



Comments due by 29 July 2016

## **ACCOUNTING STANDARDS BOARD**

# **INVITATION TO COMMENT ON A PROPOSED STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE ON LIVING AND NON-LIVING RESOURCES (ED 143)**



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## Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of a proposed Standard of GRAP on *Living and Non-living Resources*. Various public sector entities hold living and/or non-living resources in accordance with their mandate, or when they act as a custodian over these resources, for the benefit of current and future generations. The objective is to provide guidance on the recognition, measurement, presentation and disclosure of living resources, as well as the disclosure of non-living resources, in an entity's financial statements.

The proposals in this Exposure Draft may be modified in the final document in the light of comment received. Comment should be submitted in writing so as to be received by **29 July 2016**. Email responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the Standard of GRAP has been issued. Comment should be addressed to:

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## INTRODUCTION

### Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (including national, 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 International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board for:

- (a) public entities that meet the criteria outlined in Directive 12 on *The Selection of an Appropriate Reporting Framework by Public Entities*; and
- (b) entities under the ownership control of any of these entities.

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 the Standards 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



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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.

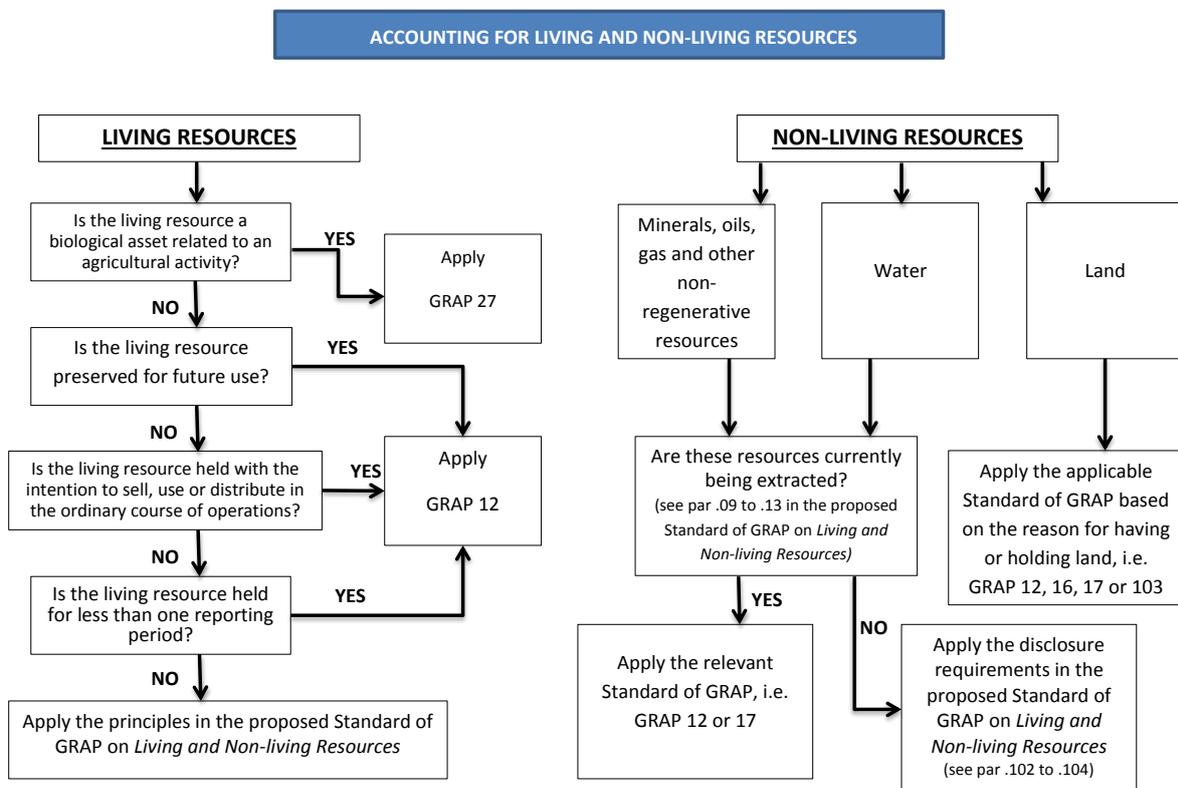
## Background and objective of this Exposure Draft

A number of public sector entities in South Africa hold living resources, such as animals and plants, and non-living resources, for example water, land, minerals, oil and gas, and other non-regenerative natural resources. These resources are either held in accordance with the entity’s mandate and/or when the entity acts as a custodian over these resources.

As the accounting for living and non-living resources has a far-reaching effect on financial reporting in the public sector, the Board agreed to develop a Standard of GRAP to prescribe the recognition, measurement, presentation and disclosure requirements for living resources. The proposed Standard of GRAP also prescribes disclosure requirements for non-living resources.

### Accounting for living and non-living resources

In developing the proposed Standard, the Board considered existing Standards of GRAP and whether they should be applied in accounting for living or non-living resources in particular circumstances. The Board agreed that the existing Standards should be applied in specific situations. The decision tree below outlines when this proposed Standard, or another Standard of GRAP, should be applied.





## Due process and timetable

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

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

## Request for comment

Comment on this Exposure Draft is invited by **29 July 2016**. The Board requests that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate. The basis for accepting or rejecting significant comment will be published on the website.

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

## Specific matters for comment

1. The proposed Standard of GRAP requires that non-living resources which meet the definition of a non-living resource, other than land, should not be recognised as assets in the entity's financial statements.

Do you agree with this proposal in paragraph .14? If not, please explain your response.

2. The proposed Standard of GRAP in paragraph .44 allows an entity to either select the cost model or the revaluation model to account for the living resources that it controls.

Do you agree that both the models could be used to subsequently measure living resources? If not, please explain your response.

3. Paragraph .58 provides guidance on the treatment any accumulated depreciation at the date of a revaluation. The paragraph requires that the accumulated depreciation at the date of a revaluation could be treated in one of the following ways:

- (a) Restated proportionately with the change in the gross carrying amount of the living resource, so that the carrying amount of the living resource after revaluation equals its revalued amount. This method is often used when a living resource is revalued by means of applying an index to its depreciated replacement cost.

- (b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the living resource.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in the carrying amount that is accounted for in accordance with paragraphs .64 and .65 of the proposed Standard.

Do you agree with the proposed treatment of the accumulated depreciation at the date of a revaluation? If not, please explain your response.

4. The proposed disclosure requirements for non-living resources are included in paragraphs .102 to .104. Do you agree with the proposed disclosure requirements for non-living resources, and in your view, are there any other disclosure requirements for non-living resources that could provide relevant information to the users of the financial statements which should be included in the proposed Standard of GRAP?
5. The proposed disclosure requirements for living resources are included in paragraphs .102, .103 and .105 to .114.

Do you agree with the proposed disclosure requirements for living resources, and in your view, are there any other disclosures for living resources that should be included in the proposed Standard of GRAP? If not, please explain your response.

6. Are there any regulatory or other issues that exist in the South African environment that may affect the implementation of the proposed Standard of GRAP?

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

7. In your view, should the National Treasury consider the development of any other implementation guidance, in addition to the GRAP Implementation Guideline that will be developed? If yes, please explain your response and indicate what practical implementation issues and challenges you foresee that should be addressed by the National Treasury.
8. In your view, overall, does the application of the proposed Standard of GRAP result in financial statements that would be useful to users? Please explain your response.
9. In your view, what are the costs and benefits of the proposals relative to the current accounting that are applied by entities in assessing when living and non-living resources should be recognised as an asset in the statement of financial position. In relation to quantitative financial costs, the ASB would be interested to understand the nature and estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to the existing accounting.



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### **General matters for comment**

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