

FEEDBACK STATEMENT – ED 198 PROPOSED AMENDMENTS TO THE STANDARD OF GRAP ON PRESENTATION OF FINANCIAL STATEMENTS

<p>This Feedback Statement outlines feedback received on the proposed <i>Amendments to the Standards of GRAP on Presentation of Financial Statements</i> (ED 198)</p>	<p>Overview</p>	<p>This Feedback Statement outlines feedback received by the Accounting Standards Board (hereafter referred to as “the Board”) on ED 198 <i>on Proposed Amendments to the Standard of GRAP on Presentation of Financial Statements (GRAP 1)</i>. It also outlines the decisions taken by the Board prior to approving the amendments to GRAP 1.</p>
	<p>Consultation process</p>	<p>The Board undertook a public consultation process with users of financial statements, preparers, auditors, consultants and other interested parties. Articles on ED 198 were published on various ASB social media platforms.</p>
	<p>Supporting material</p>	<p>The Board’s analysis of the written and verbal comments received on ED 198, along with its responses thereto.</p> <p><i>Amended Standard of GRAP on Presentation of Financial Statements.</i></p> <p>These materials can be accessed on the ASB’s website.</p>
	<p>Next steps</p>	<p>The Board will propose an effective date of 1 April 2025 to the Minister of Finance for the amendments to GRAP 1.</p>

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What we heard

<p>General support for the amendments to GRAP 1</p>	<p>Respondents welcomed, and generally supported, the proposed guidance and disclosures in GRAP 1 relating to going concern.</p>
<p>Application of going concern in the public sector</p>	<p>Respondents supported the clarification in GRAP 1 explaining when it is inappropriate to prepare financial statements on the going concern basis. This is where a decision is taken to liquidate an entity, to cease its operations in its entirety, or when there is no realistic alternative but to do so.</p> <p>Some respondents questioned if the going concern basis is appropriate where a decision is taken to transfer all of an entity’s functions, or when two or more entities are merged. These respondents noted that when all the functions of an entity are transferred, that entity will cease to exist as it will no longer render the functions.. A similar observation was made where an entity is involved in a merger.</p> <p>The Board agreed that applying the going concern basis is inappropriate when there is a liquidation or cessation of an entity’s operations that results in the termination of all an entity’s functions. However, where some, or all of the entity’s functions are transferred, the functions previously provided by that entity, will continue to be provided in a modified form, or by another entity. Preparing financial statements on a going concern basis therefore remains appropriate.</p> <p>The Board also agreed that, when some of the entity’s functions are transferred and the remaining functions are discontinued, this is two separate transactions. Management should separately assess both transactions to decide if preparing the financial statements on the going concern basis remains appropriate.</p>

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What we heard	
Disclosures relating to going concern and material uncertainties	Respondents supported the additional disclosures proposed in GRAP 1 on significant judgements and assumptions applied by management, and the disclosures relating to uncertainty. It was, however, proposed that these disclosures should be separated into two paragraphs.
Other amendments	Respondents supported the consequential amendments in GRAP 14 on <i>Events After the Reporting Date</i> , but requested that the explanatory guidance in GRAP 14.14 be aligned with the new guidance in GRAP 1.
Summary of key principles	
Application of going concern in the public sector	<p>GRAP 1 requires an entity to prepare its financial statements on a going concern basis unless there is an intention to liquidate the entity, to cease its operations, or if there is no realistic alternative but to do so. A liquidation is a process where an entity converts all its assets into cash or other assets, settles its liabilities with creditors, and terminates all its functions and operations.</p> <p>Preparing financial statements on the going concern basis is inappropriate where a decision is taken to liquidate an entity, to cease its operations entirely, or when there is no realistic alternative but to do so. This is because all the functions and operations of the entity will be terminated.</p> <p>The intention to liquidate an entity can be demonstrated in a number of ways, such as the promulgation of legislation in Parliament or a provincial legislature, a ministerial order, a decision by a municipal council, board, council or equivalent, a regulation or notice, or other official means.</p> <p>Preparing financial statements on a going concern basis is appropriate where a decision is taken to transfer some, or all of an entity's functions to another entity, or to merge two or more entities. This is because the functions previously provided by the entity will continue to be provided, even though they are provided by another entity, or in a modified form (i.e., the new combined entity).</p>

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Summary of key principles	
Application of going concern in the public sector (continued)	<p>The transferor and acquirer should apply the guidance in GRAP 105 on <i>Transfer of Functions Between Entities Under Common Control</i>, GRAP 106 on <i>Transfer of Functions Between Entities Not Under Common Control</i>, or GRAP 107 on <i>Mergers</i> to account for the transfer of functions or merger. The presentation and disclosures requirements in GRAP 100 on <i>Discontinued Operations</i> should also be applied to a discontinued operation.</p> <p>Where some of an entity's functions are transferred while the remaining functions are discontinued or retained, management should assess these as separate transactions to determine if preparing the financial statements in a going concern basis is appropriate.</p> <p>The additional guidance on the application of the going concern basis is applied prospectively.</p>
Disclosures on going concern	<p>In assessing whether the going concern assumption is appropriate, management is required to disclose, in the notes to the financial statements, their significant judgements and assumptions in concluding if the going concern assumption is appropriate.</p> <p>Where one or more uncertainties exist that may cast doubt on the entity's ability to continue as a going concern, the following should be disclosed in the notes to the financial statements:</p> <ul style="list-style-type: none"> (a) the fact that there is one or more uncertainties that may cast significant doubt on the entity's ability to continue as a going concern; (b) information about the principal events or conditions that give rise to these uncertainties; (c) the possible effects that the uncertainties may have on current and future reporting periods; and (d) information about management's plans to address the uncertainties and their actions to mitigate the effect of the events or conditions. <p>If information about management's plans, and actions to mitigate uncertainties is published elsewhere in the financial statements, a cross reference can be included to that information.</p>

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Summary of key principles

Disclosures on going concern (continued)

The additional disclosure requirements included in GRAP are applied prospectively.

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