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Use of fair value in the Standards of GRAP

The use of fair value in the Standards of GRAP has been highlighted as an area of concern in the Board’s recent consultations on projects to amend GRAP 104 on *Financial Instruments* and considering whether specific interventions are required for small entities in preparing their financial statements.

In these engagements, there was a perception that fair value is required in many Standards of GRAP – either for measurement or disclosure purposes -. The examples most often cited related to financial instruments and non-current assets. Apart from a few exceptions, the Standards of GRAP generally allow accounting policy choices, or allow the use of cost or fair value, based on certain criteria. The table below outlines the use of fair value in Standards of GRAP for key transactions.

From the table it is clear that the Standards of GRAP only require the use of fair value in specific cases. Fair value is required for the initial recognition of non-exchange transactions. The use of fair value for initial recognition does not mean that an entity is required to apply a revaluation or fair value model as its accounting policy going forward. Entities are urged to consider the measurement alternatives and options permitted in the Standards of GRAP when selecting their accounting policies as this will impact on the level of skill, capacity and other resources required to sustain these choices.

| Topic | Initial measurement of transaction | | At each reporting date | Disclosure of fair value |
|--|---|---|--|--------------------------|
| | Exchange transaction | Non-exchange transaction | | |
| Inventory (GRAP 12) | Cost | Fair value | Lower of cost and net realisable value or current replacement cost | Not required |
| Property, Plant and Equipment (GRAP 17) | Cost | Fair value | <ul style="list-style-type: none"> • Historical cost <u>or</u> • Revaluation model | Not required |
| Investment Property (GRAP 16) | Cost | Fair value | <ul style="list-style-type: none"> • Historical cost <u>or</u> • Fair value model | Not required |
| Intangible Assets (GRAP 31) | Cost | Fair value | <ul style="list-style-type: none"> • Historical cost <u>or</u> • Revaluation model | Not required |
| Agriculture (except bearer plants) (GRAP 27) | Fair value less costs to sell (unless fair value cannot be determined reliably) | Fair value less costs to sell (unless fair value cannot be determined reliably) | Fair value less costs to sell (unless fair value cannot be determined reliably) | Not required |

| | | | | |
|----------------------------------|--------------------------------------|------------|--|-------------------------------------|
| Heritage Assets (GRAP 103) | Cost | Fair value | <ul style="list-style-type: none"> • Historical cost <u>or</u> • Revaluation model | Not required |
| Living Resources (GRAP 110) | Cost | Fair value | <ul style="list-style-type: none"> • Historical cost <u>or</u> • Revaluation model | Not required |
| Financial Instruments (GRAP 104) | Fair value | Fair value | <ul style="list-style-type: none"> • Amortised cost <u>or</u> • Fair value <p>(depending on the classification of instruments based on criteria)</p> | Voluntary disclosure of fair values |
| Statutory Receivables (GRAP 108) | Fair value (equals transaction cost) | Fair value | Cost method | Not required |

Note: The table does not include requirements for the initial adoption of Standards of GRAP

Highlights of the March 2019 Board meeting

The Board met on the 27th of March 2019. The key decisions are outlined below. A detailed overview of the meeting and key deliberations by the Board are outlined in the meeting highlights <http://www.asb.co.za/board-meeting-dates>

- The final Guideline on *Accounting for Landfill Sites* was approved. The Guideline provides guidance on how to recognise and measure land used in landfills, the construction of, or use of other assets in landfill sites, and the liability to restore and/or rehabilitate the site. The application of the Guideline will become mandatory once the Board has updated an example in the Standard of GRAP on *Property, Plant and Equipment* as part of the Improvements Project (2019).
- The final Guideline on *The Application of Materiality to Financial Statements* was approved. The Guideline provides guidance to preparers on how to apply materiality when preparing the financial statements, particularly when making accounting policy choices, and deciding what and how to present information. The Guideline will be made mandatory at a date to be determined in the future. Preparers are encouraged to apply the Guideline so as to improve the relevance and quality of the financial statements. Amendments were also approved to the Standard of GRAP on *Presentation of Financial Statements*, which will become effective in 1 April 2020.
- The final amendments to GRAP 104 on *Financial Instruments* were approved. The amendments align GRAP 104 with the equivalent IFRS Standards. The next phase of the project is to develop proposed transitional provisions and an effective date for the adoption of the amendments. This will be done in the next quarter.
- The final Directive on *Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges*. The Minister of Higher Education and Training approved the application of Standards of GRAP by CET colleges from 1 April 2015. The Directive outlines the transitional arrangements for the initial adoption of the Standards by the colleges.
- The proposed Directive on *The Application of Standards of GRAP by Public Entities that Apply IFRS Standards*. The Directive is only applicable to public entities that apply IFRS Standards based on the criteria in Directive 12 on *The Selection of an Appropriate Reporting Framework by Public Entities*. The proposed Directive provides guidance on when, or if, an entity that applies IFRS Standards should consider Standards of GRAP in formulating an accounting policy in the absence of an IFRS Standard dealing with the issue. The proposed Directive is available for comment until 31 July 2019.
- Review of the results of the application of the Standards of GRAP by 'small' entities. The Board agreed that a separate reporting framework or guidance is not needed. The Board will identify how current and planned initiatives may address concerns raised by 'small' entities or those with less complex transactions.

Coming up in the next quarter

The Board will consider the following documents at its July 2019 Board meeting:

- Analysis of, and responses to, comments received on ED 171 on *Identifying Projects to Prioritise on the ASB's Work Programme for the Period 1 April 2020 to 31 March 2023*.
- Proposed Improvements to the Standards of GRAP (2019).
- Proposed transitional provisions for the adoption of the amendments to GRAP 104 on *Financial Instruments* approved in March 2019.

Open for comment

The following Exposure Drafts are open for comment:

| Topic | Comment deadline |
|---|------------------|
| ED 173 - <i>Collective and Individual Services and Emergency Relief</i> (Amendments to IPSAS 19) | 15 April 2019 |
| ED 174 - Proposed Directive on <i>The Application of Standards of GRAP by Public Entities that Apply IFRS Standards</i> | 31 July 2019 |

Planned events

The Secretariat of the ASB has planned project group meetings for the upcoming projects for the next quarter. If you are interested in joining the project group discussions, please email the staff member listed below:

| Event | Date | Target audience |
|---|-------------|---|
| Improvements to the Standards of GRAP e-mail: amandab@asb.co.za | | |
| Project group | 10 May 2019 | Firms, professional bodies and other interested parties |
| Project group | 13 May 2019 | Preparers of financial statements and consultants |
| Transitional provisions for the amendments to GRAP 104 on <i>Financial Instruments</i> e-mail: jeaninep@asb.co.za | | |
| Project group | 10 May 2019 | Firms, professional bodies and other interested parties |
| Project group | 13 May 2019 | Preparers of financial statements, users, and consultants |

News from the IPSASB

The IPSASB last met in March 2019. A comprehensive summary of the meeting will be available on the IPSASB's website shortly.

The IPSASB approved the Consultation Paper and Illustrative Exposure Draft on the measurement of assets and liabilities in the public sector. The purpose of the documents is to:

- Provide guidance on how to apply the various measurement bases identified in IPSASs, e.g. fair value, historical cost, and replacement cost.
- Identify whether any changes should be made to the measurement bases used in IPSASs based on the issue of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

The Consultation Paper and Illustrative Exposure Draft will be issued locally for comment and consultation once formally issued by the IPSASB.

The IPSASB will meet again in June 2019.

General

Next ASB meeting

The next Technical Committee meeting is on the 6th of June 2019, and the Board's next meeting is scheduled for the 4th of July 2019. As always, observers are welcome to attend these meetings, but it should be noted that space is limited. In order to accommodate observers at meetings, interested parties are asked to complete the registration form available on the website.

Accessing documents issued by the ASB

Persons and organisations interested in the activities of the ASB should monitor the website, www.asb.co.za, or contact info@asb.co.za, for the release of the latest Exposure Drafts for public comment.

A GRAP Handbook with the latest amendments to the Standards of GRAP as well as other pronouncements issued by the Board will be available from Juta in the next quarter.

The latest versions of the Standards of GRAP and translations of the Standards (isiZulu, Sesotho and Afrikaans) are available on the ASB's website.

For ongoing information please visit us on our Facebook page, <https://www.facebook.com/AccountingStandardsBoard>, and "LIKE" us, and follow us on LinkedIn at <http://www.linkedin.com/company/accounting-standards-board>. And be sure to do the same on our Twitter account at @ASB_SA.



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Accounting Standards Board

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