ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

HERITAGE ASSETS

(GRAP 103)

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Contents

Standard of Generally Recognised Accounting Practice

Heritage Assets

HERITAGE ASSETS

This Standard was originally issued by the Accounting Standards Board (the Board) in July 2008. Since then, it has been amended by:

- Consequential amendments when the Standard of GRAP on *Employee Benefits* (GRAP 25) became effective.
- Consequential amendments following the revisions to GRAP 5 *Borrowing Costs* and GRAP 100 *Discontinued Operations* in 2013.
- Improvements to the Standards of GRAP, issued by the Board in November 2013.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 105 *Transfers of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfers of Functions Between Entities Not Under Common Control*
  - GRAP 107 *Mergers*
- Consequential amendments following the amendments to the Standards of GRAP on *Investment Property* and *Property, Plant and Equipment* (2014) issued on 26 May 2015.
- Improvements to the Standards of GRAP, issued by the Board in November 2017.
- Consequential amendments when GRAP 32 *Service Concession Arrangements: Grantor* became effective.

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” in Standards of GRAP.

The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board® for:

(a) public entities that meet the criteria outlined in the Directive 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 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.

This Standard is set out in paragraphs .01 to .108A. All paragraphs in this Standard 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, 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.

Objective

.01 The objective of this Standard is to prescribe the accounting treatment for heritage assets and related disclosure requirements.

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the recognition, measurement and disclosure of all assets that meet the definition of a heritage asset, except:

(a) the initial recognition and initial measurement of heritage assets acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers); and

(b) bearer plants and biological assets related to agricultural activity (see the Standards of GRAP on Property, Plant and Equipment (GRAP 17) and Agriculture (GRAP 27)).

.03 When an entity has a biological asset related to agricultural activity, it should consider whether the principles in the Standard of GRAP on *Inventory,* GRAP 17 or GRAP 27 apply.

.03A This Standard applies to heritage assets after its initial recognition and measurement in accordance with the Standard of GRAP on *Service Concession Arrangements: Grantor* (GRAP 32).

Definitions

.04 The following terms are used in this Standard with the meanings specified:

<u>Carrying amount</u> is the amount at which an asset is recognised after deducting accumulated impairment losses.

<u>Class of heritage assets</u> means a grouping of heritage assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

<u>Cost</u> is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

<u>Fair value</u> is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets ***are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.***

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an entity is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Heritage assets

.05 Illustrations of the range of assets that can be regarded as classes of heritage assets include the following:

(a) works of art, antiquities and exhibits such as biological and mineral specimens or technological artifacts;

(b) collections of insects, butterflies and fossils;

(c) collections of rare books, manuscripts, records, photographic positives and negatives and other reference material held by libraries to be preserved for their historical and cultural value;

(d) objects of scientific or technological interest;

(e) historical monuments, such as graves and burial grounds;

(f) archaeological and paleontology sites;

(g) conservation areas, such as national parks;

(h) historical buildings that have a significant historical association;

(i) movable objects, such as military insignia, medals, coins, stamp collections or objects of decorative or fine art; and

(j) recreational parks used for leisure to be preserved for the benefit of present and future generations.

.06 Characteristics often displayed by heritage assets include the following:

(a) their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in monetary terms;

(b) ethical, legal and/or statutory obligations may impose prohibitions or severe stipulations on disposal by sale;

(c) they are often irreplaceable;

(d) their value may increase over time even if their physical condition deteriorates;

(e) they have an indefinite life and their value appreciates over time due to their cultural, environmental, educational, natural scientific, technological, artistic or historical significance; and

(f) they are protected, kept unencumbered, cared for and preserved.

These characteristics are not necessarily exclusive to all heritage assets.

.07 Entities may have large holdings of heritage assets that have been acquired over many years and by various means, for example, through purchase, discovery, donations or bequests. These assets are not necessarily held for their ability to generate cash inflows, and there may be ethical, legal or social obstacles to using them for such purposes.

.08 In order to meet the definition of an asset, it must be controlled by the entity as a result of past events and future economic benefits or service potential are expected to flow to the entity from holding it. Some entities hold heritage assets to meet service delivery objectives rather than to generate future economic benefits. The service potential embodied in a heritage asset arises from the benefit to preserve the specific asset for present and future generations.

.09 Some heritage assets have more than one purpose, e.g. an historic building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The entity needs to determine whether the significant portion of the asset meets the definition of a heritage asset. The entity must use its judgement to make such an assessment. The asset should be accounted for as a heritage asset if, and only if, the definition of a heritage asset is met, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. If, however, the definition of a heritage asset is not met, or a significant portion is held for use in the production or supply of goods or services or for administrative purposes, the asset should not be accounted for as a heritage asset. Instead, the entity should account for the asset in accordance with the applicable Standard of GRAP.

.10 A building used to house heritage assets is recognised as a heritage asset only if it meets the definition of a heritage asset. If not, the building should be accounted for in accordance with GRAP 17.

.11 Some heritage assets are described as "inalienable", because the entity is restricted from disposing of these heritage assets, unless approval is granted. Stipulations may be imposed, inter alia, by a trust, statute or law, or from the transferor's stipulations on disposal, use, alteration, etc. For example, the department of arts and culture may acquire a historical building through a donation subject to conditions restricting the building's use to a museum.

.12 For some entities, heritage assets are essential to the performance of the principal objectives of the entity. For example, the fundamental objective of a museum is to restore, conserve and preserve heritage assets for the benefit of present and future generations. Yet, a heritage asset may be incidental to the fundamental objective of the entity, such as a bequest of an art collection to a local authority.

Recognition

.13 A heritage asset shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and

(b) the cost or fair value of the asset can be measured reliably.

.14 For the heritage asset to be recognised in accordance with the criteria in paragraph .13, it needs to be controlled by the entity as a result of past events (see the definition of assets in paragraph .04). Even though the entity may be restricted from disposing of a heritage asset based on a stipulation imposed by, for example, a trust, statute or law, or from the transferor's stipulations, the heritage asset is still controlled by the entity when it is able to generate future economic benefits or service potential from the asset. Accordingly, the entity recognises the heritage asset when the recognition criteria in paragraph .13 are met.

.15 The entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the heritage asset on the basis of the evidence available at the time of initial recognition.

.16 Future economic benefits or service potential flowing from a heritage asset may include revenue, for example an entrance fee charged by a museum. The revenue generated by the entity under such circumstances is normally insignificant compared to the operating costs of the museum. The revenue generated is rather used towards the maintenance of the heritage asset. The heritage asset should, however, be accounted for in terms of this Standard as the heritage value attached to the specific asset constitutes its service potential.

.17 ***If an entity holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.***

.18 Judgement is required in applying the initial recognition criteria to the specific circumstances surrounding the entity and the asset. If, on initial recognition of a heritage asset, it cannot be reliably measured by the entity, then it should not be recognised as such in the financial statements. Instead, relevant and useful information about the heritage asset, as required in paragraph .96, should be disclosed.

.19 In some instances, items of property, plant and equipment may be required to safeguard the heritage assets. For example, a museum may maintain a constant room temperature to safeguard a manuscript collection using a specialised air conditioning system. Such items of property, plant and equipment are recognised as assets in terms of GRAP 17 and not as part of the cost of the heritage asset.

.20 If the heritage asset is not recognised in terms of paragraph .17, any initial costs to assess the state of the heritage asset and any costs incurred subsequently should be recognised in surplus or deficit as incurred.

.21 Under the recognition principles in paragraph .13, the entity does not recognise in the carrying amount of a heritage asset the day-to-day operating costs of the heritage asset, or the costs to maintain or to hold the heritage asset. Rather, these costs are recognised in surplus or deficit as incurred. For example, the day-to-day operating costs incurred to maintain an air conditioning system in a library that is necessary to ensure that the books are kept in good condition, should be expensed as incurred. Such day-to-day operating costs also include the costs of inspecting the heritage asset, consumables and other maintenance costs.

.22 Costs incurred to enhance or restore the heritage asset to preserve its indefinite useful life should be capitalised as part of its cost. Such costs should be recognised in the carrying amount of the heritage asset as incurred, when the recognition criteria in paragraph .13 are met.

.23 Reference should be made to the guidance on research and development costs in the Standard of GRAP on *Intangible Assets* (GRAP 31) for guidance on the treatment of exploration costs in searching for new heritage assets. GRAP 31 requires that expenditure incurred on research or on the research phase of an internal project, for example, exploration costs, should be recognised as an expense when it is incurred as the entity cannot demonstrate that a heritage asset that meets the definition and recognition criteria in terms of this Standard will be located. Only when the criteria for development costs, as set in GRAP 31 are met, should these costs be capitalised in the carrying amount of the heritage asset.

Measurement at recognition

.24 A heritage asset that qualifies for recognition as an asset shall be measured at its cost.

.25 Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

.26 A heritage asset may be acquired through a non-exchange transaction. For example, a museum may receive a valuable art collection from an estate benefactor. Under these circumstances, the cost of the heritage asset is its fair value as at the date of acquisition. In determining the fair value of a heritage asset acquired through a non-exchange transaction, the entity should apply the principles in paragraphs .38 to .48. Any transaction costs incurred are recognised in accordance with the requirements of paragraphs .28 to .30.

.27 For the purposes of this Standard, the measurement at recognition of a heritage asset acquired through a non-exchange transaction, at its fair value consistent with the requirements of paragraph .25 does not constitute a revaluation.

Elements of cost

.28 The cost of a heritage asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any costs directly attributable to bringing the heritage asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

.29 Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in the Standard of GRAP on *Employee Benefits*) which may arise, for example, from the initial assessment of the state of a heritage asset by museum staff when initially acquired along with any time spent on the restoration of an asset;

(b) costs incurred to remove the heritage asset or restore the site where it is located;

(c) professional fees;

(d) property transfer taxes;

(e) initial delivery and handling costs;

(f) installation and assembly costs; and

(g) other transaction costs.

.30 Examples of costs that are not included in the carrying amount are:

(a) costs of opening a new exhibition, e.g. a new section in a museum to display an art collection;

(b) costs of conducting operations in a new location (including staff training); and

(c) administration and other general overhead costs.

.31 The cost of a heritage asset is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit, unless such interest is recognised in the carrying amount of the heritage asset in accordance with the allowed alternative treatment in the Standard of GRAP on *Borrowing Costs* (GRAP 5).

Measurement of cost

.32 The cost of a heritage asset is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit, unless such interest is recognised in the carrying amount of the heritage asset in accordance with GRAP 5.

.33 One or more items of heritage assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of heritage assets is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up.

.34 The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

Measurement after recognition

.35 An entity shall choose as its accounting policy either the cost model in paragraph .36, or the revaluation model in paragraph .37, and shall apply that policy to an entire class of heritage assets.

Cost model

.36 After recognition as an asset, a class of heritage assets shall be carried at its cost less any accumulated impairment losses.

Revaluation model

.37 After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs .54 to .56.

Determining fair value

.38 This Standard requires all entities to determine the fair value of a class of heritage assets for the purpose of measurement if the entity uses the revaluation model, and for the purpose of the encouraged disclosure of fair value in paragraph .95 if it uses the cost model.

.39 The fair value of a heritage asset is the price at which the heritage asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction. Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances, such as special considerations or concessions granted by anyone associated with the exchange.

.40 An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

.41 The definition of fair value refers to “knowledgeable, willing parties”. In this context, “knowledgeable” means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the heritage asset, its actual and potential uses, and market conditions at the date of the revaluation. A willing buyer is motivated, but not compelled, to buy. Such a buyer is neither over-eager nor determined to buy at any price. The assumed buyer would not pay a higher price than a market comprising knowledgeable, willing buyers and sellers.

.42 A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the heritage asset at market terms for the best price obtainable. The factual circumstances of the actual heritage asset owner are not a part of this consideration because the willing seller is a hypothetical owner.

.43 The definition of fair value refers to an arm’s length transaction. An arm’s length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.

.44 When determining the fair value of a heritage asset that has more than one purpose as explained in paragraph .09, the fair value of the heritage asset should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

.45 In determining the fair value of a collection, the entity should consider whether the entire collection has a higher value than the sum of the values of the individual items making up that collection. Under such circumstances, the carrying value of the entire collection may need to be reassessed, when a group of individual heritage assets constitutes a collection. If items are removed from the collection, the value of the collection may also need to be reassessed.

.46 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 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.

.47 Where no evidence is available to determine the market value in an active market of a heritage asset, a valuation technique may be used to determine its fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, and reference to the current fair value of other heritage assets that have substantially similar characteristics in similar circumstances and locations, adjusted for any specific differences in circumstances. If there is a valuation technique commonly used by market participants to price such an asset, and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity may use that technique in determining the fair value.

.48 In the case of specialised heritage buildings and other man-made heritage structures, such as monuments, the entity may need to determine fair value by using a replacement cost approach. The reproduction cost or the restoration cost approach may be the best indicator of the heritage asset's replacement cost.

The revaluation model

.49 The frequency of revaluations depends upon the changes in the fair values of the heritage asset being revalued. When the fair value of a revalued heritage asset differs materially from its carrying amount, a further revaluation is required. Some heritage assets experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary, however, for a heritage asset which shows insignificant changes in fair value. It may then be necessary to revalue the heritage asset only every three to five years.

.50 If a heritage asset is revalued, the entire class of heritage assets to which that asset belongs shall be revalued.

.51 A class of heritage assets is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

(a) Art collections.

(b) Stamp collections.

(c) Collections of rare books or manuscripts.

(d) Historical buildings.

.52 When grouping heritage assets into classes, an entity should take into account the nature and characteristics of those assets involved. Judgement, based on an entity's specific circumstances, is required in grouping heritage assets. It may be appropriate to aggregate individually insignificant items, and to apply the criteria to the aggregate value.

.53 Items within a class of heritage assets are revalued simultaneously to avoid selective revaluation of heritage assets and the reporting of amounts in the financial statements that are a mixture of costs and values at different dates. Nevertheless, a class of heritage assets may be revalued on a rolling basis provided revaluation of the class of heritage assets is completed within a short period, and provided the revaluations are kept up to date.

.54 If a heritage asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

.55 If the heritage asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset. The decrease recognised directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.

.56 Some or all of the revaluation surplus included in net assets in respect of a heritage asset may be transferred directly to accumulated surpluses or deficits when it is derecognised. This may involve transferring some or the whole of the surplus when the heritage assets to which the surplus relates are retired or disposed of. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

.57 Guidance on the effects of taxes on revenue, if any, resulting from the revaluation of a heritage asset, are recognised and disclosed in accordance with the International Accounting Standard® on *Income Taxes*.

Inability to determine fair value reliably

.58 There is a presumption that fair value can be measured reliably for a heritage asset. However, that presumption can be rebutted when market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable. In such a case, the heritage asset shall be measured using the cost model in paragraph .36. The carrying amount of the heritage asset shall be its revalued amount at the date of the last revaluation less any subsequent accumulated impairment losses.

.59 In the exceptional cases when the entity is compelled, for the reason given in the previous paragraph, to measure a heritage asset at its cost less any accumulated impairment losses, the entity should continue to account for each of the remaining heritage assets using the revaluation model.

.60 If an active market no longer exists for a revalued heritage asset, the entity needs to assess whether it might be impaired in accordance with the Standards of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21) and *Impairment of Cash-generating Assets* (GRAP 26).

.61 If the fair value of the heritage asset can be determined by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

Impairment

.62 A heritage asset shall not be depreciated but an entity shall assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity shall estimate the recoverable amount or the recoverable service amount of the heritage asset.

.63 In assessing whether there is an indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

(a) During the period, a heritage asset's market value has declined significantly more than would be expected as a result of the passage of time or normal

use.

(b) The absence of an active market for a revalued heritage asset.

Internal sources of information

(a) Evidence is available of physical damage or deterioration of a heritage asset.

(b) A decision to halt the construction of the heritage asset before it is complete or in a usable form.

.64 The above list is not exhaustive. An entity may identify other indications that a heritage asset may be impaired, and these would also require the entity to determine the heritage asset's recoverable amount or recoverable service amount. A change in the use of a heritage asset does not necessarily indicate impairment, but may require the asset to be transferred in terms of paragraphs .71 and .73.

.65 A decline in the demand for an art collection of a famous artist, or a decline in the demand for a specific fossil collection, could indicate an impairment of the heritage asset. In assessing whether impairment has occurred, the entity must assess changes in the future economic benefits or service potential.

.66 Impairment can arise from physical damage to a heritage asset, for example damage by fire or flood. The physical damage to a tape that contains a voice recording of a famous person will result in the impairment of the intangible heritage asset itself if sound quality on the tape is affected.

.67 In assessing whether a halt in the construction of a heritage asset has triggered impairment, the reason for it should be considered. If the construction work will not be completed in the foreseeable future, the heritage asset may have been impaired.

.68 The existence of impairment indicators will result in the entity estimating the heritage asset's recoverable amount and recoverable service amount determined in accordance with GRAP 21 and GRAP 26. GRAP 21 and GRAP 26 explain how an entity reviews the carrying amount of its assets, how it determines the recoverable amount or recoverable service amount of an asset, and when it recognises or reverses the recognition of, an impairment loss. Any excess of the carrying amount over the recoverable amount or recoverable service amount should be recognised as an impairment loss.

Compensation for impairment

.69 Compensation from third parties for heritage assets that have been impaired, lost or given up, shall be included in surplus or deficit when the compensation becomes receivable.

.70 Impairments or losses of heritage assets, related claims for or payments of compensation from third parties and any subsequent purchase or replacement of heritage assets, are separate economic events that are accounted for separately as follows:

(a) Impairments of a heritage asset are recognised in accordance with GRAP 21 and GRAP 26.

(b) Derecognition of a heritage asset retired or disposed of is determined in accordance with this Standard.

(c) Compensation from third parties for a heritage asset that has been impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable.

(d) The cost of a heritage asset restored, purchased or replaced is determined in accordance with this Standard.

Transfers

.71 Transfers from heritage assets shall be made when, and only when, the particular asset no longer meets the definition of a heritage asset.

.72 Transfers from heritage assets should be made when, and only when, the asset no longer meets the definition of a heritage asset (see paragraph .04). For instance, if an item in an art collection is destroyed in a fire and the remaining paintings in the collection no longer meet the definition of a heritage asset, the remaining value of the collection should be transferred from heritage assets to property, plant and equipment, providing the definition of property, plant and equipment in GRAP 17 is met.

.73 Transfers to heritage assets shall be made when, and only when, the asset meets the definition of a heritage asset.

.74 In some instances, the classification of an asset may change when the definition of a heritage asset is met. For example, a work of art may have been initially acquired for decorative purposes but the entity may decide to preserve it as a result of its artistic significance after the death of the artist.

.75 Changed circumstances may result in a transfer from inventory or property, plant or equipment, because the asset now meets the definition of a heritage asset. For example, the Department of Defence, which previously classified military medals as inventory, may decide that it should preserve the medals because of their historical significance. As these assets now meet the definition of a heritage asset, they should be treated as such.

.76 Paragraphs .77 to .81 apply to the recognition and measurement issues that arise when the entity uses the revaluation model for heritage assets. When the entity uses the cost model, transfers between heritage assets, items of property, plant and equipment, inventories, investment property or intangible assets do not change the carrying amount of the asset transferred, or its cost for measurement or disclosure purposes.

.77 For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting in accordance with the applicable Standard of GRAP shall be its revalued amount at the date of transfer. The entity shall apply the principles in this Standard up to the date of transfer. The entity treats any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard.

.78 If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset.

.79 The entity recognises any impairment losses that have occurred up to the date when a heritage asset becomes an item of property, plant and equipment, an investment property, or an intangible asset. The entity depreciates the asset and recognises any impairment losses that have occurred up to the date when an item of property, plant and equipment or an intangible asset becomes a heritage asset at a revalued amount. The entity treats any difference at that date between the carrying amount of the asset to be transferred and its fair value in the same way as a revaluation in accordance with the principles of this Standard, or in accordance with the principles in the applicable Standard of GRAP relating to that asset, as appropriate. In other words:

(a) any resulting decrease in the carrying amount of the asset is recognised in surplus or deficit. To the extent, however, that an amount is included in revaluation surplus for that asset, the decrease is charged against that revaluation surplus; and

(b) any resulting increase in the carrying amount is treated as follows:

   (i) To the extent that the increase reverses a previous impairment loss for that asset, the increase is recognised in surplus or deficit. The amount recognised in surplus or deficit does not exceed the amount needed to restore the carrying amount to that which would have been determined (net of depreciation) had no impairment loss been recognised.

   (ii) Any remaining part of the increase is credited directly to net assets in the revaluation surplus.

.80 When a heritage asset carried at a revalued amount is transferred to inventories, the revaluation reserve included in net assets in respect of the heritage asset should be transferred directly to the accumulated surplus or deficit when the inventory is consumed or distributed in the production process, or in the ordinary course of operations.

.81 ***For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount shall be recognised in surplus or deficit.***

Derecognition

.82 ***The carrying amount of a heritage asset shall be derecognised:***

(a) on disposal (including disposal through a non-exchange transaction); or

(b) when no future economic benefits or service potential are expected from its use or disposal.

.83 ***The gain or loss arising from the derecognition of a heritage asset shall be included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on Leases (GRAP 13) requires otherwise on a sale and leaseback).***

.84 The disposal of a heritage asset may occur in a variety of ways (e.g. by sale or by entering into a finance lease or through a non-exchange transaction). In determining the date of disposal of a heritage asset, the entity applies the criteria in the Standard of GRAP on *Revenue from Exchange Transactions* (GRAP 9), for recognising revenue from the sale of goods. GRAP 13 applies to a disposal by a sale and leaseback.

.85 The consideration receivable on disposal of a heritage asset is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with GRAP 9 reflecting the effective yield on the receivable.

Disclosure

.86 ***The financial statements shall disclose, for each class of heritage assets recognised in the financial statements:***

(a) the measurement bases used for determining the gross carrying amount;

(b) the gross carrying amount aggregated with accumulated impairment losses at the beginning and end of the period;

(c) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

(ii) disposals;

(iii) acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger;

(iv) increases or decreases resulting from revaluations under paragraphs .37, .54 and .55 and from impairment losses recognised or reversed directly in net assets in accordance with GRAP 21 or GRAP 26, as appropriate;

(v) impairment losses recognised in surplus or deficit in accordance with GRAP 21 or GRAP 26, as appropriate;

(vi) impairment losses reversed in surplus or deficit in accordance with GRAP 21 or GRAP 26, as appropriate;

(vii) the net exchange differences arising from the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity;

(viii) transfers to and from property, plant and equipment, investment property, inventories or intangible assets; and

(ix) other changes.

.87 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 paragraphs .87(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.

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

.89 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).

.90 To the extent that it provides useful and relevant information, entities are encouraged to disclose:

(a) information that will enable users to appreciate the age and/or condition of the heritage assets; and

(b) information on heritage assets that are borrowed from, or on loan to other entities.

.91 The financial statements shall also disclose for each class of heritage assets recognised in the financial statements:

(a) the existence and amounts of restrictions on title and disposal of heritage assets;

(b) heritage assets pledged as securities for liabilities;

(c) the amount of contractual commitments for the acquisition, maintenance and restoration of heritage assets; and

(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 heritage assets that were impaired, lost or given up that is included in surplus or deficit.

.92 Heritage assets should be presented as a separate line item on the face of the statement of financial position.

.93 In accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* (GRAP 3), an entity discloses the nature and effect of a change in an accounting estimate in the current period or subsequent periods.

.94 The financial statements shall disclose information about the alternative use and value of heritage assets that are used by the entity for more than one purpose.

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

(a) the effective date of the revaluation;

(b) the method used to determine the heritage asset's fair value;

(c) the significant assumptions applied in estimating the heritage assets' fair values;

(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; and

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

.96 In accordance with GRAP 21 or GRAP 26, as appropriate, an entity discloses information on impaired heritage assets in addition to the information required by paragraphs .86(c)(iv) to (vi).

.97 Financial statements shall also disclose the carrying amount of each class of heritage assets retired from active use and held for disposal.

.98 When the cost model is used, financial statement users also find information relevant to the fair value of the heritage asset when this is materially different from the carrying amount. Therefore, entities are encouraged to disclose these amounts.

.99 When an entity does not recognise a heritage asset, or a class of heritage assets as a result of reliable measurement not being possible on initial recognition (see paragraph .17), the entity shall disclose the following for each heritage asset or class of heritage assets:

(a) a description of the heritage asset or class of heritage assets;

(b) the reason why the heritage asset or class of heritage assets could not be measured reliably; and

(c) on disposal of the heritage asset or class of heritage assets, the compensation received and the amount recognised in the statement of financial performance.

.100 In the exceptional cases referred to in paragraph .58, when an entity measures a heritage asset or class of heritage assets using the cost model, the reconciliation required by paragraph .86 shall disclose amounts relating to that heritage asset or class of heritage assets separately from amounts relating to other heritage assets or classes of heritage assets. In addition, an entity shall disclose:

(a) a description of the heritage asset or class of heritage assets;

(b) an explanation why fair value cannot be determined reliably;

(c) on disposal of the heritage asset or class of heritage assets;

(i) the fact that the entity has disposed of the heritage asset or class of heritage assets;

(ii) the carrying amount of that heritage asset or class of heritage assets at the time of sale; and

(iii) the amount of gain or loss recognised.

.101 To the extent that information is available, entities are encouraged to disclose the range of estimates within which fair value is highly likely to lie when a heritage asset or a class or heritage assets are not recognised on initial recognition because they could not be measured reliably (see paragraph .17). Entities are further encouraged to disclose the range of estimates within which fair value is highly likely to lie when heritage assets are measured using the cost model under the exceptional cases referred to in paragraph .58.

.102 If the fair value of the heritage asset or class of heritage assets previously measured at cost less any impairment losses becomes reliably measurable during the current period, an entity shall disclose for those heritage assets or classes of heritage assets:

(a) a description of the heritage asset or class of heritage assets;

(b) an explanation why fair value has become reliably measurable; and

(c) the effect of the change.

Transitional provisions

Initial adoption of the Standards of GRAP

.103 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Amendments to Standards of GRAP

.104 Paragraphs .02, .03, .04, .11, .16, .26, .27, .37, .53, .56, .57, .82, .83, and .84 were amended and paragraphs .33 and .34 were added by the Improvements to the Standards of GRAP issued on 1 April 2014. An entity shall apply these amendments retrospectively for annual periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.

.105 Paragraphs .44, .87 and .95(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 GRAP 3.

.106 Amendments to paragraphs .88 and .89 relating to the disclosure of expenditure incurred to repair and maintain heritage assets, shall be applied prospectively.

.106A The following paragraphs were amended by the Improvements to the Standards of GRAP issued in April 2017. These amendments are effective for annual periods beginning on or after 1 April 2018. An entity shall apply these amendments as follows:

(a) paragraph .26 shall be applied prospectively in accordance with GRAP 3; and

(b) paragraph .33 shall be applied retrospectively in accordance with GRAP 3.

Earlier application is encouraged. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Effective date

Initial adoption of the Standards of GRAP

.107 An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

Entities already applying Standards of GRAP

.108 [Deleted]

.108A Paragraph .03A was added by GRAP 32 issued in August 2013. An entity shall apply this amendment for annual financial statements covering periods beginning on or after 1 April 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before 1 April 2019, it shall disclose that fact.

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the accounting for heritage assets. This basis for conclusions accompanies, but is not part of, this Standard.

BC1. This basis for conclusions summarises the Board's considerations in developing the Standard of GRAP on *Heritage Assets.* In forming its views, the Board considered the views expressed in depth and the comment received from stakeholders that responded to the Invitation to Comment (ITC) of a Discussion Paper on *Heritage Assets* issued in April 2005.

BC2. In developing this Standard, the Board considered the principles in the Standard of GRAP on *Investment Property* (GRAP 16), GRAP 17, GRAP 27, and GRAP 31.

BC3. A project on the accounting for heritage assets is reflected on the International Public Sector Accounting Standards Board's (IPSASB) work programme to be undertaken during the next three years. The Board will continue to monitor this project and, at an appropriate time, consider the implications of the IPSASB project on this Standard.

Background

BC4. The Board considered whether a separate Standard should be developed, or whether guidance on the recognition, measurement and disclosure of heritage assets should be included in existing Standards of GRAP.

BC5. Heritage assets are normally held indefinitely and for the benefit of present and future generations. As a result, a separate Standard of GRAP that deals with the recognition and measurement of heritage assets is more appropriate. Even though the principles in GRAP 17 and GRAP 31 formed the bases on which this Standard is developed, the Board is of the view that the difference in determining the useful life of a heritage asset makes it inappropriate to include heritage assets in GRAP 17. The requirement to annually assess heritage assets for impairment makes it sufficiently different from intangible assets. Consequently the Board decided not to amend the scope of GRAP 31.

BC6. Furthermore, the principles in GRAP 16 are applicable to assets that are held to earn rentals or for capital appreciation. Even though heritage assets may appreciate in value over time, they are held for present and future generations. Revenue generated from heritage assets are normally insignificant compared to the operating costs incurred to maintain and preserve such heritage assets. Heritage assets are therefore different to investment property. Including heritage assets in the scope of GRAP 16 is considered inappropriate.

Scope of this Standard

BC7. The Board is of the view that the principles in this Standard should be applied to all assets that meet the definition of a heritage asset. In meeting the definition of an asset, resources must be within the control of an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. The service potential embodied in a heritage asset results from the heritage value attached to the specific asset.

BC8. The definition for an intangible heritage asset in legislation is broader than the definition for an intangible asset in GRAP 31. In addition, legislation requires that heritage assets need to be designated as such before the principles of the specific Act apply to their management. The Board is of the view that some assets might also meet the definition and recognition provisions of this Standard, without them being designated as such by legislation. This Standard therefore requires that, once an asset meets the definition of a heritage asset as defined in terms of this Standard, the recognition, measurement and disclosure requirements in this Standard should be applied to that asset, irrespective of whether that asset has been designated as a heritage asset through legislation.

BC9. The Board considered whether an entity can manage the biological transformation of an asset that also meets the definition of a heritage asset as defined in this Standard. If the entity does not control the biological asset, the asset cannot be recognised by the entity. The Board also noted that a biological asset will only have a value while the asset is alive. GRAP 27 determines that biological assets should be measured at each reporting date at its fair value less estimated point-of-sale costs. The Board thus concluded that a biological asset should be accounted for in accordance with the requirements of GRAP 27.

BC10. The Board also considered the application of the principles in this Standard to leases, as defined in GRAP 13. For these principles to be applicable, the lease agreement requires the commitment to make or receive minimum lease payments over the term of the lease agreement. The Board, however, concluded that it is highly unlikely that a heritage asset will be subject to an arrangement that involves minimum lease payments. Accordingly, no guidance has been included in this Standard on the leasing of heritage assets.

Impairment of heritage assets

BC11. Entities maintain, protect, enhance and restore heritage assets in their current status to ensure that they are preserved for the benefit of present and future generations. The Board concluded that most heritage assets have an indefinite useful life as they are to be preserved for current and future generations and might appreciate in value over time due to their cultural, environmental, historical, natural, scientific, technological and/or artistic significance. Based on this analysis, there is no finite limit to the period over which a heritage asset is expected to be held by the entity. The useful life of the heritage asset is therefore likely to be indefinite or the annual depreciation is likely to be immaterial. The Board therefore concluded that heritage assets should not be depreciated, but an annual assessment should be performed to test whether any impairment indicators have been triggered.