

GRAP Update February 2020



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.



Agenda

- IGRAP 18 on *Recognition and Derecognition of Land*
- GRAP 109 on *Accounting by Principals and Agents*
- Guideline on *Accounting for Housing Arrangements*
- GRAP 108 on *Statutory Receivables*
- High-level overview of GRAP 20, 32 and IGRAP 19



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.



**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.



IGRAP 18 on *Recognition and Derecognition of Land*



Overview

- When to consider IGRAP 18
- Assessing control of land
- Indicators of control
- Key principles in IGRAP 18
- Disclosure requirements
- Transitional provisions
- Potential implications



Objective

- Explains when should entity recognise or derecognise land as its asset when:
 - legal title
 - legal title but entered into arrangement with another party who is using the land
 - custodian of land
 - joint control of land



Objective

- Excludes guidance on:
 - classification, measurement, presentation, disclosure of land
 - recognition and derecognition of buildings or structures

Apply applicable Standard of GRAP

Assessing control of land

- Apply principles in Framework

(a) Definition of element (asset)

Resource controlled by an entity as a result of past event from which future economic benefits (FEB) or service potential (SP) expected

(b) Recognition criteria

Probable that FEB or SP will flow and cost or fair value can be measured reliably



Indicators of control

- Two criteria to assess if control of land exists:
 - Legal ownership and/or
 - Right to direct access to land, and to restrict or deny access of others to land
- Assess at each reporting date any changes to binding arrangement – impact control assessment



Indicators of control

- To demonstrate that entity has right to direct access to land, and to restrict or deny access of others to land consider:
 - direct use of land's FEB or SP to service providers
 - exchange, dispose or transfer land
 - use land in any other way to generate FEB or SP



What are the key principles?



Legal owner

- Registered title deed holder or change in ownership recorded by way of endorsement
- In absence of another entity demonstrating that legal owner has granted right to direct access to, and restrict or deny access of others = **legal owner controls land**



Entity has legal title but entered into arrangement

- Assess other party's rights and obligations in terms of binding arrangement

- **protective right** – protect resources and require approval for transactions to be undertaken

- **substantive right** – grants entity right to make decisions about FEB or SP



Example

- Municipal council has right to sell portions of land,
- but for sale to be effected regulatory approval must be obtained from provincial government

Municipality: decide to whom can be sold, what price, etc.

→ substantive right over land

Provincial government: ensure land not disposed when it could be used to achieve a specific service delivery objective

→ protective right over land

Entity has legal title but entered into arrangement

- If one entity is legal owner while another has right to direct access to, or restrict or deny access – land is controlled by entity that has right (substance over form)
- Right must be presently exercisable – even if not exercised yet



Entity has legal title but entered into arrangement

- When another entity is granted a right to use land for a period of time
 - rights needs to be granted for an unlimited period of time
 - entity should have other substantive rights
 - if control is not demonstrated → then consider if right needs to be accounted for in terms of GRAP 13 or another applicable GRAP



Entity is custodian of land

- Legislation or similar means confers specific rights and responsibilities to custodian
- Custodian responsible to acquire, manage dispose of land
- Where one entity is legal owner and another custodian – custodian controls land as it has right to direct or restrict access



Example

- Department of Public Works (DPW) is its legislation the custodian of government owned land in province X. The provincial government is the registered title deed holder of land in the province.

DPW → responsible for making decisions about disposal, management etc.

THUS control with DPW




Example

- DPW enters into binding arrangement with entity A. Entity A is granted a right to use land as a testing facility for unlimited period
 - Even though DPW (legislative custodian) has granted right to entity A to use land for an unlimited period of time → DPW **cannot** transfer land or associated rights to another entity unless that entity is also a custodian its legislation
 - **THUS control remains with DPW**



Entity has joint control of land

- When control is shared through binding arrangement – assess if there is joint control of land (Standard of GRAP dealing joint ventures)
- If joint control – each entity recognises interest in jointly controlled asset (land)



What disclosures should be provided?



Disclosures

- Where entity is not legal owner or custodian but assess control
 - carrying value of land recognised
 - key judgements and assumptions applied to conclude control
- Level of disclosure → in total/individually/groups of land (relevant to users)



Disclosures

- Where entity is legal owner or custodian but concludes that it does not control land
 - key judgements and assumptions applied to conclude on not having control
- Level of disclosure → in total/individually/groups of land (relevant to users)



What are the arrangements for first time adoption?



Transitional provisions

- Prospective to binding arrangements relating to land that exist on initial adoption (1 April 2019)
- Any new arrangements entered into after 1 April 2019
- Adjustments are made against opening balance of accumulated surplus or deficit
- Deemed cost may be determined if acquisition cost for land not available



Potential implications

- Review binding arrangements relating to land – assess if control exists based on criteria

Yes:

- Recognise land as asset
- Determine deemed cost if cost info not available

No:

- Derecognise land



GRAP 109 on *Accounting by Principals and Agents*



Overview

- What are principal-agent arrangements?
- What accounting problem does GRAP 109 solve?
- What are the key principles of GRAP 109?
- Arrangements for first time adoption?
- Changes to other Standards?
- Potential implications?



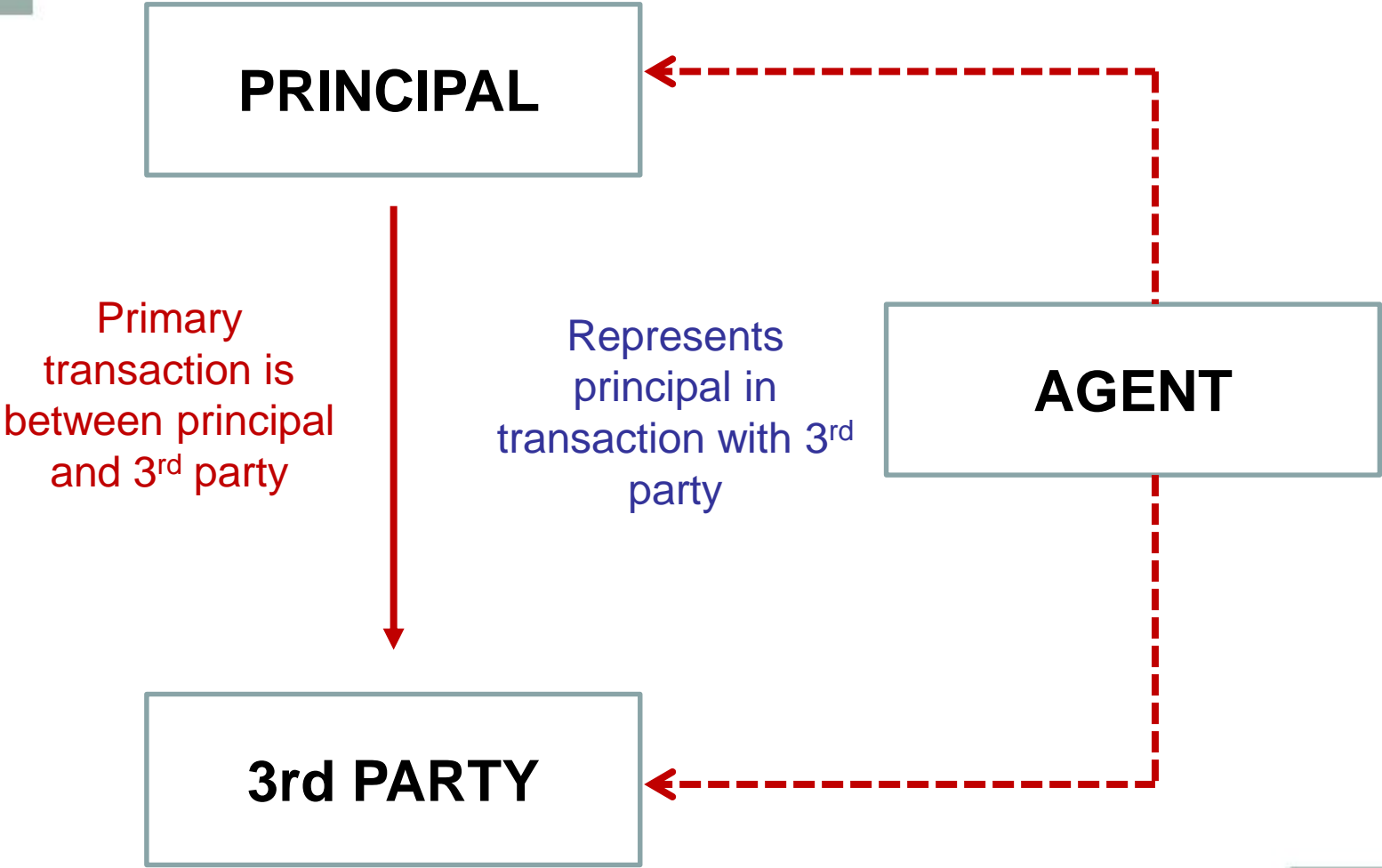
What are principal-agent arrangements?



Definition

- Binding arrangement,
- One entity (an agent) undertakes transactions with 3rd parties,
- On behalf of another entity (principal)

Definition

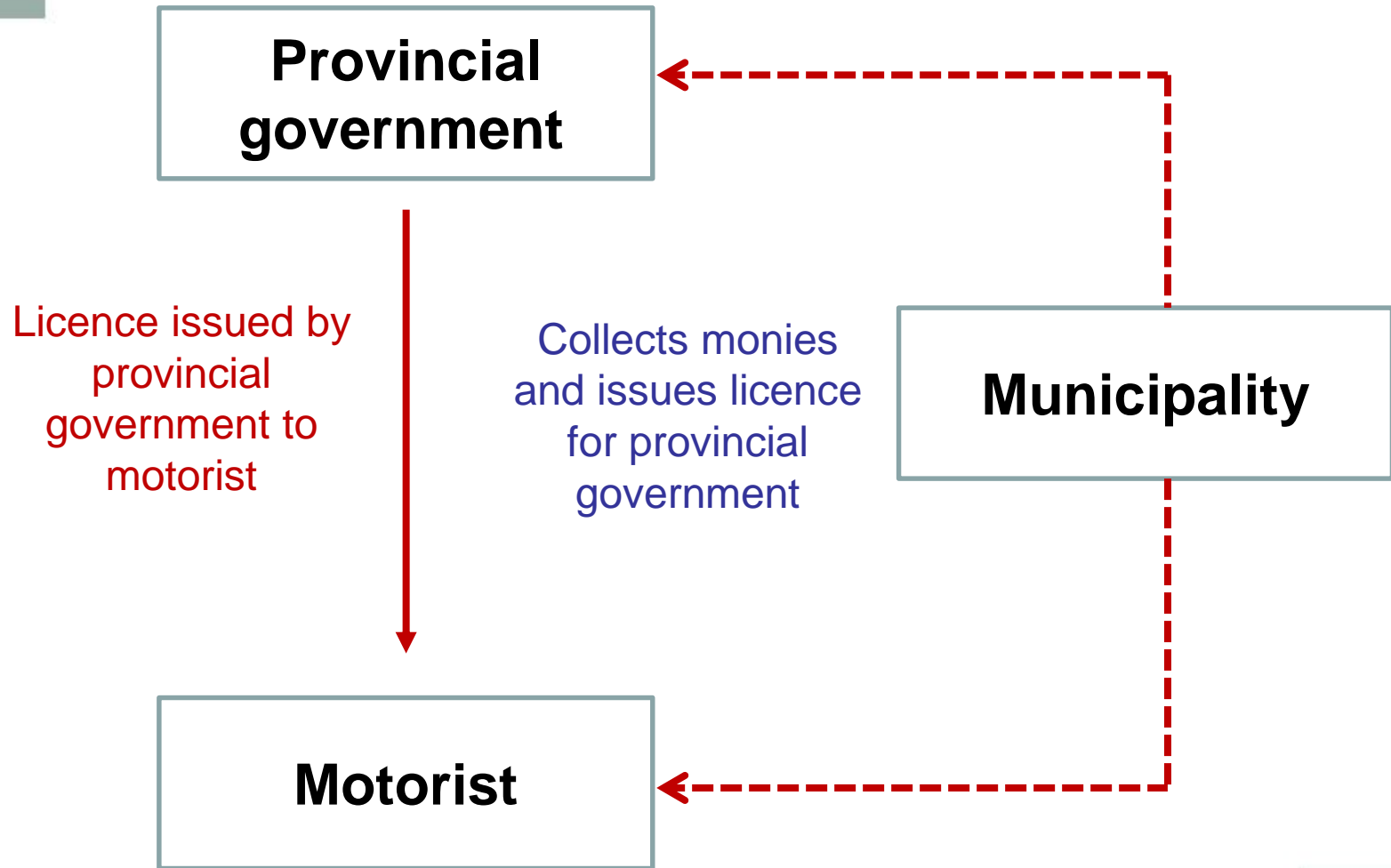




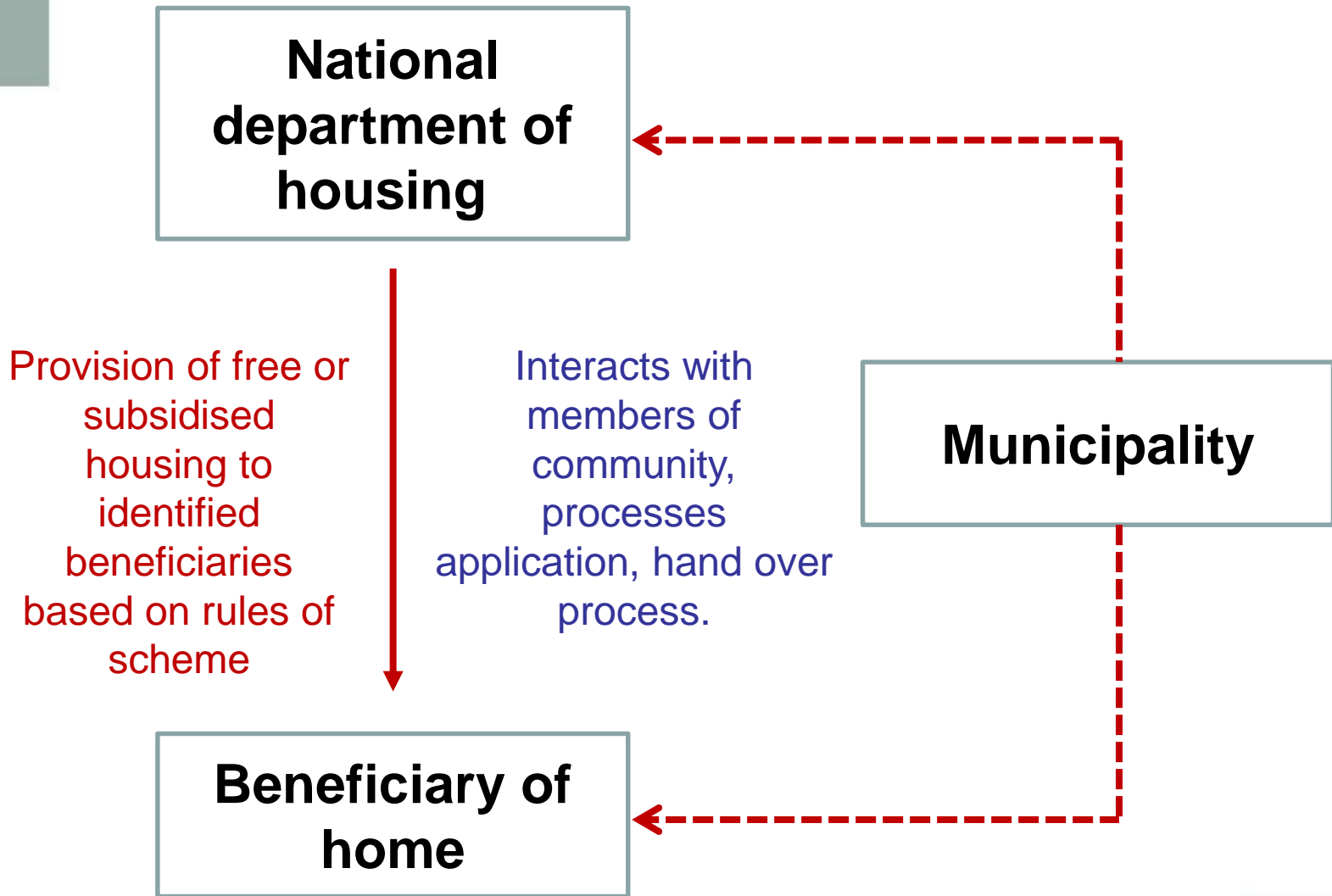
Examples

- Collection of motor vehicle license fees by municipalities for provincial government.
- SARS for revenue fund.
- Some schemes i.t.o national housing programme.
- Provision of water by local municipalities for water authorities.
- Some (or parts of) service concession arrangements.

Illustrating examples



Illustrating examples



Misconceptions



Any arrangement with more than 2 parties is a principal-agent arrangement

Typical misconceptions

Municipality



*Not a principal-agent arrangement
No 3rd party interests represented in primary arrangement – merely service provider relationship*

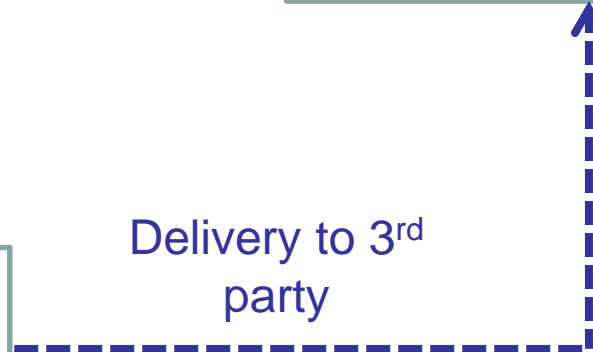
Acquisition of goods and services for delivery to recipients of a community for emergency relief



Beneficiary

Service provider

Delivery to 3rd party





**What accounting problem
does GRAP 109 solve?**





What is the problem?

- Government works together to achieve common objectives, can be difficult to decide:

- Whether a principal-agent arrangement exists for a certain activity.
- Which entity should account for the R,E,A,L.



What is the problem?

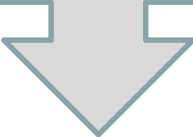
- Assess each arrangement to determine if it is a principal-agent arrangement before applying other Standards of GRAP.



What are the key principles of GRAP 109?

What are the key principles?

Is the arrangement a **principal-agent arrangement**,
i.e. binding arrangement between principal, agent
and 3rd parties?



Is the entity the **agent** in the arrangement?



Apply accounting principles as **principal** or **agent**



Is there a binding arrangement?

- Principal-agent arrangement:

- Binding arrangement one entity (agent) undertakes transactions with 3rd parties, on behalf of, and for benefit of, another entity (principal).*



Is there a binding arrangement?

■ Binding arrangement:

- Contract between parties.
- Legislation or similar means (including laws, regulations, policies, decisions by cabinet, executive, councils etc.)
- Operation of law.



Is there a binding arrangement?

- Apply substance over form when reviewing T+Cs of arrangement.
- If modifications, re-assess arrangement.
- In absence of formal agreements, may need to look at past actions → actions over time mean no realistic alternative but to act in a certain way.

Assessing if agent or not?

Overarching principle	<p>If an entity undertakes transactions for the benefit of another entity, then it is the agent.</p> <p>If not the agent, then the principal.</p>
Benefit or not?	<p>An entity is an agent if these three criteria are present...</p>
	<p><i>It does not have the power to determine the significant terms and conditions of the transaction.</i></p>
	<p><i>It does not have the ability to use all, or substantially all, of the resources that result for its own benefit.</i></p>
	<p><i>It is not exposed to variability in the results of the transaction.</i></p>

Assessing if agent or not?

Criterion #1

No power to determine significant terms and conditions

No power to effect the result of the transaction, i.e. economic benefits (quantitative) or service potential (qualitative) (or both) arising from the transaction.

Quantitative:

- Amount paid by 3rd party for good/service received, or tax/levy/charge paid
- Amount paid to 3rd party for goods/services procured, benefits paid in non-exchange transaction.

Qualitative:

- Quality of a good or service received by 3rd party
- Administrative efficiency in executing transaction or activity.
- Volume of good or service provided.

Assessing if agent or not?

Criterion #1

No power to determine significant terms and conditions

If defer significant decisions that affect results of transaction, indicator that entity does not have power to determine significant T+C's of transaction. Difference with regulatory approval.

Not able to determine significant terms and conditions if, *for example*, it is not able to decide the following:

- What goods/services should be provided to or procured from 3rd parties, or what taxes/levies/charges.
- To whom goods/services should be provided, or from whom goods/services procured, on whom taxes/levies/charges imposed.
- Price to be paid by 3rd party, amount of tax/levy/charge to be paid.
- Quality of the goods/services provided to, received from, 3rd parties.

Assessing if agent or not?

Criterion #2

Ability to use all or substantially all of resources that result from transaction with third party

Resources could include receipts of specific goods/services, taxes/levies/charges + disbursements for goods/services procured, including inventory.

Entity does not have ability to use resources when it does not have unrestricted access to those resources and cannot use for own benefit.

Need to examine economic substance of rights in the binding arrangement → rights / physical possession on their own inconclusive.

Might be entitled to retain portion of resources, e.g. fee for services rendered.

Assessing if agent or not?

Criterion #3

Exposure to variability in the results of the transaction with 3rd parties

Entity is exposed to both positive and negative results of the transaction, and exposures not limited or fixed.

Not only economic variability, but end result/consequence of transaction.

Exposure usually limited when (examples + not exhaustive):

- Another party is responsible for fulfilling rights and obligations established in the binding arrangement, e.g. specific entity has responsibility in legislation.
- Limited inventory risk.
- Receive fixed fee or fixed margin.
- No exposure to credit risk.

Accounting by agent?

General	<p>Recognise only that portion of revenue & expenses it receives or incurs in executing transactions on behalf of principal.</p> <p>Assets and liabilities recognised i.a.w Standards.</p>
Revenue and expenses	<p>Recognise compensation(*) for transactions undertaken on behalf of principal.</p> <p>Do not recognise expenses incurred for principal.</p> <p>*Compensation different to re-imburements.</p>
Assets and liabilities	<p>May need to recognise assets & liabilities for resources held for principal, e.g. cash, inventory.</p> <p>Assess if receivables should be recognised if:</p> <p>Agent is counterparty in transaction, enforces collection, determines amount that should be paid, determines manner & timing of settlement, power to write off debts owing, obligation to undertake certain activities in binding arrangement.</p>

Accounting by principal?

General	Recognises revenue and expenses related to transactions with third parties.
Revenue and expenses	Recognise revenue and expenses for transactions with third parties → undertaken for benefit of principal.
Assets and liabilities	Recognise assets & liabilities i.a.w. Standards.



Presentation and disclosure

- Apply requirements of GRAP 109 and other Standards of GRAP.
- Do not offset assets and liabilities recognised, unless another Standard permits.

Disclosure – Both parties

- Description of arrangement, including transactions undertaken.
- Whether entity is principal or agent and judgement applied in making assessment.
- Significant terms and conditions of arrangements & if any changes during period.
- Explanation of purpose of principal-agent relationships & significant risks and benefits (including risk mitigation).

Disclosure by agent

General	<p>Description or resources held for principal, remittance during period & risk transferred from principal to agent as a result of custodianship of resources.</p> <p>Aggregate revenue recognised as agent.</p> <p>Liabilities incurred for principal & rights of reimbursement</p>
Revenue and expenses	<p>In notes, indicate category and amount of revenue & expense received or accrued.</p>
Receivables and payables [provide when relevant to users of financial statements]	<p>Reconciliation of receivables or payables at beginning and end of period.</p> <p>Receivables = revenue principal entitled to, settlements/write-offs/waivers, cash received for principal.</p> <p>Payables = expenses incurred, cash paid on behalf of principal.</p>

Disclosure by principal

General

Resources under the custodianship of agent, whether recognised by agent, resources remitted by agent & timing of expected remittance of outstanding resources.

Fee paid to agent as compensation.

Discussion on resource or cost implications if principal-agent arrangement terminated.



What are the arrangements for first time adoption?



Transitional provisions

- Apply GRAP 109 retrospectively, except...

....transactions arising from principal-agent arrangements that were completed on or before effective date of GRAP 109.



Changes to other Standards?





Changes to other Standards

- Affects discussion of principals-agents in GRAP 9 and GRAP 23
- Examples have been deleted in both Standards → examples in GRAP 109



Potential implications?





Potential implications

- Assess arrangements to determine if principal-agent arrangements
 - develop process to identify and analyse, develop policy to account for transactions from arrangements
- Only apply to current principal-agent arrangements



**Guideline on *Accounting*
for Arrangements
Undertaken in Terms of
the National Housing
*Programme***



Scope



Includes...

- Housing development undertaken as part of the national housing programme
- Accredited municipalities (level 1 and 2)
- Non-accredited municipalities & entities not participating in national housing programme:
 - may be able to apply principles



Scope



Excludes...

- Level 3 accredited municipalities
- Housing schemes undertaken by municipality in their own capacity
- Provincial housing funds
 - established to secure flow of funds from national dept to provincial dept
 - no longer used for flow of funding



Legislative framework

- Housing Act (No. 107 of 1997)
 - roles & responsibilities of different spheres
- National Housing Code
 - establishes accreditation framework
 - sets national housing policy
- Accreditation and Assignment Framework
 - Sets criteria for participation in housing programme



Accreditation framework

- Sets criteria for participation in national housing programme necessary to strengthen & support municipalities
- Accreditation approved by MEC
 - Implementation protocol agreement – high level roles & responsibilities
 - SLA/MOU - detailed roles & responsibilities



Accreditation framework

- **Delegation**

- Exercise of function outlined in legislation on behalf of delegating authority
- Ultimate authority vests with province who can revoke delegation

- **Assignment**

- Transfer of roles & responsibilities to municipality
- Transfer of planning, financial and legal accountability

Roles & responsibilities

Level One	Level Two
Planning	
<ul style="list-style-type: none">Identify and plan for local housing	<ul style="list-style-type: none">Similar to level one's roles and responsibilities.
Contract management	
<p>Project manager role</p> <ul style="list-style-type: none">Identifying potential contractorsPreparing contracts and project agreementsUsing municipal inspectorate to monitor projectsPayment of contractors on instruction from province	<ul style="list-style-type: none">Municipality can act as a project manager and project developer <p>Role as project developer</p> <ul style="list-style-type: none">Construction of housesAppointing contractors for housing developmentPayment of contractors based on contract entered into with them

Roles & responsibilities

Level One	Level Two
Beneficiary management	
<ul style="list-style-type: none">• Receiving application forms from beneficiaries• Submit application forms received to the province• Marketing of stands• Facilitating arrangements with beneficiaries• Handing over of house	In addition to level one's roles and responsibilities: <ul style="list-style-type: none">• Implementation of a Housing Subsidy System (HSS)• Capturing and processing of application forms received on the HSS
Funding of programmes	
<ul style="list-style-type: none">• Funding received from province (HSDG)	<ul style="list-style-type: none">• Similar to level one



Project manager vs. project developer

- Level 1 → project manager
- Level 2 → project developer
- Non-accredited municipality
 - Responsibilities can be similar to level 1 or level 2
 - Assess if level 1 or level 2, based on roles & responsibilities per national housing project



Sources of funding

- Human Settlement Development Grant (HSDG)
- Urban Settlement Development Grant (USDG)
 - Conditional grant
 - Land acquisition from 3rd parties
 - Portion may be allocated for infrastructure
- Multi purpose funding
 - Allocated to non-metro municipalities for infrastructure development



Does the municipality undertake transactions on behalf of ...

- Does transaction result in principal-agent arrangement?
 - Existence of a binding arrangement
 - Existence of 3rd parties with whom transacting
 - Undertaking transaction on behalf of another entity



Does the municipality undertake transactions on behalf of ...

- Beneficiaries:

Market stands, receive application forms,
communicate approval, handover

YES → undertake transactions on behalf of
national and provincial departments

- level 1 and level 2
- but *no accounting implications*

Does the municipality undertake transactions on behalf of ...

- Contractors and/or other service providers

YES → undertake transactions of behalf of when appointed as **project manager** (level 1)

- Province responsible for appointment (even if municipality applies its SCM) and remains responsible to fulfil rights and obligations

NO → don't undertake transactions on behalf of when appointed as **project developer** (level 2)

- Municipality responsible for construction
→ either itself / appoints service provider



Accounting by project manager – level 1



Is the project manager the principal or agent?

Apply GRAP 109 criteria:

- Specifications for construction of houses
- Selects and identifies eligible beneficiaries
- Transfer of completed houses
- Appointment of contractors and/or other service providers
- Ability to construct houses or use grant for own benefit

Municipality as project manager

- Based on principles in GRAP 109, municipality acts as **agent**
 - Only recognise revenue & expenses incurred in executing transactions on behalf of...
 - Principal accounts for revenue/expenses with 3rd parties, i.e.:
 - grant
 - constructed houses during & after completion
 - NO accounting for grant / houses by municipality



Accounting by project developer – level 2





Municipality as project developer

- GRAP 109 not applicable
 - undertakes transactions with contractors and/or other service providers in own name
- Municipality is **contractor** → GRAP 11
 - Recognises grant received as contract revenue
 - Recognises expenses incurred as contract expenses
 - amounts due to/from provincial Dept Human Settlements
 - NO accounting for houses during & after completion



Accreditation or other fees

- Accreditation fee → formula used
- Commission, administration / transaction fee
 - For undertaking transactions “on behalf of” provincial department
 - Apply principles in **GRAP 9**
- If related only to construction
 - can apply **GRAP 11**

Accounting for land

- Principles from IGRAP 18 to assess control
 - Right to direct access to land, and restrict / deny access of others
- **Conclusion**
 - Municipality loses control of land when it enters into arrangement with province

Accounting for land

Methods of land acquisition	Accounting
Use of existing land	<ul style="list-style-type: none">• Accounted i.a.w. GRAP 12 when intention to use for housing development
Urban Settlements Development Grant (USDG)	<ul style="list-style-type: none">• Grant accounted i.a.w. GRAP 23• Land recognised as asset / expense, depending if arrangement entered into on acquisition date
Donations/Transfers	<ul style="list-style-type: none">• Donation/transfer accounted i.a.w. GRAP 23• Land recognised as asset / expense, depending if arrangement entered into on acquisition date

Accounting for other assets

Type of asset	Accounting
Infrastructure assets	<ul style="list-style-type: none">Accounted for i.a.w. GRAP 17 if control present
Vacant land <ul style="list-style-type: none">portions of land to be developed into, e.g. park	<ul style="list-style-type: none">Assess control using indicators of control in IGRAP 18<ul style="list-style-type: none">At inception of arrangementClassify based on intended use
Community assets <ul style="list-style-type: none">e.g. clinic, fire station	<ul style="list-style-type: none">Accounted for i.a.w. GRAP 17 if control present



GRAP 108 on *Statutory Receivables*



Overview

- What are statutory receivables?
- What accounting problem does GRAP 108 solve?
- What are the key principles of GRAP 108?
- Arrangements for first time adoption?
- Changes to other Standards?
- Potential implications?



What are statutory receivables?



Definition




Receivables that:

- arise from legislation, supporting regulations, or similar means; and
- require settlement by another entity in cash or another financial instrument.



Examples

- 
- Taxes – income tax, property rates
 - Fines – usually breach of law
 - Appropriations, grants and transfer payments i.t.o. budget legislation
 - Other charges – licences, levies



**What accounting problem
does GRAP 108 solve?**

What is the problem?

- GRAP 104 provides guidance for receivables that:
 - a) arise from contracts, and
 - b) are settled in cash or another financial instrument.
- A contract is an arrangement where:
 - Parties are willing.
 - Rights and obligations for either party.
 - Rights and obligations are enforceable.
- High reliance on fair value, market rates.

What is the problem?

- Receivables from legislation or similar do not meet definition of financial instrument \neq willing parties.
 - No guidance in Standards. Applied own accounting policies.
- Because parties are not willing, implications for measurement of receivables
 - Fair value and market rates may be inappropriate.



What are the key principles of GRAP 108?



What are the key principles?

Activity	Principle
When to recognise?	<ul style="list-style-type: none">• Statutory receivables can arise from exchange and non-exchange transactions.• Receivables are linked to revenue transactions.• Apply GRAP 9 or GRAP 23
At what amount initially?	Transaction amount = amount in GRAP 9 or GRAP 23.
At what amount at each reporting date?	Cost method.
Disclosure	Users should be able to evaluate the significance of statutory receivables on financial position and performance.

Recognition

Activity	Principle
GRAP 9 Revenue from Exchange Transactions	Recognise revenue based on whether: <ul style="list-style-type: none">• sale of goods (transfer of risks & rewards); or• rendering of services (stage of completion). Contra-entry is a receivable.
GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)	Identify whether entity has control of a resource, recognise revenue or a liability (if conditions exist). Recognise revenue if no conditions, or if conditions, as they are satisfied. If resource is an entitlement to cash or similar = receivable.

Initial measurement

Activity	Principle
GRAP 108	Transaction amount Amount specified, calculated, levied, or charged in accordance with legislation, supporting regulations or similar means.
Equals	
GRAP 9 Revenue from Exchange Transactions	Fair value of the consideration received or receivable.
GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)	Fair value of asset at acquisition.



NB

Examples are illustrative only...

Accounting treatment dependent
on events and circumstances of
transaction.

Example #1

Public Entity X receives a grant, as outlined in the DORA. The DORA indicates that the grant is for R1million.

1 April 20X0

Dr Receivable

R1million

Cr Revenue or liability (NX)

R1million

Example #2

Public Entity X charges levies of 1% on goods transported by road across the SA border. Goods to the value of R50million are transported across border for April.

April 20X0

Dr Receivable(s) X....Y R500 000

Cr Revenue (NX) R500 000

Example #3

- Municipality A levies property rates at the start of the financial year i.t.o. legislation.
- - By laws outline % property tax is 5% of value in valuation roll.
 - Valuation roll = properties of R100million
 - Rebates = R1million
 - Indigent customers (waive taxes) = R500 000

Example #3

- R100million X 5% - R1million - R500 000
- = R3.5million

1 July 20X0

Dr Receivables (X....Y)	R3.5million
Cr Property rates (NX)	R3.5million

Subsequent measurement

Cost method

Transaction amount	Amount initially recognised
<u>Plus:</u> Accrued interest or other charges	<p>Accrue interest if required by legislation or similar.</p> <p>Nominal rate of interest specified in legislation or similar.</p> <p>Interest either exchange or non-exchange, depending on underlying transaction.</p> <p>Other charges = fines, penalties.</p>
<u>Adjust:</u> Accumulated impairment losses	Assess at each reporting date if any indication of impairment of a receivable or group of receivables (or reversal).
<u>Less:</u> Amounts derecognised	<p>Amounts settled, expired or waived.</p> <p>Transfer of risks and rewards to another party.</p> <p>Retained some risks and rewards but transferred control.</p>

Example #2 (cont.)

Cost method

- Interest or other charges: Gazette indicates no interest charged, but charge penalty for late payment. For May, R20 000.
- Payment received of R350 000.
- No indicator of impairment.

Example 2 (cont.)

Cost method	
Transaction amount	500 000
Accrued interest or other charges	20 000
Accumulated impairment losses	-
Amounts derecognised	(350 000)
Balance at 31 May 20X0	170 000

Example 2 (cont.)

Dr Receivables	R20 000
Cr Revenue (NX revenue)	R20 000
[Recognise penalties]	
Dr Bank	R350 000
Cr Receivables	R350 000
[Recognise cash received]	



Impairment of receivables

- “Incurred loss” approach, i.e. assess if a

- “loss event” occurred:

- Significant financial difficulty of issuer, e.g. debt rescue.
- Debtor will enter sequestration, liquidation etc.
- Breach in the terms of transaction, e.g. default.
- Adverse changes in economic conditions.
- Consider others.....

Impairment of receivables

- Assess for individually significant debtors, groups of similar individually insignificant (similar characteristics).
- Impairment loss = estimated future cash flows – carrying amount.
- Future cash flows = amount and timing of cash flows. If TVM material, discount using risk free rate (adjusted).

Impairment of receivables

- Reduce debtor directly, or allowance account.
- Impairment loss in surplus/deficit.
- Revise amounts previously recognised if there is a change in estimates, or to reflect discounting (either adjust directly or allowance account).
- Cannot increase receivable $>$ carrying amount would have been.

Example #2 (cont.)

Cost method

- In June Debtor B of R100 000 indicates that in business rescue. Will only be able to pay in 1 year. Expected cash flows R85 000 include effect of TVM.
- Based on past experience, loss 50% for debtors 60 days overdue.
- Penalties R7 000.
- No further payments received.

Example 2 (cont.)

Cost method	
Transaction amount	170 000
Accrued interest or other charges	7 000
Accumulated impairment losses [R100k-R85k]+[(R170k-R100k)x50%]	(50 000)
Amounts derecognised	-
Balance at 30 June 20X0	127 000

Example 2 (cont.)

Dr Receivables R7 000
Cr Revenue (NX revenue) R7 000
[Recognise penalties]

Dr Impairment loss R15 000
Cr Debtor B R15 000
[Recognise impairment of Debtor B]

Example 2 (contd)

Dr Impairment loss	R35 000
Cr Allowance account	R35 000

[Estimated impairment using past experience]

Presentation and disclosure

- Purpose of disclosures is to evaluate significance of statutory receivables on entity's statement of financial performance & position.
- Provide sufficient information to allow reconciliation between statements and notes.
- Apply principles in GRAP 108 + other Standards (e.g. GRAP 1, 9, 23).



Presentation and disclosure

■ Some of the disclosure includes....

■ #1 Disclosing a description of:

- How transaction arises, with reference to legislation etc.
- How transaction amount is determined.
- Interest or other charges levied (where applicable), including basis and rate used.
- Basis used to assess impairment, including grouping for collective assessment.
- Discount rate applied.



Presentation and disclosure

- Some of the disclosure includes....

- #2 Disclosing:

- Carrying amount of statutory receivables separately in notes to the financial statements, distinguishing statutory and other receivables.

#3 Impairment related disclosures



What are the arrangements for first time adoption?



Transitional provisions

- Apply GRAP 108 retrospectively, except...
 - Derecognition applied prospectively to receivables recognised + if previously derecognised, do not need to apply GRAP 108.
 - Impairment applied prospectively.



Transitional provisions

- Additional relief granted...

- Not required to change accounting policies for classification and measurement for a period of 3 years from adopting Standard.



Transitional provisions

- Need to disclose information on:
 - Adoption of transitional relief.
 - Which receivables classified and measured using GRAP 108 or another accounting policy.
 - Plan for implementing GRAP 108.
 - Progress towards implementation.
 - Changes in policy from previous years.



Changes to other Standards?



Changes to other Standards

- Most significant change....

- GRAP 9 for treatment of interest:

- Can be classified as exchange or non-exchange.

- Depends on nature of underlying transaction.

Important for classification in statement of financial performance (revenue) and receivables



Potential implications?





Potential implications

- Entities would have developed their own accounting policies in past, so potential impact not precise.
- Could have used GRAP 104 as a basis as statutory receivables similar to financial instruments.
- If that is the case.....

Comparison GRAP 108 & GRAP 104

Activity	GRAP 108	GRAP 104
When to recognise?	Link to relevant revenue Standard → GRAP 9 or GRAP 23	Party to contractual provisions of arrangement. (May be overlap GRAP 9 and GRAP 23)
At what amount initially?	Transaction amount = amount per GRAP 9 or GRAP 23	Fair value (could include transaction costs). Discounted using market related rate of interest.
At what amount at each reporting date?	Cost method	Fair value or amortised cost Interest calculated using effective interest rate. Impairment approach currently similar, but changed in revisions to GRAP 104 (2019).



Potential implications

- Separate disclosure of statutory receivables.
- Classification of interest revenue.
- Implies need for policies and systems for identification, classification and recording.



Overview of other newly effective Standards of GRAP





GRAP 20 on *Related Party Disclosures*



GRAP 20 at a glance

Area	What to consider
Objective	<ul style="list-style-type: none">• Government entities work together to achieve common objectives → have relationships and transact with one another on an ongoing basis.• Identify what effect these relationships and transactions have on an entity's financial position and performance.

GRAP 20 at a glance

Area	What to consider?
What is a related party transaction?	Transfer of resources, services, obligations between the reporting entity and a related party, regardless of whether a price has been charged

GRAP 20 at a glance

Area	What to consider?
Who is a related party?	Person [1] or entity [2] with the ability to: <ul style="list-style-type: none">• control or jointly control other party• exercise significant influence over other party; or• entity subject to common control or joint control

GRAP 20 at a glance

Area	What to consider?
Who is a related party?	<p><u>Person</u> is a related party of the reporting entity :</p> <ul style="list-style-type: none">• Person; or• Close member of that person's family; <p>if the person has [1] control, [2] joint control, [3] significant influence of the entity, or is [4] a member of management</p> <p><u>Close member</u> of person's family:</p> <ul style="list-style-type: none">• Married, or live together / similar to a marriage• Separated by two degrees of consanguinity or affinity. (person's child, spouse or domestic partner and their children or dependants, in-laws, parents, grandparents, sister, brother)

GRAP 20 at a glance

Area	What to consider?
Who is a related party? (continued)	<p><u>Entity</u> is related to reporting entity if following apply:</p> <ul style="list-style-type: none">• entity is member of same economic entity• one entity is an associate or joint venture (JV) of another entity• both entities are joint venturers of same 3rd party• one entity is JV while another is associate of same 3rd party• post-employment benefit plan for benefit of entity's employees or an entity related to it• entity controlled or joint controlled by related person• related person has significant influence or is part of management of that entity

GRAP 20 at a glance

Area	What to consider?
Who is management?	<p>Persons with authority and responsibility for <u>planning</u>, <u>directing</u> and <u>controlling</u> activities including those charged with governance</p> <ul style="list-style-type: none">• all members or governing body of reporting entity• member of governing body of an economic entity (planning, directing and controlling)• key advisors of member or sub-committees of governing body (planning, directing and controlling)• senior management team (including CEO or head, if not part of governing body)

GRAP 20 at a glance

Area	What to consider?
Disclosure of control	Disclosure of relationships where control exists – irrespective of whether transactions entered into <ul style="list-style-type: none">• name of controlling party, and ultimate controlling entity• consider disclosure requirements in GRAP 6, GRAP 7 and GRAP 8

GRAP 20 at a glance

Area	What to consider?
Disclosure of related party transactions	<p>Nature of related party relationship + information about related party transactions:</p> <ul style="list-style-type: none">• amount of transactions• outstanding balances (incl. commitments) + T&Cs, security and guarantees given or received• provision of doubtful debt – outstanding balances• expense for bad or doubtful debt <p>Disclosure per category – controlling entity, joint control or significant influence, controlled entities, associates, JV, management and other related parties</p>

GRAP 20 at a glance

Area	What to consider?
Exception – related party transactions	<p>GRAP 20 exempts disclosure of related party transaction that occurs within:</p> <ul style="list-style-type: none">• normal supplier and/or client recipient relationship – terms and conditions not more or less favourable than dealing with individual entity or person in same circumstances• terms and conditions within normal operating parameters as established by entity’s legal mandate <p>Only required to disclose (a) narrative information about nature of transactions and (b) related outstanding balances</p>

GRAP 20 at a glance

Area	What to consider?
Disclosure of management remuneration	<p>Remuneration [1] per person, and [2] in aggregate for each class of management (e.g. governing body and senior management)</p> <ul style="list-style-type: none">• Fees for services as member of management, basic salary, bonuses, performance payments, short-term benefits, post-employment benefits, termination benefits, long-term benefits, commission

GRAP 20 at a glance

Area	What to consider?
Transition	<ul style="list-style-type: none">• Retrospective – GRAP 3<ul style="list-style-type: none">➤ control and management remuneration• Disclosure of related party transactions<ul style="list-style-type: none">➤ if previously disclosed in f/s – provide comparative information (other than for exception)➤ if not previously disclosed in f/s – only provide info in period that GRAP 20 is first applied➤ exception – do not provide comparative info on related party transactions to which exception apply – only nature and outstanding balances (if available)
Preparation	<ul style="list-style-type: none">• Assess all arrangements to identify related parties, including close members of family for all employees• Policies and processes to identify information needed



GRAP 32 on Service Concession Arrangements: Grantor



GRAP 32 at a glance

Area	What to consider?
What is a service concession arrangement	Contractual arrangement between a grantor and an operator in which: (a) operator uses service concession asset (SCA) to <u>provide a mandated function</u> on behalf of grantor for a <u>specified period</u> of time; and (b) <u>operator is compensated</u> for its services over period of service concession arrangement
What is a mandated function?	Delivery of a public service by operator on behalf of grantor that falls within the grantor's mandate

GRAP 32 at a glance

Area	What to consider?
Who is the grantor?	Entity that grants right to use the service concession asset (SCA) to operator
Who is the operator?	Entity that <u>uses service concession asset</u> (SCA) to provide a mandated function subject to <u>grantor's control of the asset</u>

GRAP 32 at a glance

Area	What to consider?
What is a service concession asset (SCA)	Asset used to provide mandated function in a service concession arrangement that is provided by: <ul style="list-style-type: none">(a) Operator – (i) constructs, develop or acquires or (ii) existing asset of operator(b) Grantor – (i) existing asset or (ii) upgrade existing asset of grantor

GRAP 32 at a glance

Area	What to consider?
Recognition of service concession asset (SCA)	<ul style="list-style-type: none">• Asset provided or constructed by operator is recognised as SCA if grantor:<ul style="list-style-type: none">(a) controls or regulates what services operator must provide with asset, to whom and at what price; <u>and</u>(b) controls (ownership, beneficial entitlement or otherwise) any significant residual interest in asset at end of the arrangement• Whole-of-life asset → only first criterion should be met• Existing asset of grantor – reclassify and account i.t.o. applicable GRAP• Identify SCA from other assets within same category

GRAP 32 at a glance

Area	What to consider?
Initial measurement of SCA	Measure SCA at its fair value → based on consideration paid, or on basis of exchange of non-monetary assets.
Subsequent measurement of SCA	Apply applicable Standard i.e. GRAP 16, GRAP 17, GRAP 31 or GRAP 103 – also GRAP 21 and GRAP 26
Recognition and measurement of liability	<ul style="list-style-type: none"> • Existing asset of grantor – NO liability is recognised unless additional consideration is provided to operator • SCA provided or constructed by operator – measure at same amount as SCA, adjusted for cash paid by grantor or received from operator <ul style="list-style-type: none"> ➤ Financial liability model or grant of a right to the operator model or combined model

GRAP 32 at a glance

Area	What to consider?
Financial liability model	<ul style="list-style-type: none">• Grantor has unconditional liability to pay cash or another financial asset to operator<ul style="list-style-type: none">➤ specified determinable amounts➤ shortfall of amounts received from 3rd party users• Apply GRAP 104• Separately account for service components
Grant of a right to the operator model	<ul style="list-style-type: none">• Operator has right to earn revenue from 3rd party users• Recognise revenue and reduce liability in accordance with substance of service concession arrangement
Combined model	Account separately for each part

GRAP 32 at a glance

Area	What to consider?
Disclosure	<ul style="list-style-type: none">• Disclosures for each material SC arrangement and in aggregate for individual immaterial SC arrangements• Disclosure is part of existing category of assets but distinguished from owned and/or leased assets
Transition	Retrospective application – GRAP 3
Preparation	<ul style="list-style-type: none">• Review arrangements and assess if those comprise service concession arrangements• If yes:<ul style="list-style-type: none">➤ reclassify assets (grantor) or recognise SCA (provided or constructed by operator)➤ account for liability under appropriate model

IGRAP 17 at a glance

Area	What to consider?
Scope	<ul style="list-style-type: none">• Grantor enters into SC arrangement but only controls (ownership, beneficial entitlement or otherwise) any significant residual interest in asset at end of the arrangement – only second criterion in GRAP 32 is met• Consider if arrangement constitutes a lease (GRAP 13)• If not apply IGRAP 17
Recognition: Right to receive a residual interest	<ul style="list-style-type: none">• Grantor recognises right to receive residual interest as exchange consideration – commencement of arrangement (GRAP 9)• Measured at fair value – reflecting value of SC asset as at end of SC arrangement

IGRAP 17 at a glance

Area	What to consider?
Recognition: Performance obligation	<ul style="list-style-type: none">• Recognise corresponding liability – performance obligation for granting operating access• Reduce performance obligation and recognise revenue in accordance with substance of arrangement
Transition	Retrospective (GRAP 3)



IGRAP 19 on Liabilities to Pay Levies



IGRAP 19 at a glance

Area	What to consider?
What are levies?	<p>A levy is defined as:</p> <ul style="list-style-type: none">• a non-exchange transaction;• resulting in an outflow of resources (i.e. future economic benefits or service potential); and• imposed by government on entities as per legislation or similar means.
	Examples: Licences, fees, tolls, charges, royalties, tariffs.
	<p>A levy is not:</p> <p>The outflow from resources covered by other Standards.</p> <ul style="list-style-type: none">• Income taxes → IAS 12• Employee-related expenses → GRAP 25• Fines or other penalties imposed for breaches of legislation etc.• Emissions trading schemes.

IGRAP 19 at a glance

Area	What to consider?
What is the obligating event?	The obligating event is the activity that triggers the payment of the levy, as identified in legislation or similar means. Issues to consider: <ul style="list-style-type: none">• Economic compulsion to continue to operate in a future period.• Going concern assumption.• Recognition at a point in time or over time.• Satisfaction of minimum thresholds.
Transition	Apply GRAP 3 on <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> .
Preparation	Review payments to other levels of government.



Stakeholder outreach and communication



Outreach activities

- Continuous promotion of GRAP by improving outreach to stakeholders (workshops, meetings, seminars, SAICA webinars)
- Stakeholders should liaise with ASB when requiring any engagements
- Newsletters & Meeting Highlights
- Handbook

Translation

- Standards translated into isiZulu, Sesotho and Afrikaans
- The official version is the English language version
- Available on website

Website

- Overview of changes made to reporting framework for 2019 onwards.
- Three set of Standards:
 - Those entities with a December year-end
 - The Standards applicable for the current year
 - The Standards applicable for the next financial year
- Please register on website if you want to be advised of changes:

<http://www.asb.co.za/GRAP/Subscribe-to-email-alerts>



Submitting comments

Visit our website for more information
on these Exposure Drafts

www.asb.co.za

Submit your comments to

info@asb.co.za



THANK YOU





Contact details

Tel: (011) 697-0660

Fax: (011) 697-0666

Email: info@asb.co.za

Website: www.asb.co.za