

Information Sharing Session

24 March 2015




Accounting Standards Board





Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.



Board's response to implementation challenges

- Report on results of post-implementation review
 - proposed Amendments to GRAP 16 and GRAP 17
 - proposed Amendments to GRAP 21 and GRAP 26
 - FAQs
- Other challenges



Update of Post- implementation Review (PIR)






Background to PIR

- Objective was to solicit feedback from:
 - **users** → whether information in f/s meet their needs
 - **preparers** → what challenges they experience in applying Standards of GRAP 16 and 17
- Different consultation methods
- Completed review in early 2014





Key actions following PIR

- 3 projects added to work program
 - Review of GRAP 16 and GRAP 17 (ED 126)
 - Develop Interpretation on Accounting for Recognition and De-recognition of Land
 - Develop Guideline on Accounting for Housing Schemes
 - Review of GRAP 21 and GRAP 26 (ED 127)
 - Revise and develop further FAQs
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Proposed Amendments to GRAP 16 and GRAP 17

ED 126





GRAP 16 Proposed Amendments

- No amendments to principles – clarify application in GRAP 16
 - asset **used in production or supply** (social housing, recreational facilities) → mandate
 - asset **contributing** to specific good and service **in conjunct with** other property
 - hold asset for **disposal** as part of **on-going operations**






GRAP 16 Proposed Amendments

- Clarify application in GRAP 16
 - amount of revenue earned not important
 - rather **why/how property is used**
 - **existence of lease** in itself does not mean property is investment property
 - **rent does not need to be market related** for property to be classified as investment property






GRAP 17 Proposed Amendments

- Indicator based approach to assess useful lives and residual value
 - annual assessment at each reporting date may be too onerous
 - introduction of indicator based approach
 - list of indicators
 - only conduct detail assessment if one or more of indicators are triggered
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GRAP 17 Proposed Amendments

- Use of external users
 - Independent and external vs internal → member of valuation profession or another expert
 - Capital-work-in progress
 - Disclosure of cumulative expenditure capitalised per class of asset
 - Construction of assets taking a significant period of time to complete
 - Construction of assets stopped → reason and assets impaired
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GRAP 17 Proposed Amendments

- Review encouraged disclosures
 - Users questioned relevance → **eliminate all**
- Repairs and maintenance
 - Users assess adequacy
 - Proposal to **separately disclose** expenditure incurred to repair and maintain an asset in notes (GRAP 1 and asset related GRAPs)





Proposed Amendments to GRAP 21 and GRAP 26

ED 127





GRAP 21 and GRAP 26 Proposed Amendments

- Background
 - 2013 Improvements proposed amendments
 - Further need for guidance to distinguish between cash and non-cash generating



GRAP 21 and GRAP 26 Proposed Amendments

- Simplify approach to distinguish between CG and NCG
 - Classification **moved away** from **use** to generate commercial return to measurement basis that **best reflects entity's objective**
 - DRC most relevant measurement basis to determine value in use if asset used to deliver services
 - If used to generate positive cash inflows → higher cash flows then used to determine value in use



GRAP 21 and GRAP 26 Proposed Amendments

- Feasibility of one measurement approach
 - GRAP 21 allows three measurement basis
 - DRC mostly applied but approach depends on
 - (a) nature of impairment and
 - (b) data availability





GRAP 21 and GRAP 26 Proposed Amendments

- Feasibility of combining the two Standards
- Request to combine but Board's concerns were:
 - easier to work with single Standard
 - no reason to deviate from international practice





GRAP 21 and GRAP 26 Proposed Amendments

- Other matters
 - Impair assets only if permanent or significant decline in value of SP or FEB
 - Minor damages are repairs and maintenance






Frequently Asked Questions (FAQs)





Directive 7

- Applied to determine deemed cost when no cost records available at initial adoption
 - Issues noted by Board:
 - no cost records for assets acquired after July 2007 (issue#1)
 - date used if entity has not completed adoption of Standards within specified time frame (issue#2)
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Directive 7



Issue #1

- Directive 7 deals with those assets prior to July 2007
- assets acquired after 1 July 2007 scoped out of Directive 7
- reliable measure of assets with no cost records → based on reconstructed accounting records
- no amendments made to Directive 7






Directive 7



Issue #2

- FAQ issued when determining deemed cost at 1 July 2007 may not be possible
 - if it is impractical to apply Directive 7 then apply prospectively based on GRAP 3
 - impracticability can only be claimed after entity demonstrates that it made every reasonable effort to comply with the requirements of Directive 7
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Suitability of the use of valuation roll

- entities can apply revaluation or fair value model for assets
- GRAP 16 and GRAP 17 require fair value to be determined
- Issue noted by Board:
 - in practice entities use the valuation roll values as fair value





Suitability of the use of valuation roll

- Fair value per Standards must :
 - reflect market conditions at reporting date;
 - be made with sufficient regularity
 - Municipal Property Rates Act outlines the basis on which municipal valuation roll should be prepared:
 - including the basis and frequency on which properties should be valued
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Suitability of the use of valuation roll

- FAQ issued to clarify that the use of valuation roll suitable when:
 - measurement basis used in the valuation roll is consistent with, or aligned to, both these criteria in determining fair value





Other challenges





Assumptions used in valuation of PPE

- GRAP 1 requires entities to disclose assumptions and other sources of estimation applied by management to value assets
- Differences in opinion are not Standard-setting issues but are audit issues





QUESTIONS





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