



Improving the quality of financial statements



**We need to improve the
quality of the financial
statements....**

What we see...

- Financial statements seen as an exercise in compliance.
- Requirements in the Standards used as checklists.
- Immaterial and/or irrelevant information 'clutters' the financial statements.

What we see...

- Generic, standardised disclosure provided.
- Repeat the principles in the Standards in the accounting policies rather than explain how the principles in the Standards were applied.

Municipality X

1.8 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand-by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The municipality maintains and requires assets to provide a social service to the community, with no intention of disposing of

Public entity X

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period. The cost of an item of property, plant and equipment is recognised as an asset when:

It is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition. Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up. When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognized. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. The useful lives of items of property, plant and equipment have been assessed as follows:



**We need to go back to the
basics...**



Back to the basics...

- Ensure only relevant information is included in the financial statements.
- Materiality is used as a constraint to determine what is relevant.
- Material information will affect users in making decisions and holding entities accountable.
- Apply ASB's Guideline on *The Application of Materiality to Financial Statements*.



About the Guideline...

- Who are your users?
- What decisions do they take and what information do they need?
- What is material, both quantitatively and qualitatively?



About the Guideline...

- Formulate accounting policies, presentation and disclosures using Standards of GRAP based on what is material.
- Document considerations, discuss with oversight and similar structures
- Materiality considered at the start of the year and throughout – not just at year end!
- Does not deal with ‘materiality’ in legislation.

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