ACCOUNTING STANDARDS BOARD

AMENDMENTS TO THE STANDARDS OF GRAP ON INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

Issued by the

Accounting Standards Board

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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 (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 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 is made clear in those Standards or Interpretations of the Standards of GRAP.

All paragraphs in this Standard of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This Standard 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 the 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 here to a Standard of GRAP that has not been issued at the time of issue of this Standard. 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.

Contents

Amendments to the Standards of GRAP on *Investment Property* and *Property, Plant and Equipment*

Part A – Amendments to the Standard of GRAP on *Investment Property* (GRAP 16)

Amendments

1.1 The amendments to GRAP 16 are outlined below. New text is underlined, deleted text is struck through, and text that has been relocated is indicated with a double underline.

Definitions

.05 …

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of operations.

Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

…

…

Investment property

.07A Entities in the public sector often own a significant number of properties. While the properties are most often used to deliver goods or services in accordance with each entity’s respective mandated functions, some entities use them to provide additional sources of revenue, e.g. through rental, or through the value that could be realised if the properties are sold.

.07B Investment property comprises land and buildings (or part of a building), or both, that is held for capital appreciation or rental to others rather than for:

(a) use in the production or supply of goods or services or for administrative purposes (referred to as owner occupied property and is accounted for in accordance with the Standard of GRAP on *Property, Plant and Equipment*); or

(b) for sale in the ordinary course of operations (which is accounted for in accordance with the Standard of GRAP on *Inventories*).

.07C In determining whether land and buildings (or part of a building) meet the circumstances in paragraph .07A, an entity considers:

(a) Whether it uses the land and/or buildings to provide goods or services in accordance with its mandated functions specified in legislation or similar means. Legislation or similar means may include a review of the Constitution of the Republic of South Africa and its Regulations, any other relevant legislation, both nationally and provincially and their related regulations, municipal by-laws, ministerial directions or cabinet decisions. An entity may need to consider, on an ongoing basis, substance over form in assessing whether land and/or buildings are used to deliver on its mandated functions. For example, an entity may acquire land and/or buildings that are initially used to deliver goods or services in accordance with its mandated functions but over time changes its use of the asset such that it meets the definition of an investment property.

(b) If the land and/or buildings are not used to provide goods or services in accordance with an entity's mandated functions, whether it uses its other assets, in conjunction with the land and/or buildings, to provide certain goods or services. In these instances, an entity should assess the nature of the fee charged, particularly whether the fee is for the use of the property, or a fee for the goods or services it provides. If the fee charged relates to goods or services provided, then the property is used to provide goods or services rather than for rental.

(c) Whether it holds the land and/or buildings for disposal, through sale or transfer, in its ordinary course of operations, e.g. an entity that frequently acquires and transfers or sells land to beneficiaries of a land redistribution programme.

If an entity holds land and/or buildings (or part thereof) in any of the situations described in (a) to (c) above, then this Standard is not applicable and the Standards of GRAP on *Property, Plant and Equipment, Inventories* or another applicable Standard should be applied.

.07D There are a number of circumstances in which entities may hold property to earn rental and for capital appreciation. For example, an entity may be established to manage a certain portion of a municipality's property portfolio on a commercial basis. The management of these properties on a commercial basis supplements the municipality's revenue rather than being part of its mandated functions. In this case, the property held by the entity, other than property held for ~~re~~sale in the ordinary course of operations, meets the definition of an investment property. Other entities may also hold property for rentals or capital appreciation and use the cash generated to finance their other (service delivery) activities. For example, an entity may own a building for the purpose of leasing on a commercial basis to external parties ~~to generate funds~~, rather than to produce or supply goods and services. This property would also meet the definition of investment property.

.08 Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates revenue ~~cash flows~~ largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate revenue ~~cash flows~~. For example, entities may use a building to provide goods or ~~and~~ services to recipients in return for a fee, which is based on either a full or partial cost recovery. However, the building is held to facilitate the production of goods ~~and~~ or services and the revenue ~~cash flows~~ is~~are~~ attributable not only to the building, but also to other assets used in the production or supply process. The Standard of GRAP on *Property, Plant and Equipment* applies to owner-occupied property.

.08A In assessing whether a property is investment property or property, plant and equipment, it is not relevant how much revenue is generated through the activity, but rather why the activity is being undertaken. If the entity merely earns revenue from the use of the property, then it may be appropriate to classify it as investment property. However, if the entity earns revenue because providing such facilities is part of its mandated functions, or because it provides goods or services using both the property and its other assets, then it may be appropriate to classify the property as property, plant and equipment.

.09 Certain administrative arrangements exist such that an entity may control an asset that may be legally owned by another entity. For example, an entity may control and account for certain buildings that are legally owned by another entity. In such circumstances, references to owner-occupied property mean property occupied by the entity that recognises the property in its financial statements.

.10 The following are examples of investment property:

(a) Land held for long-term capital appreciation rather than for disposal, e.g. through sale or transfer, ~~short-term~~ ~~sale~~ in the ordinary course of operations. For example, land held by a hospital for capital appreciation which may be sold at a beneficial time in the future.

(b) Land held for a currently undetermined future use. Land is held for a currently undetermined future use when:

(i) ~~(If a~~An entity has not determined that it will use the land ~~either~~ as owner-occupied property.

(ii) ~~including occupation to provide services such as those provided by national parks to current and future generations,~~ An entity does not hold the land ~~or~~ for ~~short-term~~ sale in the ordinary course of operations, ~~the land is considered to be held for capital appreciation.)~~

(iii) An entity has not determined that it holds the land for strategic purposes as outlined in paragraph .11A(c).

(c) A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a property management company ~~university~~ may own a building that it leases on a commercial basis to external parties.

(d) A property owned by the entity and leased out at a below market rental. For example, a municipality may own an office building which it leases to external parties at a below market rental to promote urban regeneration.

(e) Property that is being constructed or developed for future use as investment property.

~~The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.~~

.10A The existence of a lease does not in itself mean that the property is an investment property. An entity can also lease properties which are classified as property, plant and equipment. However, ~~P~~property that is leased to another entity under a finance lease is not investment property (see the Standard of GRAP on *Leases)*.

.10B The rent earned does not have to be on~~at~~ a commercial basis or market related for the property to be classified as investment property. Entities may own properties which they hold solely for the purposes of renting to external parties, but for which they cannot charge a commercial or market related rental because of specific policy decisions, e.g. to promote growth and development in specific areas, or because prevailing economic conditions do not permit the charging of such rentals.

.11 The following are examples of items that are not investment property and are within the scope of the Standards of GRAP on *Inventories* or *Construction Contracts*: ~~therefore outside the scope of this Standard:~~

(a) Property held for disposal, either through sale or transfer, in the ordinary course of operations ~~or in the process of construction or development for such sale~~ (see the Standard of GRAP on *Inventories*). For example, land held by municipalities for transfer to beneficiaries of a housing scheme, or ~~a municipality may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory.~~ housing stock held by ~~T~~the Department of Housing which it sells ~~may routinely sell part of its housing stock~~ in the ordinary course of its operations as a result of changing demographics~~, in which case any housing stock held for sale is classified as inventory~~.

(b) Property being constructed or developed for ~~on behalf of~~ third parties. For example, a municipality may develop or construct houses for the Department of Housing for distribution as part of the Department's housing scheme ~~may enter into construction contracts with entities external to its government~~ (see the Standard of GRAP on *Construction Contracts*).

~~(c) Owner-occupied property (see the Standard of GRAP on *Property, Plant and Equipment*), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.~~

~~(d) Property that is leased to another entity under a finance lease.~~

~~(e) Property held to provide goods and services and also generates cash inflows. For example, an entity may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with the Standard of GRAP on *Property, Plant and Equipment*.~~

~~(f) Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on *Property, Plant and Equipment*.~~

.11A The following are examples of items that are not investment property and are within the scope of the Standard of GRAP on *Property, Plant and Equipment*:

(a) Owner-occupied property (see the Standard of GRAP on *Property, Plant and Equipment*), including (among other things):

(i) property held for future use as owner-occupied property;

(ii) property held for future development and subsequent use as owner-occupied property;

(iii) property occupied by employees such as housing for military, official or similar personnel which are required as part of their employment to be located in a specific area (whether or not the employees pay rent at market rates); and

(iv) owner-occupied property awaiting disposal.

(b) Property held to provide goods and services and which also generates revenue. These properties are typically used by entities to fulfil their mandated function to provide certain goods and or services rather than for rentals or capital appreciation. Rental revenue generated is often incidental to the purposes for which the property is held. Examples of these properties include:

(i) ~~Social h~~Housing: An entity may hold a large housing stock used to provide housing to low income families, or to provide housing to communities at affordable rates closer to their places of employment. ~~at below market rental.~~ ~~In these this situations, w~~Where the provision of housing is within the entity's mandate, the property is held to fulfil its mandate to provide housing services rather than to generate rental revenue. ~~rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held.~~

(ii) Recreational, sporting or similar facilities: Some entities operate recreational facilities such as resorts, camping sites and caravan parks; sporting facilities such as stadiums, golf courses, athletics tracks, and tennis courts; and similar facilities such as community halls, in accordance with their specific mandated function. Entities receive a fee for the use of these facilities. These facilities are held and operated by entities to provide specific services to communities rather than to generate rental revenue. As these facilities are provided to communities as part of their mandated function, any fees received are compensation for services provided. An entity should however consider paragraph .16 to assess whether it merely acts as a passive investor in the property, in which case it will be classified as investment property.

(c) Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on *Property, Plant and Equipment*. Land and/or buildings held for strategic purposes is property that, although not currently used as property, plant and equipment, is likely to be used in the production or supply of goods and services or for administrative purposes in future because of certain legislation, policies, decisions or plans adopted by an entity. Such property may or may not generate rental revenue at present. For example, land held by a municipality which is currently vacant, but is adjacent to a growing suburban area. In terms of the municipality's spatial planning, this land could be used to develop housing, or it could be used to expand the current infrastructure network. Although a firm decision has not been made by the entity on the use of this land, given current plans in place, the land is likely to be used to fulfil its mandate. When property is classified as being held for strategic purposes, specific disclosure of the types of property classified as such is required (see paragraph .84(c).

.12 Some entities hold property to deliver goods and services rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property as its main purpose is the delivery of goods and services. This Standard is applicable if the main purpose and most significant use of the property is to earn rental or for capital appreciation. For example, when an entity owns a building, mainly used for the delivery of social housing but rents out a floor of the building to shops, banks and other external parties, the building should be accounted for as property, plant and equipment as its main purpose and most significant use is the provision of social services. This should be the case irrespective of whether the rental earned from the one floor of the building is significant in relation to the rental earned from the remainder of the building.

.13 In some cases, entities hold some property that includes a portion that is held to earn rentals or for capital appreciation rather than to provide goods or services and another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a hospital or a university may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

.14 In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example would be where an entity owns an office building which is held exclusively for rental purposes and rented on a commercial basis and also provides security and maintenance services to the lessees who occupy the building.

.15 In other cases, the services provided are significant. For example, an entity may own a hostel. The services provided to residents are a significant component of the arrangement as a whole. Therefore, an owner-managed hostel is owner-occupied property, rather than investment property because the main purpose and most significant use of the property is the provision of services to residents.

.16 It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, entities ~~an entity~~ which ~~is the~~ own~~er of a~~ stadiums or other sporting facilities ~~hotel~~ often ~~may~~ transfer certain responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the entity's position may, in substance, be that of a passive investor in a property. At the other end of the spectrum, the entity may simply have outsourced the actual performance of the day-to-day functions while retaining significant exposure to variation in the volume or quality of services provided and in the cash flows generated by ~~the~~ operating ~~of~~ the stadiums or sporting facilities ~~hotel~~.

.17 Judgement is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of investment property and with the related guidance in paragraphs .07 to .18. Paragraph .84(c) requires an entity to disclose these criteria when classification is difficult.

.18 In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in the consolidated financial statements, because the property is owner-occupied from the perspective of the economic entity as a whole. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition (see paragraph .05). Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where government establishes a property management entity to manage part of government's property portfolio on a commercial basis~~office buildings~~. ~~The b~~Buildings are then leased out to other entities, which may include government entities. ~~on a commercial basis~~. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government, ~~entity the~~ any property leased to other government entities would be accounted for as property, plant and equipment in accordance with the Standard of GRAP on *Property, Plant and Equipment*.

…

Disclosures

Fair value model and cost model

.84 ***An entity shall disclose:***

a) whether it applies the fair value model or the cost model;

b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;

c) when classification is difficult (see paragraph .17), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations<u>, including the nature or type of properties classified as held for strategic purposes in accordance with paragraph .11A(c)</u>;

(d) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;

(e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;

(f) the amounts recognised in surplus or deficit for:

(i) rental revenue from investment property;

(ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and

(iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;

(g) the existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal; and

(h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Part B – Amendments to the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17)

1. Using an indicator based approach to assess useful lives

Amendments

1.1 The amendments to GRAP 17 in relation to the review of the useful lives and residual values of assets are outlined in the paragraphs below. New text is underlined, deleted text is struck through, and text that has been relocated is indicated with a double underline.

Measurement after recognition

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Depreciable amount and depreciation period

.55 The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

.56 An entity shall assess at each reporting date whether there is any indication that t~~T~~he entity's expectations about the residual value and the useful life of an asset have changed since ~~shall be reviewed at least at each~~ the preceding reporting date. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly. ~~and, if expectations differ from previous estimates, t~~The change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

.56A In assessing whether there is any indication that the expected useful life of an asset has changed, an entity considers the following indications:

(a) The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed.

(b) The use of the asset has changed, because of the following:

(i) The entity has changed the manner in which the asset is used.

(ii) The entity has changed the utilisation rate of the asset.

(iii) The entity has made a decision to dispose of the asset in a future reporting period (s) such that this decision changes the expected period over which the asset will be used.

(iv) Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset.

(v) ***Legal or similar limits placed on the use of the asset have changed.***

(vi) ***The asset was idle or retired from use during the reporting period.***

(c) ***The asset is approaching the end of its previously expected useful life.***

(d) ***Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed.***

(e) ***Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution.***

(f) ***There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.***

(g) ***The asset is assessed as being impaired in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets.***

.56B In assessing whether there is any indication that the expected residual value of an asset has changed, an entity shall consider whether there has been any change in the expected timing of disposal of the asset, as well as any relevant indicators included in paragraph .56A above.

.56C The list of indicators in paragraphs .56A and .56B are not exhaustive. There may be other indications that the expected useful lives or residual values of the assets have changed.

.56D The use of an asset may have changed, or will change, based on a variety of events that occurred during the reporting period. These events are listed in paragraph .56A(b). These events may also indicate that there has been a change in the residual value of an asset.

(a) The entity has changed how an asset is used in its operations, e.g. a vehicle used in making deliveries and performing other administrative tasks is now used to undertake site inspections of infrastructure in rural areas.

(b) The entity has changed the utilisation rate of an asset, e.g. a substation previously only operated at 50% of its capacity but because of new developments in an area, it now operates at 80% capacity.

(c) The entity decides to dispose of an asset in a future reporting period (which includes its sale, or transfer to another entity) which affects the period over which an asset will be used (as well as its residual value). For example, an entity previously agreed to replace a particular class of assets every 10 years, but changes its policy during the year to replace these assets every 7 years.

(d) Changes both external and internal to the entity can affect the useful lives of assets. Examples of these changes are listed below.

(i) External changes: New technology available in the market may make infrastructure obsolete either in the current or future reporting period.

(ii) Internal changes: The entity institutes a policy to make infrastructure more environmentally friendly or sustainable, which means that existing infrastructure will be replaced at specific intervals.

(iii) Internal changes: Due to the high cost of maintaining specific infrastructure, the entity makes a commercial decision to replace this infrastructure over a specific time period.

(e) An entity often operates or uses assets subject to specific legal or other limits, e.g. a lease, a license, safety or environmental specifications etc. Any changes in these legal or other limits affect the period over which related assets can be utilised.

(f) If an asset is not used during the reporting period or is taken out of active use, then the useful life may need to be reconsidered.

.56E An entity should assess whether there is any indication that the expected useful life of the asset has changed based on whether the condition of the asset has improved or declined. This is based on any condition assessments undertaken by the entity on its assets during the reporting period. Paragraph .56D(f) should not be read as requiring a condition assessment at each reporting date. Condition assessments will be undertaken by entities on selected or identified assets as part of its ongoing asset management. Instead, any information available from any condition assessments undertaken during the reporting period should be used to assess whether the useful life of particular assets should be changed.

.56F In assessing whether the condition of an asset has improved or declined, the stage of the asset's lifecycle needs to be considered. As assets age, a certain level of deterioration is expected. It is only where a decline in the condition is above what is expected, would a thorough analysis of the impact on the useful life of the asset be required. The same applies if an asset is in a better condition than expected.

~~.57~~ ~~***Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.***~~

Useful life

.57 The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life.

.57A The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets. An entity considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors.

Depreciable amount

.58 Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it. ~~Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life is reassessed and adjusted accordingly.~~

.59 The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

.60 The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Depreciation

.61 Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

~~.62 The future economic benefits or service potential embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits or service potential that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:~~

~~(a) Expected usage of the asset. Usage is assessed by reference to the~~

~~asset's expected capacity or physical output.~~

~~(b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.~~

~~(c) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.~~

~~(d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.~~

~~.63 The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.~~

.64 Land and buildings are separable assets and are accounted separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

.65 If the cost of land includes the costs of site dismantlement, removal and restoration, the portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

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2. Use of external valuers

Amendments

2.1 The amendments to GRAP 17 in relation to the use of valuers is outlined in the paragraphs that follow. New text is underlined, deleted text is struck through, and text that has relocated is indicated with a double underline.

Revaluation model

.34 ….

.35 The fair value of items of land and buildings is usually determined from market-based evidence by appraisal. The fair value of items of plant and equipment is usually their market value determined by appraisal. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialised buildings, motor vehicles and many types of plant and equipment. An appraisal of the value of the asset may be ~~is normally~~ undertaken by a member of the valuation profession~~,~~ who holds a recognised and relevant professional qualification, or by another expert with the requisite competence to undertake such appraisals in accordance with the requirements of the applicable Standards of GRAP. The valuer or other expert may be employed by the entity. ~~For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialised buildings, motor vehicles and many types of plant and equipment.~~

.36 ….

Disclosure

.80 ….

.84 If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

(a) the effective date of the revaluation;

~~(b) whether an independent valuer was involved;~~

(~~c~~b) the methods and significant assumptions applied in estimating the items' fair values;

(~~d~~c) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;

(~~e~~d) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.

…

2.2 The following consequential amendments are made to GRAP 16 in relation to the use of valuers:

Measurement after recognition

Accounting policy

.38 This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an ~~independent~~ valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. Another expert with the requisite competence to undertake such appraisals in accordance with the requirements of the applicable Standards of GRAP may also be used. The valuer or other expert may be employed by the entity.

Disclosure

Cost model

.84 An entity shall disclose:

(d) ….

~~***(e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;***~~

…

2.3 As a result of amending the wording in GRAP 16 and GRAP 17, a consequential amendment is necessary to the Standard of GRAP on *Heritage Assets* (GRAP 103) in relation to the use of valuers:

Revaluation model

Determining fair value

.44 The fair value of a heritage asset can be determined from market-based evidence determined by appraisal. The fair value will be ascertained by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for certain collections of butterflies and other movable objects, such as coin or stamp collections. The existence of published price quotations in an active market is the best evidence of the fair value, such as the quoted price from recent auctions. A restriction on the disposal of a heritage asset resulting from a stipulation imposed by, a trust, statute or law, or from the transferor's stipulations, for instance, does not preclude the entity from determining its fair value. An appraisal of the value of the asset may be ~~is normally~~ undertaken by a member of the valuation profession~~,~~ who holds a recognised and relevant professional qualification, or by another expert with the requisite competence to undertake such appraisals in accordance with the requirements of the applicable Standards of GRAP. The valuer or other expert may be employed by the entity. ~~The fair value will be ascertained by reference to quoted prices in an active and liquid market. For~~

~~example, current market prices can usually be obtained for certain collections of butterflies and other movable objects, such as coin or stamp collections. The existence of published price quotations in an active market is the best evidence of the fair value, such as the quoted price from recent auctions published in local newspapers. A restriction on the disposal of a heritage asset resulting from a stipulation imposed by, a trust, statute or law, or from the transferor's stipulations, for instance, does not preclude the entity from determining its fair value.~~

Disclosure

…

.90 ***If a class of heritage assets is stated at revalued amounts, the following shall be disclosed:***

(a) ***The effective date of the revaluation.***

~~***(b) Whether an independent valuer was involved.***~~

(~~c~~b) ***The method used to determine the heritage asset's fair value.***

(~~d~~c) ***The significant assumptions applied in estimating the heritage assets' fair values.***

(~~e~~d) ***The extent to which the heritage assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques.***

(~~f~~e) ***The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.***

3. Presentation and disclosure of capital work-in-progress

Amendments

3.1 The following amendments are made to GRAP 17 in relation to the additional disclosures on capital work-in-progress. New text is underlined, deleted text is struck through, and text that has been relocated is indicated with a double underline.

Disclosure

.80 ***…***

.81 ***The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements:***

(a) ***the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities;***

~~***(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;***~~

(b~~c~~) the amount of contractual commitments for the acquisition of property, plant and equipment; and

(c~~d)~~ if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

.81A An entity shall disclose the following in the notes to the financial statements in relation to property, plant and equipment which ~~are~~ is in the process of being constructed or developed:

(a) The cumulative expenditure recognised in the carrying value of property, plant and equipment. These expenditures shall be disclosed in aggregate per class of asset.

(b) The carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected, including reasons for any delays.

(c) The carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s). The entity shall 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.

In providing the disclosures in .81A(b) and (c) an entity shall decide how to present the information required, i.e. individually or in aggregate, for example per project, per class or another relevant basis.

3.2 The following consequential amendments are made to GRAP 16 in relation to the additional disclosures on capital work-in-progress.

Disclosures

Fair value and cost model

.84 …

.84A An entity shall disclose the following in the notes to the financial statements in relation to investment property which is in the process of being constructed or developed:

(a) The cumulative expenditure recognised in the carrying value of investment property.

(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 shall 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.***

In providing the disclosures in .84A(b) and (c) an entity shall decide how to present the information required, i.e. individually or in aggregate, for example per asset, per project or another relevant basis.

Fair value model

…

3.3 The following consequential amendments are made to GRAP 31 in relation to the additional disclosures on capital work-in-progress.

Disclosures

General

.116 *…*

.116A ***An entity shall disclose the following in the notes to the financial statements in relation to intangible assets which are in the process of being developed:***

(a) ***The cumulative expenditure recognised in the carrying value of such intangible assets. These expenditures shall be disclosed in aggregate per class of intangible asset, distinguishing between internally generated and other intangible assets.***

(b) ***The carrying value of intangible assets that are taking a significantly longer period of time to complete than expected, including reasons for any delays.***

(c) ***The carrying value of intangible assets where development has been halted either during the current or previous reporting period(s). The entity shall also disclose reasons for halting the development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.***

In providing the disclosures in .116A(b) and (c) an entity shall decide how to present the information required, i.e. individually or in aggregate, for example per project, per class or another relevant basis.

.117 …

3.4 The following consequential amendments are made to GRAP 103 in relation to the additional disclosures on capital work-in-progress.

Disclosures

.84 ***…***

.84A ***An entity shall disclose the following in the notes to the financial statements in relation to heritage assets which are in the process of being constructed or developed:***

- ***(a)*** ***The cumulative expenditure recognised in the carrying value of such heritage assets. These expenditures shall be disclosed in aggregate per class of heritage asset.***
- ***(b)*** ***An analysis of the carrying value of heritage assets that are taking a significantly longer period of time to complete than expected, including reasons for any delays.***
- ***(c)*** ***An analysis of the carrying value of heritage assets where construction or development has been halted. The entity shall 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.***

In providing the disclosures in .84A(b) and (c) an entity shall decide how to present the information required, i.e. individually or in aggregate, for example per project, per class or another relevant basis.

.85 …

4. Review of encouraged disclosures

Amendments

4.1 The amendments to GRAP 17 in relation to the encouraged disclosures are outlined in the paragraphs below. New text is underlined, deleted text is struck through, and text has been relocated is indicated with a double underline.

Disclosure

.80 ***…***

.86 ~~Users of financial statements may also find the following information relevant to their needs:~~

- ~~(a) the carrying amount of any item of property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of the entity;~~
- ~~(b) the gross carrying amount of any fully depreciated property, plant and equipment, per class, that is still in use.;~~
- ~~(c) the carrying amount of property, plant and equipment retired from active use and not classified as a discontinued operation in accordance with the~~

~~Standard of GRAP on *Discontinued Operations*; and~~

~~(d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount~~.

~~Therefore, entities are encouraged to disclose these amounts.~~

4.2 The following consequential amendments are made to GRAP 16 in relation to the disclosure of fair value where the cost model is used:

Measurement after recognition

Accounting policy

.38 ~~This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model).~~ An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued…..

Disclosure

Cost model

.88 …

~~.89 Entities are encouraged to disclose the fair value of investment property when this is materially different from the carrying amount.~~

4.3 The following consequential amendments are made to GRAP 31 for fully depreciated assets still in use:

Disclosure

General

…

Other information

.126 An entity is encouraged, but not required, to disclose ~~the following information:~~

~~(a) A description of any fully amortised intangible asset that is still in use.~~

~~(b) A~~ a brief description of significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in this Standard.

5. Repairs and maintenance

Amendments

5.1 The following amendment is made to GRAP 1 in relation to the disclosure of repairs and maintenance. New text is underlined, deleted text is struck through, and text that has been relocated is indicated with a double underline.

Information to be presented either on the face of the statement of financial performance or in the notes

.98 …

.99 Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

(a) the write-downs of inventories to net realisable value or current replacement cost or property, plant and equipment to recoverable amount or recoverable service amount, as well as the reversals of such write-downs;

(b) restructurings of the activities of an entity and the reversals of any provisions for the costs of restructuring;

(c) <u>expenditure incurred on assets to repair and maintain them;</u>

(d) disposals of items of property, plant and equipment;

(e) disposals of investments;

(f) discontinued operations;

(g) litigation settlements; and

(g) other reversals of provisions.

5.2 The amendment in .84(B) is proposed for deletion. The following consequential amendment is made to GRAP 16, paragraphs .84(f)(ii) and (iii), requiring the separate disclosure of repairs and maintenance incurred on investment property:

Disclosure

Fair value model and cost model

…

.84 An entity shall disclose:

a) whether it applies the fair value model or the cost model;

b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and

accounted for as investment property;

c) ***when classification is difficult (see paragraph .17), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes in accordance with paragraph .11A(c);***

(d) ***the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;***

(e) ***the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;***

(f) ***the amounts recognised in surplus or deficit for:***

   (i) ***rental revenue from investment property;***

   (ii) ***direct operating expenses, separately disclosing ~~(including~~ repairs and maintenance~~)~~ arising from investment property that generated rental revenue during the period; and***

   (iii) ***direct operating expenses, separately disclosing ~~(including~~ repairs and maintenance~~)~~ arising from investment property that did not generate rental revenue during the period;***

(g) ***the existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal; and***

(h) ***contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.***

…

5.3 The following consequential amendment is made to GRAP 17 to require separate disclosure of repairs and maintenance incurred on property, plant and equipment:

Disclosure

…

.81B An entity shall separately disclose expenditure incurred to repair and maintain property, plant and equipment in the notes to the financial statements.

.81C As entities may apply different bases for determining expenditure on repairs and maintenance, an entity shall disclose information about the specific costs included in the amount of repairs and maintenance disclosed in the notes. In determining the amount disclosed in the notes to the financial statements on expenditure incurred to repair and maintain property, plant and equipment, an entity may include amounts paid to service providers, as well as amounts spent on materials and time spent by employees in repairing and maintaining the asset(s).

…

5.4 The following consequential amendment is made to GRAP 103 to require separate disclosure of repairs and maintenance incurred on heritage assets:

Disclosure

…

.84B An entity shall separately disclose expenditure incurred to repair and maintain heritage assets in the notes to the financial statements.

.84C As entities may apply different bases for determining expenditure on repairs and maintenance, an entity shall disclose information about the specific costs included in the amount of repairs and maintenance disclosed in the notes. In determining the amount disclosed in the notes to the financial statements on expenditure incurred to repair and maintain heritage assets, an entity may include amounts paid to service providers, as well as amounts spent on materials and time spent by employees in repairing and maintaining the asset(s).

Part C – Basis for conclusions, transitional provisions and effective date

1. Transitional provisions

Transitional provisions are to be inserted into the following Standards of GRAP:

- GRAP 1 (see effective date)
- GRAP 16 (see effective date)
- GRAP 17 (see effective date)
- GRAP 31 (see effective date)
- GRAP 103 (see effective date)

1.1 The following transitional paragraph is added to GRAP 1:

Amendments to Standards of GRAP

…

.143A ***Paragraph .99(c) was amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on 26 May 2015. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.***

1.2 The following transitional paragraphs are added to GRAP 16:

Transitional provisions

Amendments to Standards of GRAP

…

.92A ***Paragraphs .07A, .07B .07C, .08, .08A, .10, .10A, .10B, .11, .11A, .13, .16, .18 and .84(c) were amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on 26 May 2015. An entity shall apply these amendments retrospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors, unless applying these requirements retrospectively requires the application of hindsight about management's intention in prior periods.***

.92B ***Amendments to paragraph .89, relating to the deletion of encouraged disclosures, shall be applied retrospectively.***

.92C ***Amendments to paragraph .84(f) relating to the disclosure of expenditure***

incurred to repair and maintain investment property, shall be applied prospectively.

.92D ***Paragraphs .38, .84(e) and .84A, were amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on 26 May 2015. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.***

1.3 The following transitional paragraphs are added to GRAP 17:

Transitional provisions

Amendments to Standards of GRAP

…

.89A ***Paragraphs .56, .56A to F, .57 to .63, .81, .84 and .81A were amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on 26 May 2015. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.***

.89B ***Amendments to paragraph .86, relating to the deletion of encouraged disclosures, should be applied retrospectively.***

.89C ***Amendments to paragraph .81B and .81C relating to the disclosure of expenditure incurred to repair and maintain property, plant and equipment, shall be applied prospectively.***

1.4 The following transitional paragraph is added to GRAP 31:

Transitional provisions

Amendments to Standards of GRAP

…

.128A ***Paragraphs .116A, and .126 were amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on 26 May 2015. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.***

1.5 The following transitional paragraph is added to GRAP 103:

Transitional provisions

Amendments to Standards of GRAP

…

_.99A_ **_Paragraphs .44, .84A and .90(b) were amended by the Amendments to the Standards of GRAP on Investment Property and Property Plant and Equipment (2014) issued on 26 May 2015. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors._**

_.99B_ **_Amendments to paragraph .84B and .84C relating to the disclosure of expenditure incurred to repair and maintain heritage assets, shall be applied prospectively._**

2. Effective date

2.1 Effective date paragraphs are to be inserted into the following Standards of GRAP:

- GRAP 1 – At paragraph .145A.
- GRAP 16 – At paragraph .94A.
- GRAP 17 – At paragraph .91A.
- GRAP 31 – At paragraph .130A.
- GRAP 103 – At paragraph .99A.

Effective date

Entities already applying Standards of GRAP

…

_.94A_ **_An entity shall apply amendments to this Standard of GRAP for annual financial statements covering periods beginning on or after 1 April 2016. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 April 2016, it shall disclose that fact._**

3. Basis for conclusions

3.1 The following basis for conclusions is to be added to GRAP 17 as a result of the amendments in Part B are as follows:

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain solutions related to the accounting for property, plant and equipment. This basis for conclusions accompanies, but is not part of, the Standard of GRAP on Property, Plant and Equipment.

Introduction

BC1. The Board completed the first post-implementation review of the Standard of

GRAP on *Property, Plant and Equipment* in 2014. Based on the responses received as part of that review, it was requested that the Board re-consider certain requirements in the Standard. These are as follows:

- Introducing an indicator-based assessment of the useful lives of assets.
- Clarifying whether the use of an external valuer to determine the fair value of assets is required or merely encouraged.
- Reviewing the encouraged disclosures to determine if they could be deleted, or if any should be made mandatory.
- Developing additional disclosures related to capital work-in-progress.
- Separately disclosing repairs and maintenance in the notes to the financial statements.

Amendments identified as part of the post-implementation review

Indicator-based assessment of the useful lives of assets

BC2. Preparers noted that undertaking a detailed assessment of the useful lives of assets on an annual basis is onerous, particularly given the nature and volume of assets held by entities in the public sector. Preparers also noted that the requirement of the Standard had been interpreted as requiring a conditional assessment of all assets at each reporting date. Preparers suggested that using an indicator-based assessment, similar to that used to assess whether an asset is impaired, may provide sufficient relief from the requirements of the Standard, but still achieve the overall objective of the requirement.

BC3. The Board agreed that an indicator approach is a feasible compromise as it would still require entities to assess the useful lives of assets on a regular basis. The key difference is that entities would not be required to review the useful lives of assets every year, only when specific circumstances exist or have changed from the prior year.

BC4. The Board developed a list of indicators, in consultation with preparers and engineers, which reflect those circumstances or events that would require a more detailed assessment of the useful lives of assets to be undertaken. The indicators have been developed based on key principles of asset management. One of the key principles of asset management is that conditional assessments are done on specific assets more frequently than others, based on an entity's risk assessment of its assets. As a result, the revised requirements in the Standard make it clear that only where conditional assessments have been undertaken, is this information used in assessing the appropriateness of the useful lives of assets; it is not a requirement that conditional assessments should be undertake for all assets annually.

Use of external valuers

BC5. Preparers that responded to the post-implementation review observed that the Standards are ambiguous about whether external valuers must be used to determine the fair values of assets or whether this is encouraged. Preparers also noted that internal experts employed by entities, such a property valuation experts and engineers, are often used because they are knowledgeable about their respective entities' assets and because it more cost effective to use employees rather than appoint consultants.

BC6. The Board agreed that the existing wording could be more precise about the encouragement to use external valuation experts to determine the fair value of assets, and has been revised accordingly. The Board also agreed that internal experts could be used, as long as they possessed the requisite competence to undertake these valuations. Additional wording has therefore been added to this effect. The Board debated whether or not it should require an entity to disclose whether the expert is internal or external to the entity, but agreed that this may perpetuate the existing issue as this may be seen as giving more prominence to the use of external valuers.

BC7. The Board debated whether it is clear what is meant by another 'competent expert' and whether this would result in the appropriate expert being used and whether the expert would have the necessary skills and ethics. The Board agreed that the Standard could not describe when an expert is competent, but that it could describe that the valuations should be undertaken in accordance with the principles established in the relevant Standards of GRAP.

BC8. Following comments received during the consultation process, respondents were of the view that an entity should disclose whether 'or not' a valuer or expert is used in appraising the value of the assets. It was felt that this requirement will ensure~~s~~ that where valuations are performed by someone other than a valuer or an expert, this fact is disclosed to users. The Board debated whether this requirement is necessary and agreed that the disclosure would not have any informational value for users as valuations have to be performed in accordance with the principles in the relevant Standards.

BC9. As a result of the change made to the text of this Standard, consequential amendments have been made to similar paragraphs in other Standards of GRAP. Consequential amendments have been made to the Standards of GRAP on *Investment Property*, *Heritage Assets* and *Intangible Assets*. Following comment received during the consultation process, an amendment was made to the Standard of GRAP on *Investment Property* by deleting the term 'independent' when referring to a valuer to avoid inconsistencies within the Standards.

Encouraged disclosures

BC10. With the exception of the disclosure of fully depreciated assets still in use, users and preparers noted the limited informational value of the encouraged disclosures. Preparers also noted that there is often insufficient information available to support some of the disclosures, in particular, the disclosure of assets that were not used during the reporting period.

BC11. As users find limited value in these disclosures, the Board agreed to delete the following encouraged disclosures:

- Disclosure of fair values of assets where the cost model applied.
- Information on assets that were not utilised during the reporting period.
- Assets retired from active use but not classified as a discontinued operation.

Consequential amendments were made to the Standard of GRAP on *Investment Property* in relation to the disclosure of fair values of investment property where the cost model is applied.

BC12. Users and preparers indicated mixed views about the encouragement to disclose information on fully depreciated assets still in use. Some argued that if the requirements of the Standard are applied correctly, then this situation should not exist, or it would be immaterial. Others argued that this disclosure is useful because it provides information about whether entities have in fact regularly reviewed the useful lives of assets. The Board agreed to eliminate the disclosure because providing this information in the notes to the financial statements contradicts the principle in the Standard of GRAP on *Property, Plant and Equipment* that requires regular assessments of the useful lives of assets. A similar consequential amendment has been made to the Standards of GRAP on *Investment Property* and *Intangible Assets.*

BC13. The Board noted that eliminating encouraged disclosures goes some way to simplifying and streamlining the requirements of the Standards, as it requires entities to apply less judgement is deciding whether or not to provide these disclosures.

Capital work-in-progress

BC14. Given the amount of resources that are spent annually on assets, whether to construct or develop new assets, or refurbish and maintain existing, users expressed a strong need for more disclosure about capital work-in-progress and expenditure on repairs and maintenance.

BC15. For capital work-in-progress, users indicated that they needed more information about the types of assets being constructed or developed. The Board has therefore required that entities disclose the expenditure incurred on capital work-in-progress per class of asset. Users also observed that capital work-in-progress often includes amounts spent on projects that are taking a significant amount of time to complete, or have been halted. They therefore requested information about the ageing of projects included in capital work-in-progress. As a result, the Board has added a requirement for entities to disclose information on amounts that are included in capital work-in-progress that are long outstanding or relate to projects that have been stopped, and whether impairment has been considered. The Board acknowledged that this disclosure may not be relevant to all entities as materiality should be considered when making the assessment.

BC16. Respondents required clarification on how information relating to capital work-in-progress that is long outstanding, or relate to projects that have been stopped, should be presented. Given the information available at entities is likely to differ, the Board agreed that each entity should decide how it wants to disclose the information, i.e. individually or in aggregate, for example per project, per class or another relevant bases. A similar requirement has been added to the Standards of GRAP on *Investment Property, Intangible Assets* and *Heritage Assets.*

BC17. Respondents raised a concern that the term 'significant' was not used consistently in relation to the time expected to complete the work. As a result, editorial changes were made to amend the wording in the Standards of GRAP on *Investment Property, Property, Plant and Equipment*, *Intangible Assets* and *Heritage Assets* to ensure the term 'significant' is used consistently. In addition, reference to the term 'item' was deleted in the Standard of GRAP on *Property, Plant and Equipment* in relation to disclosure of capital work in progress to ensure consistency with how reporting is prescribed within the paragraph.

Expenditure incurred on repairs and maintenance

BC18. Users measure the adequacy of repairs and maintenance by comparing this expenditure to the value of assets recognised in the statement of financial position. There is however no requirement to separately present this information in the financial statements. Given the importance of this information, a requirement to disclose this information in the notes to the financial statements has been added to the Standard of GRAP on *Presentation of Financial Statements.* Consequential amendments have been made to the Standards of GRAP on *Investment Property* and *Heritage Assets*. The Board acknowledged that this disclosure may not be relevant to all entities as materiality should be considered when making the assessment.

BC19. During the consultation process, users and preparers that supported the disclosure of repairs and maintenance noted that additional information supporting the disclosure was necessary in order for users to measure the adequacy of repairs and maintenance in relation to the carrying amount of assets. There were divergent views received on what other information should be presented, for example repairs and maintenance per asset class, unplanned or abnormal expenditure on repairs and maintenance and employee costs attributable to repairs and maintenance. The Board debated whether it should require entities to disclose any other information that is relevant to users, and that judgement should be applied when determining which information is relevant. The Board agreed that because the application of judgement in determining what is relevant for disclosure is a pervasive issue, it should not be included in this context. It was further noted that there is an existing requirement in GRAP *1 Presentation of Financial Statements* for entities to disclose, in the notes to the financial statements, any other information that is relevant to users, which may not reported elsewhere in the financial statements.

BC20. The Board debated the comparability of the expenditure on repairs and maintenance disclosed in the notes if, for example, some entities included a portion of employee costs attributable to repairs and maintenance whilst other entities did not. To ensure consistency in the reporting of repairs and maintenance expenditure~~,~~ a requirement has been added to GRAP 17 and GRAP 103, for entities to disclose information about the specific costs included in the amount of repairs and maintenance disclosed in the notes.

Updated Comparisons of Standards of GRAP with IPSASs

- The updated comparisons with the International Public Sector Accounting Standards are to be replaced in the following Standards of GRAP: GRAP 1 *Presentation of Financial Statements;*
- GRAP 16 *Investment Property;*
- GRAP 17 *Property, Plant and Equipment;* and
- GRAP 31 *Intangible Assets.*

Comparison with the International Public Sector Accounting Standard on *Presentation of Financial Statements* (December 2006)

The Standard of GRAP on *Presentation of Financial Statements* (GRAP 1) is drawn primarily from the International Public Sector Accounting Standard on *Presentation of Financial Statements* (IPSAS 1). The main differences between GRAP 1 and IPSAS 1 are as follows:

- This Standard includes amendments made to the International Accounting Standard on *Presentation of Financial Statements* by the International Accounting Standards Board (IASB) as part of its 2010 *Improvements to IFRSs*. It further includes amendments made to IPSAS 1 as part of the IPSASBs 2010 *Improvements to IPSASs*.
- IPSAS 1 describes the residual of total assets after deducting total liabilities as "net assets/equity" whereas GRAP 1 refers to "net assets".
- Whereas GRAP 1 describes the period of foreseeable future in terms of going concern as 12 months from reporting date, IPSAS 1 refers to the same as 12 months from the approval of the financial statements. This change has been made in accordance with local requirements.
- Paragraphs included in IPSAS 1 have been transferred to the *Framework for the Preparation and Presentation of Financial Statements* and have been deleted from GRAP 1, for instance, paragraphs that covered the purpose of financial statements and the responsibility for the preparation and presentation of such statements in IPSAS 1.
- The term "management" has been introduced in GRAP 1 to describe those persons that are charged with the responsibility for planning, directing, controlling and exercising-governance over an entity.
- This Standard requires the separate disclosure of expenditure incurred to repair and maintain assets.
- Transitional provisions to this Standard of GRAP are dealt with differently than in IPSAS 1.
- The appendix with illustrative examples on financial statement structure has been deleted from this Standard.

Comparison with International Public Sector Accounting Standard on *Investment Property* (December 2006)

The Standard of GRAP on *Investment Property* is drawn primarily from the International Public Sector Accounting Standard on *Investment Property* (IPSAS 16). The main differences between the Standard of GRAP on *Investment Property* and the International Public Sector Accounting Standard on *Investment Property* are as follows:

- The Standard of GRAP on *Investment Property* has incorporated changes to International Accounting Standards on *Investment Property* under the improvements project of the International Accounting Standards Board (IASB). This includes the classification of investment property under construction.
- IPSAS 16 provides guidance on investment property that may be acquired in exchange for non-monetary assets, where the exchange transaction lacks commercial substance. This guidance has been excluded from this Standard, as guidance is included in the Standard of GRAP on *Revenue from Non-exchange Transactions*.
- This Standard includes additional guidance and clarification to illustrate the application of this Standard as opposed to other Standards of GRAP, ie. the Standard on *Property, Plant and Equipment* or *Inventories*. The additional guidance places emphasis on assessing why or how an asset is used and whether it used in terms of an entity's mandate
- Additional examples are provided which indicate the classification of certain types of assets.
- This Standard includes a description of properties that could be classified as 'land and/or buildings held for strategic purposes' The Standard also requires disclosure about the nature or type of properties held for strategic purposes.
- In addition to the use of an independent member of the valuation profession to undertake appraisals, this Standard allows appraisals to be performed by a member of a valuation profession or by an expert with the requisite competence to undertake such appraisals in accordance with the requirements of the applicable Standards of GRAP. The valuer or expert may be internal or external to an entity and there is no requirement to disclose the independence of the valuer or expert.
- This Standard requires additional disclosures in relation to investment property that is in the process of being constructed or developed. It requires the disclosure of the cumulative expenditure recognised in the carrying value of investment property. It further requires disclosure of the carrying value of investment property that is taking a significantly longer period of time to complete than expected, including reasons for any delays. Disclosure is also required on the carrying value of investment property where construction or development has been halted either during the current or previous reporting period(s), including reasons for halting as well as whether any impairment losses have been recognised in relation to these assets.
- This Standard requires the separate disclosure of expenditure incurred to repair and maintain investment properties that generated or did not generate rental revenue during the period.

- Transitional provisions to this Standard are different to those included in IPSAS 16.

Comparison with International Public Sector Accounting Standard on *Property, Plant and Equipment* (December 2006)

The Standard of GRAP on *Property, Plant and Equipment* is drawn primarily from the International Public Sector Accounting Standard on *Property, Plant and Equipment* (IPSAS 17). The main differences between the Standard of GRAP on *Property, Plant and Equipment* and the International Public Sector Accounting Standard on *Property, Plant and Equipment* are as follows:

- The Standard of GRAP on *Property, Plant and Equipment* has incorporated changes to the International Accounting Standard on *Property, Plant and Equipment* (IAS 16) under the Improvements project of the International Accounting Standards Board (IASB) up to April 2009. Paragraphs included relate to the exclusion of investment property under construction.
- IPSAS 17 provides guidance on property, plant and equipment that may be acquired in exchange for non-monetary assets, where the exchange transaction lacks commercial substance. This guidance has been excluded from this Standard, as guidance is included in the Standard of GRAP on *Revenue from Non-exchange Transactions*.
- Under IPSAS 17, revaluation increases and decreases may be offset on a class of asset basis. Under this Standard, revaluation increases and decreases may only be offset against the individual asset.
- This Standard indicates that an assessment of the useful lives and residual values of assets shall be made, annually, based on whether there is any indication that previous expectations of useful lives and residual values have changed since the preceding reporting period. Indicators to be used in making this assessment have been outlined in the Standard.
- In addition to the use of an independent member of the valuation profession to undertake appraisals, this Standard allows appraisals to be performed by a member of a valuation profession, or they may also be performed by an expert with the requisite competence to undertake such appraisals in accordance with the requirements of the applicable Standards of GRAP. The valuer or expert may be internal or external to an entity and there is no requirement to disclose the independence of the valuer or expert.
- This Standard requires addition disclosure on property, plant and equipment that is in the process of being constructed or developed. It requires the disclosure of the carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected, including reasons for any delays. Disclosure is also required on the carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s), including reasons for halting as well as whether any impairment losses that have been recognised in relation to these assets.

- This Standard has removed the encouraged disclosures relating to property, plant and equipment.
- This Standard requires the separate disclosure of expenditure incurred to repair and maintain property, plant and equipment in the notes to the financial statements, as well as the basis used to determine such expenditure.
- Transitional provisions applicable to this Standard are dealt with differently than in IPSAS 17.
- The appendix with the illustrative disclosure has been deleted from this Standard.

Comparison with International Public Sector Accounting Standard on *Intangible Assets* (January 2010)

The Standard of GRAP on *Intangible Assets* (GRAP 31) is drawn primarily from the International Public Sector Accounting Standard on *Intangible Assets* (IPSAS 31). The main differences between GRAP 31 and IPSAS 31 are:

- The scope of GRAP 31 is different to IPSAS 31 in that government business enterprises are defined differently.
- IPSAS 31 describes the residual value of total assets after deducting total liabilities as "net assets/equity" whereas GRAP 31 refers to "net assets".
- This Standard users different terminology in certain instances, for example IPSAS 31 refers to "strategic plan" and "users of a service", whereas GRAP 31 refers to "operating plan" and "customers".
- The scope exclusion in GRAP 31 is different to that in IPSAS 31 as the Board has issued Standards of GRAP dealing with transfer of functions that requires a different treatment for goodwill.
- Guidance on the treatment of goodwill in this Standard has been aligned with the requirements in the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control.*
- A definition for "active market" and "amortisation" is included in GRAP 31, based on the equivalent International Accounting Standard on *Intangible Assets* (IAS 38). IPSAS 31 does not have such a definition.
- The identifiability criterion in GRAP 31 is different to that in IPSAS 31. GRAP 31 has excluded the reference to "or other legal rights" due to the scope exclusion of powers and rights conferred to an entity by legislation, a constitution, or by equivalent means.
- Guidance on intangible heritage assets as included in IPSAS 31 has not been included in this Standard as the Board has issued a separate Standard of GRAP dealing with heritage assets.
- Additional public sector examples have been included in GRAP 31 to explain the application of intangible assets to the South African public sector.

- The Application Guidance in IPSAS 31 on website costs is not included in GRAP 31 as the Board has issued the guidance as an Interpretation to the Standards of GRAP (see IGRAP 16).
- This Standard requires the disclosure of the cumulative expenditure recognised in the carrying value of intangible assets in aggregate or per class of intangible asset, distinguishing between internally generated and other intangible assets. It also requires disclosure of the carrying value of intangible assets that are taking a significantly longer period of time to complete than expected, including reasons for any delays. Disclosure is also required on the carrying value of intangible assets where development has been halted either during the current or previous reporting period(s), including reasons for halting as well as whether any impairment losses that have been recognised in relation to these assets.
- This Standard does not encourage the disclosure of fully amortised intangible assets that are still in use.
- Transitional provisions applicable to this Standard of GRAP are dealt with differently than in IPSAS 31.
- The appendix with illustrative examples has been deleted from this Standard.