FINANCIAL INSTRUMENTS FACT SHEET # 2

PAYABLES	
Definition	Payables are contractual rights to pay cash. Contractual rights to transfer goods and services rather than cash, e.g. advance receipts for goods and services, are not financial liabilities. Payables that do not arise from contracts, i.e. they arise from legislation or similar means, are not financial liabilities. Liabilities that are not financial instruments are accounted for in terms of GRAP 19 *Provisions, Contingent Liabilities or Contingent Assets*, another Standard of GRAP, or the *Framework for the Preparation and Presentation of Financial Statements.*
Scope	The following payables are excluded from the scope of GRAP 104: • Rights to payments to reimburse the entity for expenditure it is required to make to settle a liability recognised i.a.w GRAP 19. • Employer's rights and obligations under employee benefit plans which are accounted for i.a.w GRAP 25 *Employee Benefits.* Finance lease payables due by a lessee are only subject to the derecognition requirements of GRAP 104.
Recognition	Recognise payables when an entity becomes party to the contractual provisions of the instrument, e.g. when goods and/or services are received on credit.
Classification	Amortised cost, unless (a) the payable qualifies to be measured at fair value through surplus or deficit, or (b) when the payable relates to a financial liability that arises because a financial asset does not qualify for derecognition.
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 payables 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). 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 to government entities.
Subsequent measurement	Payables are likely to be measured at amortised cost. Amortised cost is calculated as: Amount initially recognised (fair value plus transaction costs) minus Principal repayments plus or minus Cumulative amortisation* *Difference between the initial amount and the maturity amount amortised using

This Fact Sheet accompanies, and is not a replacement for, the complete text of ED 167 Proposed Revisions to GRAP 104 Financial Instruments. The Fact Sheet outlines the most common features and accounting considerations related to a particular transaction. The accounting may differ depending on the facts and circumstances of individual arrangements. This Fact Sheet has been prepared by the Secretariat of the ASB for information purposes only. It has not been reviewed, approved or otherwise acted on by the ASB.

	the effective interest rate.
Interest expense	Gross carrying amount of the financial liability X effective interest rate.
Derecognition	Payables are derecognised when the obligation is discharged, cancelled, expires or is waived. When the terms of the loan are revised, e.g. modified or re-negotiated, an entity considers whether the existing payable should be derecognised and a new financial liability recognised. For example, when short term debts owing by an entity are re-negotiated with the supplier such that they are converted into long term debt. When the terms are revised such that the discounted present value of the cash flows under the new terms (discounted at the original effective interest rate) are more than 10% different from the discounted present value of the remaining cash flows of the original financial liability, the existing payable is derecognised and a new financial liability recognised. Any gain or loss is recognised in surplus or deficit.
Presentation and disclosure	An entity considers the presentation and disclosure requirements in GRAP 104 and applies materiality when preparing the financial statements.