



Responses due by 31 July 2017

## **ACCOUNTING STANDARDS BOARD**

# **INVITATION TO COMMENT ON THE PROPOSED TRANSITIONAL PROVISIONS FOR THE INITIAL ADOPTION OF THE STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE ON LIVING AND NON-LIVING RESOURCES (ED 154)**

Issued by the  
Accounting Standards Board  
April 2017



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## Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of the proposed transitional provisions for the initial adoption of the Standard of GRAP on *Living and Non-living Resources* (GRAP 110). Once approved by the Board, these transitional provisions will be included in Directives 2 to 4 and 8 containing the transitional provisions for entities required to apply Standards of GRAP.

The proposals in this Exposure Draft may be modified in the final documents in the light of comment received.

Comment should be submitted in writing so as to be received by **31 July 2017**. Email responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the directives to the Standards of GRAP have been amended and issued. Comment should be addressed to:

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## INTRODUCTION

### 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.

Directives should be read in conjunction with the relevant Standard(s) of GRAP, as well as the *Preface to the Directives issued by the Accounting Standards Board*.

## Background and purpose of this Exposure Draft

The Standard of GRAP on *Living and Non-living Resources* (GRAP 110) was approved for issue by the Board as a final Standard of GRAP at its meeting held in March 2017. As a result, the Board needs to develop transitional provisions to assist entities with the initial adoption of this Standard. Once approved by the Board, the transitional provisions for GRAP 110 will be included in Directives 2 to 4 and 8. Directive 7 will also be amended, where appropriate.

The Board, in consultation with the trilateral parties, proposes an effective date of 1 April 2019 for GRAP 110.

The purpose of this Exposure Draft is to outline and solicit comment on the proposed transitional provisions for the initial adoption of GRAP 110.

### Issues considered when developing transitional provisions for living and non-living resources

Following the approval of a Standard of GRAP by the Board, the next step in the process is to develop transitional provisions for the first time adoption of the Standard. In developing the proposed transitional provisions for GRAP 110, the Board considers:

- (a) existing requirements or current practice, and whether the requirements of GRAP 110 are likely to result in significant changes to current accounting; and
- (b) any specific implementation issues raised during the public consultation process, including any system issues, guidance required on specific transactions, etc.

#### *Current practice in accounting for living resources*

As no specific accounting guidance is currently available on the recognition and measurement of living resources, some entities have applied the Standard of GRAP on *Property, Plant and Equipment* and/or the Standard of GRAP on *Agriculture*. Accounting for living resources has, however, resulted in divergent practice.

Due to the divergence in current practice, it is difficult to assess the extent of changes that entities will be required to make as a result of applying GRAP 110 for the first time. Therefore, transitional provisions cannot be developed to address specific differences between current accounting practices and the future accounting in terms of the new Standard.

### *Issues raised by respondents during the comment process*

During the comment period, some respondents raised concerns on determining a fair value for a living resource on initial recognition when the resource is received through a non-exchange transaction, for example where the animal is born. Similar concerns exist when the revaluation model is selected for subsequent measurement of the living resource. These respondents noted that, due to the nature and unique characteristics of the living resource, a fair value may not be readily available in an active market, and other valuation techniques to determine fair value may not exist.

### *Proposed transitional provisions*

To respond to the issues raised by respondents during the comment period and to address the divergence in practice, the Board proposes a three year relief period for the measurement of living resources. This is consistent with the Board's past practice for the initial adoption of new Standards of GRAP on complex topics. This relief will allow entities sufficient time to obtain the necessary information needed to meet the disclosure requirements in GRAP 110.

The Board is further of the view that GRAP 110 should be applied retrospectively. Retrospective application ensures that (a) comparable information is made available in the financial statements, and (b) provides users with relevant information to measure the performance of entities and to hold them accountable for the activities they undertake.

As GRAP 110 does not require the recognition and measurement of non-living resources, no transitional relief is provided for these resources.

## **Due process and timetable**

The due process followed by the Board in developing the proposed transitional provisions to be included in Directives 2 to 4 and 8, and the amendments to Directive 7, is for the Board to receive 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. Accordingly, all interested parties are invited to provide comment.

Exposure Drafts usually have a comment period of three (3) months, although shorter or longer periods may be used for certain Exposure Drafts depending on the urgency to issue the final pronouncement. Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft and may modify the consequential amendments to other Directives and the proposed transitional provisions in the light of comment received before including the final transitional provisions in Directives 2 to 4 and 8.



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## **Request for comment**

Comment on this Exposure Draft is invited by **31 July 2017**. The Board requires that respondents express an overall opinion on whether the Exposure Draft is supported in general and to supplement this opinion with detailed comment, whether supportive or critical, on the principles in the Exposure Draft. 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 ASB's website.

## AMENDMENTS TO DIRECTIVES

### A. Proposed transitional provisions for GRAP 110 *Living and Non-living Resources* to be included in Directives 2 to 4 and 8

The transitional provisions for the initial adoption of the Standard of GRAP on *Living and Non-living Resources* are to be included in the following Directives, after the transitional provisions for GRAP 109:

- Directive 2 *Transitional Provisions for Public Entities, Trading Entities, Municipal Entities, Further Education and Training Colleges, and Constitutional Institutions*;
- Directive 3 *Transitional Provisions for High Capacity Municipalities*;
- Directive 4 *Transitional Provisions for Medium and Low Capacity Municipalities and Trading Entities*; and
- Directive 8 *Transitional Provisions for Parliament and Provincial Legislatures*.

### GRAP 110 *Living and Non-living Resources*

#### Transitional provisions

- .01** *GRAP 110 is applied to living resources that are controlled by the entity on the effective date of the Standard. All changes resulting from the application of GRAP 110 shall be accounted for in accordance with the requirements of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3).*
- .02** GRAP 3 requires an entity to apply the requirements of the Standard being adopted retrospectively. The entity only applies GRAP 110 to those living resources that it controls on the effective date of the Standard. An entity applies GRAP 110 retrospectively to these living resources by adjusting the opening balance of the affected component of net assets for the earliest period presented and the other comparative amounts disclosed for each prior period presented unless the a living resource is controlled by the entity on the effective date of GRAP 110.
- .03** *Entities are not required to measure living resources for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP subject to the provisions in paragraph .04.*

- .04** *If the initial accounting for living resources is incomplete by the end of the reporting period in which the Standard becomes effective, the entity shall report in its financial statements provisional amounts for those living resources for which the accounting is incomplete. During the measurement period, the entity shall retrospectively adjust the provisional amounts recognised to reflect information obtained about facts and circumstances that existed on the effective date of the Standard, and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the entity shall also recognise additional living resources if information is obtained about the existence of those living resources at the effective date of the Standard, and, if it had been known, would have resulted in the recognition of those living resources at that date. The measurement period ends as soon as the entity receives the information it was seeking about facts and circumstances that existed at the effective date of the Standard, or learns that no more information is obtainable. However, the measurement period shall not exceed three years from the effective date of the Standard.*
- .05** The exemption from applying the measurement requirements of GRAP 110 implies that any associated presentation and disclosure requirements need not be complied with for living resources not measured in accordance with the requirements of GRAP 110 .
- .06** *Where an entity has taken advantage of the three year relief period in paragraph .05, the entity shall disclose the following until such time as the transitional provision in paragraph .04 expires:*
- (a) the extent to which it has taken advantage of the transitional exemption for measuring living resources;*
  - (b) progress made towards measuring, presenting and disclosing living resources in accordance with GRAP 110;*
  - (c) living resources that have been measured under an accounting policy that is not consistent with the requirements of GRAP 110;*
  - (d) living resources that have not been recognised, measured, presented and/or disclosed in the previous reporting period, but which are now recognised, measured and/or presented and/or disclosed;*
  - (e) the nature and amount of any adjustments recognised in the statement of changes in net assets during the reporting period; and*

- (f) *an indication of how the entity intends to comply in full with the requirements of GRAP 110.*
- .07 *Until such time as the transitional provisions in paragraphs .01 to .06 expire, entities need not comply with the Standards of GRAP on*
- *Presentation of Financial Statements;*
  - *The Effects of Changes in Foreign Exchange Transactions;*
  - *Leases;*
  - *Segment Reporting; and*
  - *Discontinued Operations*
- to the extent that these Standards prescribe requirements for living resources.*
- .08 Notwithstanding the transitional provisions, entities are encouraged to comply in full with the provisions of GRAP 110 as soon as possible.

## **B. Proposed amendments to be included in Directive 7**

The following amendments, with new text underlined and deleted text struck through, are to be made to Directive 7:

### **The application of deemed cost**

#### **Use of deemed cost for property, plant and equipment, investment property, intangible assets, ~~and heritage assets~~ and living resources**

...

- .08 In the absence of information about the acquisition cost of an asset, deemed cost is used for the following assets:
- (a) Property, plant and equipment.
  - (b) Investment property, only if an entity elects to use the cost model in the Standard of GRAP on *Investment Property*. If an entity adopts the fair value model for investment property, it measures investment property at fair value at the date the entity adopts the Standards of GRAP.
  - (c) Intangible assets that meet:

- (i) the recognition criteria in the Standard of GRAP on *Intangible Assets*; and
  - (ii) the criteria in the Standard of GRAP on *Intangible Assets* for revaluation (including the existence of an active market).
- (d) Heritage assets (see the Standard of GRAP on *Heritage Assets*).
- (e) Living resources (see the Standard of GRAP on *Living and Non-living Resources*).

An entity shall not use deemed cost for other assets or for liabilities.

- .09 With the exception of .08(b) above, an entity applies this Directive irrespective of whether it applies the cost or revaluation model in accordance with the Standards of GRAP on *Property, Plant and Equipment*, *Intangible Assets*, ~~or *Heritage Assets*~~ or *Living and Non-living Resources*.
- .11 If an entity uses deemed cost for an item of property, plant and equipment, an investment property, an intangible asset, or a heritage asset, or a living resource following the initial adoption of a Standard of GRAP, a transfer of functions or a merger, its first statement of financial position prepared using Standards of GRAP, or the financial statements following a transfer of functions or a merger shall disclose:

.....

## Appendix

### **Use of deemed cost for property, plant and equipment, investment property, intangible assets, and heritage assets and living resources**

- A1. An entity uses deemed cost for an item of property, plant and equipment, an investment property, an intangible asset, ~~or a heritage asset~~ and a living resource using fair value at the date of adopting the Standards of GRAP where information about the acquisition cost of an asset is not available. The deemed cost provisions outlined in this Directive are applied on an asset by asset basis.
- A3. Deemed cost, using fair value at the date of adopting the Standards of GRAP or on the transfer date or the merger date, is determined as follows:
- (a) The fair value of items of property, plant and equipment is determined using paragraphs .35 to .38 of the Standard of GRAP on *Property, Plant and Equipment* (as revised in February 2010). For specialised items of property,

plant and equipment, e.g. infrastructure assets, an entity may use depreciated replacement cost as deemed cost.

- (b) The fair value of investment properties is determined using paragraphs .41 to .5 of the Standard of GRAP on *Investment Property* (as revised in February 2010). If an investment property is of such a specialised nature that market based evidence of fair value is not available, an entity may use depreciated replacement cost as deemed cost.
  - (c) The fair value of intangible assets is determined using paragraphs .80 to .81 of the Standard of GRAP on *Intangible Assets* (Issued in 2007). As intangible assets can only be measured at fair value using a price in an active market, under the revaluation model in the Standard of GRAP on *Intangible Assets*, an entity cannot use depreciated replacement cost as deemed cost.
  - (d) The fair value of heritage assets is determined using paragraphs .35 to .45 of the Standard of GRAP on *Heritage Assets* (Issued in 2008). An entity may use replacement cost as deemed cost.
  - (e) The fair value of living resources is determined using paragraphs .50 to .58 in the Standard of GRAP on *Living and Non-living Resources* (issued in 2017).
- A5. For the purposes of this Directive, the measurement of assets at fair value on the adoption of the Standards of GRAP on the transfer date or the merger date, does not constitute:
- (a) a revaluation in accordance with the Standards of GRAP on *Property, Plant and Equipment, Intangible Assets, ~~or Heritage Assets,~~ or Living and Non-living Resources*; or
  - (b) the application of the fair value model in the Standard of GRAP on *Investment Property*.

### **Initial entries using deemed cost on adopting Standards of GRAP**

- A8. When an entity initially measures assets on adopting Standards of GRAP using the deemed cost approach in this Directive, it recognises the effect:
- (a) as an adjustment to the opening balance of accumulated surpluses or deficits in the opening statement of financial position prepared using Standards of GRAP; or



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- (b) in revaluation surplus if an entity adopts the revaluation model in the Standards of GRAP on *Property, Plant and Equipment, Intangible Assets, ~~or~~ Heritage Assets, or Living and Non-living Resources*.