FINANCIAL INSTRUMENTS FACT SHEET # 1

RECEIVABLES	
Definition	Receivables are contractual rights to receive cash. Contractual rights to receive goods and services, e.g. prepaid expenses, are not financial assets. These are accounted for using the *Framework for the Preparation and Presentation of Financial Statements.* Receivables could arise from both exchange and non-exchange transactions within the scope of the Standards of GRAP on *Revenue from Exchange Transactions* (GRAP 9) and *Revenue from Non-Exchange Transactions (Taxes and Transfers)(*GRAP 23)*.* Receivables that do not arise from contracts, i.e. they arise from legislation or similar means, are not financial assets. These receivables, called statutory receivables, are accounted for using the Standard of GRAP on *Statutory Receivables* (GRAP 108)*.*
Scope	Contractual receivables are in the scope of the GRAP 104. For contractual receivables arising from non-exchange transactions, an entity applies GRAP 23 for the initial recognition and initial measurement of those receivables, as well as the applicable disclosure requirements. GRAP 104 is applied for all other aspects (including disclosure). Lease receivables are only subject to the impairment, derecognition, presentation and disclosure requirements of GRAP 104.
Recognition	Recognise receivables when entity becomes party to the contractual provisions of the instrument, e.g. when an entity provides goods and services on credit.
Classification	It is likely that receivables are measured at amortised cost. An entity should however consider the following criteria. Classification as an instrument at amortised cost or fair value will depend on: (a) The management model for receivables, i.e. hold to collect contractual cash flows, or hold for sale. (b) The characteristics of the contractual cash flows of the receivables, i.e. whether the cash flows are solely payments of principal and interest (SPPI). Amortised cost - Management model indicates that the entity holds the receivable to collect the contractual cash flows, and the cash flows of the loan and the SPPI test is met. Fair value through surplus or deficit - The management model is not to realise the cash flows by holding the instrument, and/or the cash flows do not meet the SPPI test. Measurement at fair value includes a management model where an entity holds financial assets to collect contractual cash and for sale. Only amortised cost is illustrated below.
Initial measurement	Fair value, plus transaction costs if subsequently measured at amortised cost. Fair value usually equals the transaction price (i.e. the consideration to be received). An entity considers if there are any off-market elements that may affect fair value on initial measurement, e.g. goods or services are provided interest free for a period of time and/or interest charged during this time is not market related.

	Short term receivables are not discounted if the initial credit period granted is consistent with terms used in the public sector, either through established practice or legislation (e.g. legislation, regulation or by-laws may indicate that a transaction should be settled in X no. of days and that no interest needs to be charged during this time). As a practical expedient, an entity may use the prime lending rate for a group of receivables. The rate would however need to be adjusted to reflect any risks specific to those receivables. The government bond rate (of the same maturity and risk profile) could be used in determining a market related rate of interest for debts owing by government entities.
Subsequent measurement	Most receivables are likely to be measured at amortised cost, which includes any modification gains and losses, write-offs and impairment losses. Amortised cost is calculated as: Amount initially recognised (fair value plus transaction costs) minus Principal repayments plus or minus Cumulative amortisation* adjusted for Loss allowance *Difference between the initial amount and the maturity amount amortised using the effective interest rate.
Loss allowance	A credit loss is the present value of the difference between the contractual cash flows due in terms of the contractual arrangement and the cash flows an entity expects to receive. The expected cash flows are based on the *lifetime expected credit losses.* The contractual period is the maximum period allowed. Expected credit losses are measured so that the following is reflected: • An unbiased and probability-weighted amount is determined by evaluating a range of possible outcomes. An entity must consider the possibility that a credit loss occurs, as well as the possibility that no credit loss occurs. • Time value of money. This is the effective interest rate determined at initial recognition. Expected credit losses are determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, available without undue cost or effort. A provision matrix may be used for receivables. Note: The principles for “purchased or originated credit impaired financial assets” are not applied to receivables.

Interest revenue	*Receivable – not credit impaired* Interest revenue = Gross carrying amount of receivable X effective interest rate. *Receivable – becomes credit impaired after recognition (i.e. from beginning of next reporting period)* Interest revenue = Amortised cost* of receivable X effective interest rate *includes loss allowance. Note: The principles for "purchased or originated credit impaired financial assets" are not applied to receivables.
Derecognition	A receivable is derecognised (in part or in its entirety) when: (a) the contractual cash flows have expired, are settled or waived; (b) the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or (c) the entity has retained significant risks and rewards, but transferred control to another party, and that party has the practical ability to sell the asset to an unrelated third party.
Presentation and disclosure	An entity considers the presentation and disclosure requirements in GRAP 104 and applies materiality when preparing the financial statements.