FINANCIAL INSTRUMENTS FACT SHEET #4

PAYABLES		
Definition	Payables that are financial instruments are contractual rights to pay cash. Payables arise because credit is received for the purchase of goods or services.	Paragraph AG2.2
	Payables that do not arise from contracts, i.e. they arise from legislation or similar means, are not financial liabilities.	Paragraph AG2.11-AG2.13
	Contractual rights to transfer goods and services rather than cash, e.g. advance receipts for goods and services, are not financial liabilities.	Paragraphs AG2.9-AG2.10
	Liabilities that are not financial instruments are accounted for in terms of GRAP 19 on *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 on *Employee Benefits.* Finance lease payables due by a lessee are only subject to the derecognition requirements of GRAP 104.	Paragraphs 1.2(c), (d) and 1.3(c)(ii)
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.	Paragraph 3.1 and AG3.12-AG3.13
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. Likely that payables are measured at amortised cost.	Paragraph 4.7
Initial measurement	Fair value, minus transaction costs if subsequently measured at amortised cost.	Paragraph 5.1-5.3 and AG5.1
	Fair value on initial recognition 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 received interest free for a period and/or if interest charged during this time is not market related. An entity assesses whether the nominal/contractual interest rate is market related by comparing it to the interest rate for a similar instrument, with similar risk characteristics and same maturity. 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.	Paragraph AG5.2-AG5.7
	Day 1 discounting Where goods and services are received, and an interest free period is granted by the supplier or service provider, assess whether the initial transaction should be separated between expenses and interest. 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,	Paragraph AG5.8-AG5.11

This Fact Sheet explains the Secretariat's views on the possible accounting treatment of public sector transactions based on the principles in GRAP 104 on Financial Instruments (revised in 2019). This Fact Sheet accompanies, and is not a replacement for, the complete text of 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 not been reviewed, approved or otherwise acted on by the ASB.

	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).	
Subsequent measurement	Payables are likely to be measured at amortised cost. *Principle* 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 the effective interest rate (EIR). *Interpretation* If the transaction costs are not material, and the nominal/contractual interest rate is market related, then the nominal/contractual interest rate = EIR.	Paragraph AG5.50-AG5.57
	Gains and losses that arise from the amortisation process are recognised in surplus or deficit.	Paragraph 5.43
Interest expense	Gross carrying amount of the financial liability X EIR.	Paragraph AG5.50-AG5.57
Derecognition	Payables are derecognised when the obligation is discharged, cancelled, expires or is waived. When the terms of the payable 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 EIR) 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. Derecognition may also need to be considered for qualitative reasons, for example, the counterparty of the transaction changed.	Paragraph 6.16-6.19 and AG6.15-AG6.21
	Gains and losses that arise from the derecognition of financial liabilities are recognised in surplus or deficit.	Paragraph 5.43
Presentation and disclosure	An entity considers the presentation and disclosure requirements in GRAP 104 and applies materiality when preparing the financial statements. General disclosures – paragraphs 8.1 and 8.2 Accounting policies – paragraph 8.3 Classes of financial instruments and level of disclosure – paragraph 8.4 Significance of financial instruments to financial position and performance – paragraph 8.5	Presentation: paragraphs 7.1-7.17 and AG7.1-AG7.8

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	Statement of financial position – paragraphs 8.6, 8.22. Statement of financial performance – paragraphs 8.30. Nature and extent of risks arising from financial instruments – liquidity risk: paragraph 8.58, market risk (if significant exposure to market risk): paragraphs 8.59-8.60.

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