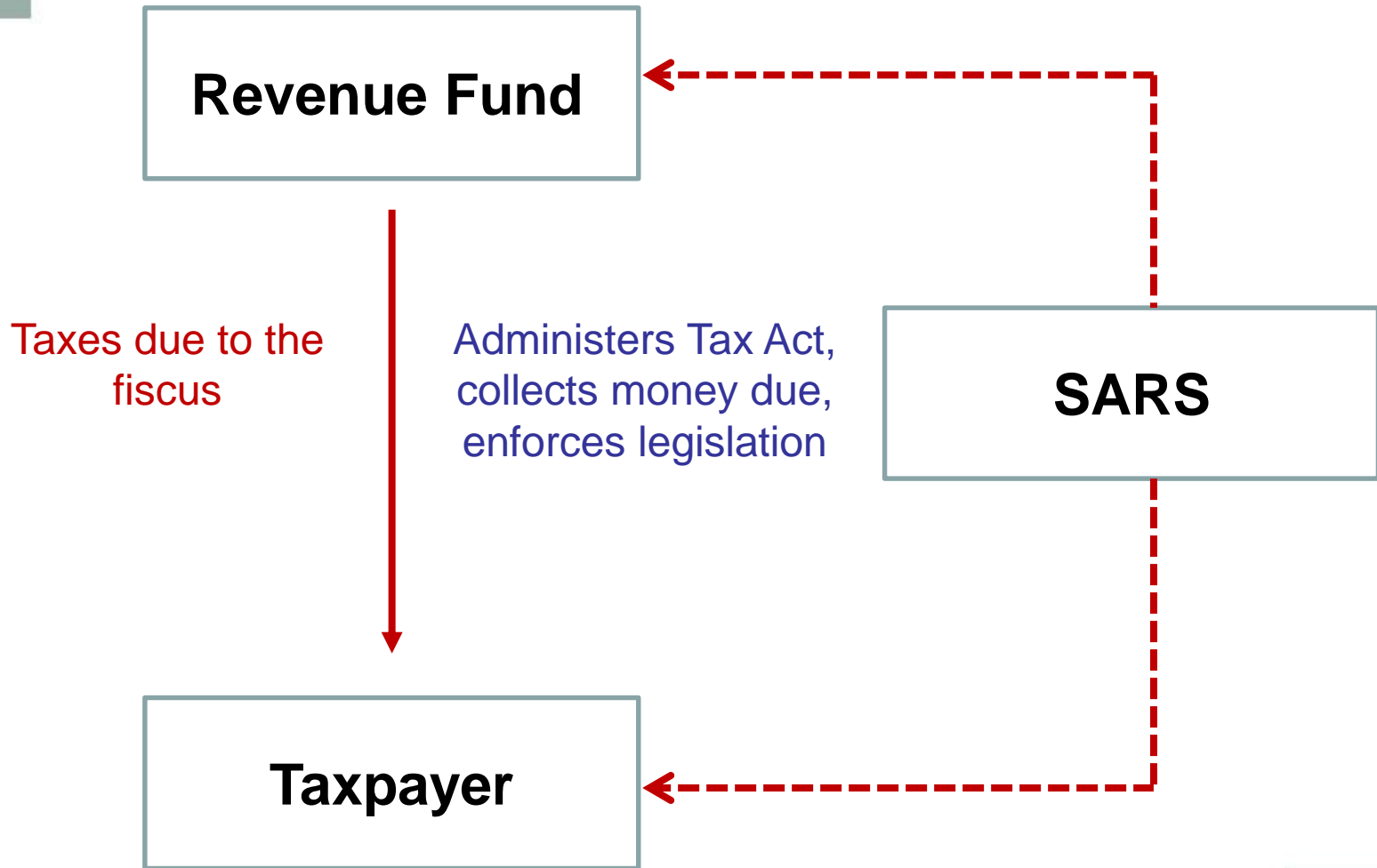
Examples

- Collection of motor vehicle license fees by municipalities for provincial government.
- SARS for revenue fund.
- Some schemes i.t.o national housing programme.
- Provision of water by local municipalities for water authorities.
- Some (or parts of) service concession arrangements.

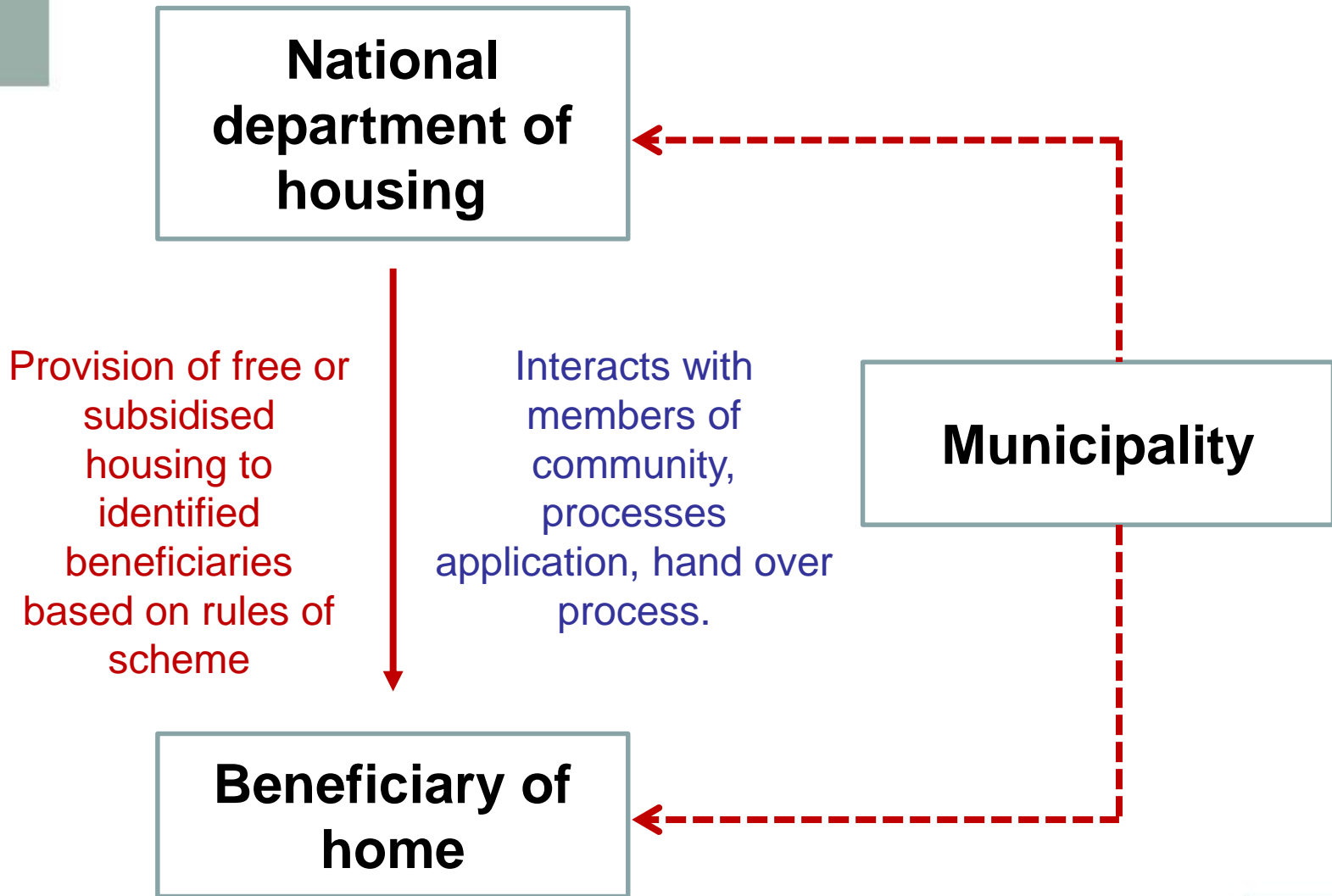
Illustrating examples



Illustrating examples



Illustrating examples



Misconceptions



Any arrangement with more than 2 parties is a principal-agent arrangement

Typical misconceptions

Municipality



*Not a principal-agent arrangement
No 3rd party interests represented in primary arrangement – merely service provider relationship*

Acquisition of goods and services for delivery to recipients of a community for emergency relief



Beneficiary

Service provider

Delivery to 3rd party





**What accounting problem
does GRAP 109 solve?**

What is the problem?

Government works together to achieve common objectives, can be difficult to decide:

- Whether a principal-agent arrangement exists for a certain activity.
- Which entity should account for the R,E,A,L.

What is the problem?

- Assess each arrangement to determine if it is a principal-agent arrangement before applying other Standards of GRAP.



What are the key principles of GRAP 109?

What are the key principles?

Is the arrangement a **principal-agent arrangement**, i.e. binding arrangement between principal, agent and 3rd parties?

Is the entity the **agent** in the arrangement?

Apply accounting principles as **principal** or **agent**

Is there a binding arrangement?

Principal-agent arrangement –

Binding arrangement one entity (agent) undertakes transactions with 3rd parties, on behalf of, and for benefit of, another entity (principal).

Is there a binding arrangement?

Binding arrangement:

- Contract between parties.
- Legislation or similar means (including laws, regulations, policies, decisions by cabinet, executive, councils etc.)
- Operation of law.

Is there a binding arrangement?

- Apply substance over form when reviewing T+Cs of arrangement.
- If modifications, re-assess arrangement.
- In absence of formal agreements, may need to look at past actions → actions over time mean no realistic alternative but to act in a certain way.

Assessing if agent or not?

Overarching principle	<p>If an entity undertakes transactions for the benefit of another entity, then it is the agent.</p> <p>If not the agent, then the principal.</p>
Benefit or not?	<p>An entity is an agent if these three criteria are present...</p>
	<p><i>It does not have the power to determine the significant terms and conditions of the transaction.</i></p>
	<p><i>It does not have the ability to use all, or substantially all, of the resources that result for its own benefit.</i></p>
	<p><i>It is not exposed to variability in the results of the transaction.</i></p>

Assessing if agent or not?

Criterion #1

No power to determine significant terms and conditions

No power to effect the result of the transaction, i.e. economic benefits (quantitative) or service potential (qualitative) (or both) arising from the transaction.

Quantitative:

- Amount paid by 3rd party for good/service received, or tax/levy/charge paid
- Amount paid to 3rd party for goods/services procured, benefits paid in non-exchange transaction.

Qualitative:

- Quality of a good or service received by 3rd party
- Administrative efficiency in executing transaction or activity.
- Volume of good or service provided.

Assessing if agent or not?

Criterion #1

No power to determine significant terms and conditions

If defer significant decisions that affect results of transaction, indicator that entity does not have power to determine significant T+C's of transaction. Difference with regulatory approval.

Not able to determine significant terms and conditions if, *for example*, it is not able to decide the following:

- What goods/services should be provided to or procured from 3rd parties, or what taxes/levies/charges.
- To whom goods/services should be provided, or from whom goods/services procured, on whom taxes/levies/charges imposed.
- Price to be paid by 3rd party, amount of tax/levy/charge to be paid.
- Quality of the goods/services provided to, received from, 3rd parties.

Assessing if agent or not?

Criterion #2

Ability to use all or substantially all of resources that result from transaction with third party

Resources could include receipts of specific goods/services, taxes/levies/charges + disbursements for goods/services procured, including inventory.

Entity does not have ability to use resources when it does not have unrestricted access to those resources and cannot use for own benefit.

Need to examine economic substance of rights in the binding arrangement → rights / physical possession on their own inconclusive.

Might be entitled to retain portion of resources, e.g. fee for services rendered.

Assessing if agent or not?

Criterion #3

Exposure to variability in the results of the transaction with 3rd parties

Entity is exposed to both positive and negative results of the transaction, and exposures not limited or fixed.

Not only economic variability, but end result/consequence of transaction.

Exposure usually limited when (examples + not exhaustive):

- Another party is responsible for fulfilling rights and obligations established in the binding arrangement, e.g. specific entity has responsibility in legislation.
- Limited inventory risk.
- Receive fixed fee or fixed margin.
- No exposure to credit risk.

Accounting by agent?

General	Recognise only that portion of revenue and expenses it receives or incurs in executing transactions on behalf of principal. Assets and liabilities recognised i.a.w Standards.
Revenue and expenses	Agents recognise compensation for transactions undertaken on behalf of agent. Compensation different to re-imburesements. Do not recognise expenses incurred for principal.
Assets and liabilities	May need to recognise assets + liabilities for resources held for principal, e.g. cash, inventory. Assess if receivables should be recognised if: Agent is counterparty in transaction, enforces collection, determines amount that should be paid, determines manner and timing of settlement, power to write off debts owing, obligation to undertake certain activities in binding arrangement.

Accounting by principal?

General	Recognises revenue and expenses related to transactions with third parties.
Revenue and expenses	Recognise revenue and expenses for transactions with third parties → undertaken for benefit of principal.
Assets and liabilities	Recognise assets + liabilities based on Standards.

Presentation and disclosure

- Apply requirements of GRAP 109 and other Standards of GRAP.
- Do not offset assets and liabilities recognised, unless another Standard permits.

Disclosure – Both parties

- Description of arrangement, including transactions undertaken.
- Whether entity is principal or agent and judgement applied in making assessment.
- Significant terms and conditions of the arrangements and if any changes during period.
- Explanation of the purpose of principal-agent relationships and significant risks and benefits (including risk mitigation).

Disclosure by agent

General	<p>Description or resources held for principal + remittance during period + risk transferred from principal to agent as a result of custodianship of resources.</p> <p>Aggregate revenue recognised as agent.</p> <p>Liabilities incurred for principal + rights of reimbursement.</p>
Revenue and expenses	<p>In notes, indicate that category and amount of revenue + expense received or accrued.</p>
Receivables and payables [provide when relevant to users of financial statements]	<p>Reconciliation of receivables or payables at beginning and end of period.</p> <p>Receivables = revenue principal entitled to, settlements/write-offs/waivers, cash received for principal.</p> <p>Payables = amount of expenses incurred, amount of cash paid on behalf of principal.</p>

Disclosure by principal

General

Resources under the custodianship of agent, whether recognised by the agent, resources remitted by the agent + timing of expected remittance of outstanding resources.

Fee paid to agent as compensation.

Discussion on resource or cost implications if principal-agent arrangement terminated.



What are the arrangements for first time adoption?

Transitional provisions

Apply GRAP 109 retrospectively,
except....

....transactions arising from principal-agent arrangements that were completed on or before the effective date of the Standard.



Changes to other Standards?

Changes to other Standards

- Affects discussion of principals-agents in GRAP 9 and GRAP 23
- Examples have been deleted in both Standards → examples in GRAP 109.



Potential implications?



Potential implications

- Assess arrangements to determine if principal-agent arrangements → develop process to identify and analyse, develop policy to account for transactions from arrangements.
- Only apply to current principal-agent arrangements.



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

Visit our website for more information
on these Exposure Drafts

www.asb.co.za

Submit your comments to

info@asb.co.za



THANK YOU





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