Accounting Standards Board

Newsletter 76 – August 2019

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Improving the quality of accounting policies

Background

In many of the Board's recent reviews of entities financial statements, it has been observed that entities often include generic accounting policies in their financial statements. The accounting policies often repeat the requirements of the Standards – including all the potential options available, e.g. cost or fair value/revaluation model – and are not tailored to tell an entity's story. From reading the accounting policies, it is often not possible to distinguish one entity from another.

To improve the quality of the accounting policies, entities could, among others, do the following:

- Explain the specific transactions that are dealt with by a specific accounting policy.
- Explain how the recognition requirements apply to its specific transactions, e.g. when does the entity believe that control arises for a specific transaction.
- Indicate what specific options it has adopted for subsequent measurement (if options exist in the Standards).
- Explain how a particular measurement basis has been applied and what specific judgements were used, e.g. how was fair value determined – using market data, specific valuation techniques, etc.
- Eliminate accounting policies for transactions, or features of transactions, which it does not undertake.

Illustration

The discussion below outlines the typical components of an accounting policy for non-exchange revenue and how the policy could be modified to improve the quality. Note: these are potential suggestions made by the Secretariat based on reviews of financial statements. The potential suggestions included below are not exhaustive.

Accounting policy for non-exchange revenue

Typical policy

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners. Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor. Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified. Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Potential improvements:

- *What non-exchange revenue does the entity have? Examples could include transfers from another level of government, equitable share allocations, fines, and taxes.*
- *Does the entity have non-exchange revenue with conditions and restrictions? The accounting policy should be modified to reflect the actual transactions of the entity.*
- *Is it necessary to include the text about 'stipulations' unless it is modified to indicate how stipulations are imposed on the entity and the impact for specific transactions?*

Typical policy - Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Potential improvements:

- *When does an entity have a present obligation, i.e. a condition?*
- *What arrangements have conditions? Examples could include specific grant and donor funding arrangements.*
- *Why does an entity have a condition or how does the condition arise? Examples could indicate that the conditions arise from legislation (e.g. if in terms of the Division of Revenue Act), or terms of an arrangement with a donor.*
- *At what point does the entity obtain control of a resource? Examples could include when the budget or specific tax legislation becomes effective for the year, when an arrangement has been concluded with a donor, or when a specific offence is committed for fines.*

Typical policy - Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity. When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Potential improvements:

- *How was the fair value of the asset determined for the different types of non-exchange transactions? Examples could indicate that the fair value of equitable share allocations are determined using the amounts specified in the relevant budget legislation, and the fair value of non-monetary assets using the equivalent price to replace an asset of the same age, condition, etc.*

- *When and how are the conditions satisfied and the liability reduced? Examples should explain what conditions exist and how/when the entity fulfils them.*
- *Note: If an entity does not have taxes, this reference should be omitted.*

Typical policy - Gifts and donations, including goods in-kind
Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Potential improvements:

- *What types of gifts and donations are received? In this case the entity did not have any in either the prior or current year, and therefore the accounting policy should have been deleted.*
- *When does the entity believe that it is probable that the entity will receive the benefit? Examples could include at what specific point does control arise for the gifts and donations received by the entity.*
- *How has fair value been determined for the specific gifts and donations received? Have any significant judgements been applied? If fair value could not be determined reliably, why not?*

Further information

The Guideline on *The Application of Materiality to Financial Statements* provides guidance on how to formulate accounting policies that are relevant to an entity's circumstances.

mSCOA illustrative financial statements

The National Treasury has issued an illustrative set of financial statements to assist municipalities with the preparation of their financial statements for the year ended 30 June 2019. The illustrative financial statements do not illustrate the accounting requirements for municipalities that have controlled entities, associates and/or joint ventures. As the way in which municipalities operate is different, it is each municipality's responsibility to ensure compliance with the Standards of GRAP, including materiality, and related legislative requirements.

The illustrative financial statements and the responses to the comments received can also be accessed from the *m*SCOA website at the following link:
http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Documents/Forms/AllItems.aspx?RootFolder=%2fRegulationsandGazettes%2fMunicipalRegulationsOnAStandardChartOfAccountsFinal%2fDocuments%2fFinal%20AFS%20specimen%20issued%2029%20July%202019&FolderCTID=0x0120005960DD1F3397B24DB54AAC0C01712D47

Coming up

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

- Proposed GRAP Reporting Framework for 2020/2021.
- Initial discussions on the preparation of combined financial statements, i.e. where financial statements of different entities are combined but control is not the principle used for combination.
- Invitation to Participate in the Post-implementation Review of GRAP 103 on *Heritage Assets*.
- Research Paper on results of the review of the amendments to GRAP 16 on *Investment Property* and GRAP 17 on *Property, Plant and Equipment.*

Open for comment

The following Exposure Drafts are open for comment:

Topic	Comment deadline
ED 175 – IPSASB's Consultation Paper on *Measurement*	13 September 2019
ED 176 – Proposed *Improvements to the Standards of GRAP (2019)*	31 October 2019
ED 177 – Proposed *Transitional Provisions for the Standard of GRAP on Financial Instruments (Revised 2019)*	29 November 2019
ED 178 – Proposed *Improvements to IPSAS, 2019*	20 September 2019

Planned events

The Secretariat of the ASB will be hosting roundtable discussions to discuss the Exposure Drafts open for comment. If you are interested in joining these discussions, please email the staff member listed below:

Event	Date	Target audience
IPSASB's Consultation Paper on *Measurement* **e-mail:** tsholot@asb.co.za		
Roundtable discussion	10 September 2019	Firms, professional bodies and other interested parties
Roundtable discussion	11 September 2019	Preparers, engineers and asset managers.
IPSASB's Proposed Improvements to IPSAS, 2019 **e-mail:** jeaninep@asb.co.za		
Roundtable discussion	26 September 2019	Firms, professional bodies and other interested parties

News from the IPSASB

The IPSASB has published the following documents:

(a) Delivering for the Future: IPSASB 2017-2018 Biennial Review - https://www.ifac.org/publications-resources/delivering-future-ipsasb-2017-2018-biennial-review.

(b) Exposure Draft 68: Proposed Improvements to IPSAS, 2019. The comment deadline is 30 September 2019. The Exposure Draft has been issued locally for comment as ED 178 with an earlier comment deadline to allow time to prepare a comment letter to the IPSASB.

The next IPSASB meeting will be held from 24 to 27 September 2019 in Portugal.

General

Next ASB meeting

The next Technical Committee meeting is scheduled for the 29th of August 2019, and the Board meeting is scheduled for the 19th of September 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 is available from Juta.

The latest versions of the Standards of GRAP, and translations of the Standards into 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.

Contact us
Address: International Business Gateway, Midridge office Estate, Midrand, Johannesburg
Telephone : 011 697 0660
E-mail : info@asb.co.za

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