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Are you accounting for land correctly?

Have you been recognising land only when you are the title deed holder? This accounting may be incorrect!

IGRAP 18 on *Recognition and Derecognition of Land* was issued in March 2017 and is effective from 1 April 2019. It explains when land should be recognised – or not – in the financial statements.

So, what principles should you use to account for land?

As with all other assets, land should be recognised when it is controlled by an entity. This means that an entity should be able to demonstrate that it controls the economic benefits or service potential of the land by applying substance over form. An entity may be able to demonstrate control through:

- (a) legal title (i.e. by being the registered title deed holder); and/or
- (b) the right to direct access to land, and/or to restrict or deny the access of others to land through
 - (i) a lease;
 - (ii) another arrangement to use land; and/or
 - (iii) rights in legislation or similar means.

What is the impact of these principles?

Based on the principles in IGRAP 18, there are at least five scenarios that entities should consider.

Scenario 1 – An entity has legal title

If an entity has the legal title to land, it should assess whether it has concluded an arrangement with another party that gives the other party the right to use the land that the entity owns. If there are no arrangements for the use of the land by another party, the entity will likely be able to demonstrate control and should recognise the land.

Scenario 2 – An entity has legal title, but has concluded an agreement with another party to use the land it owns

An entity should assess the terms and conditions of the arrangement. In assessing the terms and conditions of the arrangement, an entity should examine the following:

- (a) What rights and obligations does the entity and the other party have in the arrangement?

Rights can be either protective or substantive.

- (i) Protective rights protect an entity's interest/rights in the asset, e.g. approval must be sought from the entity by the other party before undertaking a certain activity with the land.
- (ii) Substantive rights give the entity, or the other party, the power to make decisions about how the economic benefits or service potential are accessed, used and/or restricted. This includes decisions about how the land will be used (for what, potential beneficiaries, and at what price), and whether to sell the land (to whom, and at what price). Only substantive rights are considered in assessing whether control exists.

An entity should be able to demonstrate that its rights are presently exercisable - whether these rights are currently exercised by the entity is irrelevant.

- (b) For what period is the right of use?

As land has an unlimited life, for an entity to demonstrate that it has control of the economic benefits and service potential, the right to use the land should be for an *unlimited* time. Note: there is a difference between 'indefinite', i.e. the period is not known, versus 'unlimited', i.e. there is no end to the period.

If the entity has given away its substantive rights to control the economic benefits or service potential of the land for an unlimited time, it should *not* recognise the land.

The Guideline on *Accounting for Arrangements Undertaken in terms of the National Housing Programme* provides guidance on the recognition of land used in these schemes [<http://www.asb.co.za/wp-content/uploads/2019/04/Guideline-on-Accounting-for-Arrangements-Undertaken-i.t.o-the-National-Housing-Programme-1-April-2019-clean.pdf>]

Scenario 3 – An entity has the right to use land, but another entity is the custodian of the land in legislation

In the public sector, custodial rights and obligations related to land are conferred on specific entities through legislation or similar means. An example of such a Department is Public Works. Under the current legal framework, the rights in legislation or similar give the custodian the right to control the economic benefits or service potential of the land.

In this situation, although the entity is the legal owner of land, the custodian has control through its rights in legislation or similar, and the entity should *not* recognise the land.

Scenario 4 – The entity has joint control of land

An entity may enter into an arrangement with more than one party, and the parties jointly control the land, i.e. decisions about how the economic benefits or service potential of the land will be accessed, used and/or restricted, are taken jointly by the parties.

In these instances, the relevant Standard of GRAP on joint ventures is applied.

Scenario 5 – An entity does not have legal title, but has the right to use another party's land

Where an entity has the right to use land, it will need to apply a similar assessment to that outlined for scenarios 2 and 3.

If an entity has a right to use land, but the other party is the custodian of the land in legislation or similar, then it should *not* recognise the land.

In other arrangements, an entity would need to assess if (a) it has substantive rights to direct the economic benefits or service potential of the land, and (b) the period over which the land is used is unlimited.

What are the transitional arrangements for IGRAP 18?

IGRAP 18 is effective for financial years commencing on or after 1 April 2019.

This means that entities will need to account for land using its principles for financial statements prepared for the period ending on 31 March 2020, 30 June 2020 or 30 December 2020 (depending on the type of entity).

IGRAP 18 will need to be applied to all arrangements relating to land (whether through legal title, lease or 'right of use' arrangement, or legislative or other rights) that exist on the initial adoption. The date of adoption will be 1 April 2019, 1 July 2019 or 1 January 2020.

An entity need not restate comparative information. Any adjustments that are needed to align current accounting policies with IGRAP 18 are made against the opening accumulated surplus or deficit in the year of adoption.

Assets are recognised initially at their acquisition cost. If information is not available about cost, the fair value of the land at the date of adoption may be used as the deemed cost.

What do entities need to do to prepare for implementation?

While this is not a complete list of possible actions, an entity should consider doing the following:

1. Review the land register of the entity on the *date of adoption* to identify land where it has legal title.
 - The entity should assess whether it has entered into any arrangements with external parties to use the land. If yes, it will need to assess the terms and conditions of the arrangements to determine if it controls the land.
 - Consider if the Guideline on *Accounting for Arrangements Undertaken in terms of the National Housing Programme* is applicable.
 - Consider if the Standard of GRAP on *Leases* or another Standard should be applied.
2. Review the contracts register on the *date of adoption* to identify where it has entered into arrangements to use the land of an external party.
 - If it has entered into arrangements to use another party's land, it will need to assess the terms and conditions of the arrangements to determine if it controls the land. The Guideline on *Accounting for Arrangements Undertaken in terms of the National Housing Programme* may be relevant in deciding how to account for land used by another entity.
 - Consider if the Standard of GRAP on *Leases* or another Standard should be applied.
3. If the entity needs to recognise land, it should assess whether the acquisition cost is available for the land. If not, the entity will need to establish a process to determine the fair value of the land on the *date of adoption*. Fair value should be determined by someone competent to carry out the valuation in accordance with the valuation principles in the Standards.
4. An entity will need to review its existing accounting policies and align them with the principles in IGRAP 18. Any significant judgements related to the application of the principles or in determining the fair value of land, should be explained in the financial statements.
5. An entity will need to review its existing processes and systems to align with the new principles in IGRAP 18 to ensure that the information can be generated on an ongoing basis.

Note: the list above assumes that the asset and contract registers are complete and accurate.

New FAQs and other publications

New FAQs

The Secretariat published the following FAQs in October:

- Applying the definition of investment entities
This FAQ deals with the application of the new definition of an 'investment entity' in GRAP 34 on *Separate Financial Statements* and GRAP 35 on *Consolidated Financial Statements* that are effective from 1 April 2020.
- When should an entity present revenue and receivables from exchange and non-exchange transactions on the face of the financial statements or in the notes?
This FAQ explains how to apply the principles in the Standards of GRAP that require the presentation of revenue and/or receivables on the face of the financial statements or in the notes.

Material accompanying GRAP 104 on Financial Instruments (Revised 2019)

GRAP 104 was revised in 2019. The revised Standard is not yet effective as the Board is consulting on possible transitional provisions.

As the Standard deals with both simple and complex financial instruments, preparers often find it difficult to understand how the Standard applies to their specific instruments. The Secretariat has prepared "Fact Sheets" which explain how the revised GRAP 104 could be applied to account for bank accounts, receivables, payables, concessionary loans, loans and investments, interests in residual interests, financial guarantee contracts and loan commitments.

The revised GRAP 104 and the Fact Sheets can be accessed by following this link: <http://www.asb.co.za/grap-104-2/>.

Separate FAQs have been issued for GRAP 104 (Revised 2019).

Coming up

The Board will consider the following technical documents at its December 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*.
- Research Paper on results of research on reporting information to the public.
- Analysis and review of comments received on ED 174 on *The Application of Standards of GRAP by Public Entities that Apply IFRS Standards*.

Open for comment

The following Exposure Drafts are open for comment:

Topic	Comment deadline
ED 176 – Proposed <i>Improvements to the Standards of GRAP (2019)</i>	31 October 2019
ED 177 – Proposed <i>Transitional Provisions for the Standard of GRAP on Financial Instruments (Revised 2019)</i>	29 November 2019
ED 179 - <i>Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments</i>	17 December 2019

Planned events

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

Event	Date	Target audience
Proposed Improvements to Standards of GRAP, 2019 e-mail: amandab@asb.co.za		
Roundtable discussion	21 October 2019	Preparers, professional bodies and other interested parties
Roundtable discussion	23 October 2019	Firms, auditors and other interested parties
Proposed Transitional Provisions for GRAP 104 (Revised 2019) Email: jeaninep@asb.co.za		
Roundtable discussion	26 November 2019	Public entities
Roundtable discussion	27 November 2019	Municipalities and municipal entities
Roundtable discussion	4 December 2019	Firms, auditors, professional bodies and other interested parties
Draft Research Paper on Reporting Information to the Public Email: elizna@asb.co.za		
Roundtable discussion	31 October 2019	Preparers, consultants and other interested parties

News from the IPSASB

Highlights from September 2019 IPSASB meeting

The IPSASB met from 24 to 27 September 2019. The highlights of the meeting are outlined below.

Final pronouncements issued

The IPSASB approved final guidance on how to account for 'collective and individual services in-kind'.

Collective services are services provided by government that are not consumed directly by beneficiaries, e.g. police services, defence, infrastructure, etc. Individual services are goods or services provided by government to individuals, e.g. health, education, housing etc. It is currently unclear if some cash benefits that do not meet the definition of a social benefit would be included in the amendments to IPSAS 19 or the project on transfer expenses (see below).

The guidance indicates that no liabilities arise for these services until they are delivered by government. The guidance will be issued as an amendment to IPSAS 19 on *Provisions, Contingent Liabilities and Contingent Assets*.

Issues being deliberated

The IPSASB plans to issue three Exposure Drafts in December on the following topics:

- Revenue with Performance Obligations (using IFRS 15 on *Revenue from Contracts with Customers* as a basis).
- Revenue without Performance Obligations (which modifies IPSAS 23 on *Revenue from Non-exchange Transactions (Taxes and Transfers)*).
- Transfer expenses (deals primarily with transfers between government entities and others and when to recognise a liability, and a corresponding expense or asset).

The IPSASB is debating issues related to the following topics:

- Whether to depart from IFRS 16 on *Leases* for lessor accounting. A final decision will be made in December 2019.
- Whether and to what extent guidance is needed in existing IPSAS on infrastructure assets.
- What guidance is needed on heritage assets and how it can be addressed using existing IPSAS.

Comments to the IPSASB

The Secretariat has issued comment letters to the IPSASB on the following Exposure Drafts:

- Consultation Paper on *Measurement*.
- Improvements to IPSAS, 2019.

The comment letters can be accessed by following this link: <http://www.asb.co.za/submissions-to-ipsasb-and-other-organisations/>

The next IPSASB meeting will be held from 10 to 13 December 2019 in Abu Dhabi.

General

Next ASB meeting

The next Technical Committee meeting is scheduled for the 19th of November 2019 and the Board meeting is scheduled for the 5th of December 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 { <https://mailchi.mp/6434223d8c05/accounting-standards-board-grap-handbook> }.

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.



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Accounting Standards Board

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