Accounting Standards Board

Newsletter January 2020 Edition

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Do you know what statutory receivables are and how to account for them?

GRAP 108 on *Statutory Receivables* issued by the ASB is effective from 1 April 2019. This means that entities that apply Standards of GRAP need to consider the Standard in preparing their financial statements for 31 March 2020 or 30 June 2020.

What are statutory receivables?
Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means; and are settled in cash or another financial asset. "Supporting regulations or similar means" includes regulations supporting laws, by-laws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Examples of statutory receivables include those receivables related to property taxes, fines for breaches of legislation, levies, and appropriations, grants and transfers outlined in the relevant division of revenue act. Statutory receivables are also known as compulsory transactions.

Are statutory receivables the same as financial instruments?
"Statutory receivables" are not financial instruments. Financial instruments only arise from a contract. The key difference between a contractual and a statutory arrangement is that contracts are entered into by willing parties to the arrangement.
Receivables that are financial instruments are accounted for using GRAP 104 on *Financial Instruments* and are measured initially at fair value based on prevailing 'market terms'. Because there is no willing party in statutory arrangements, it is difficult to determine the 'market terms' envisaged in GRAP 104. As a result, the measurement of statutory receivables is different to other receivables.

How are statutory receivables measured initially?
As receivables arise from a revenue transaction, the initial measurement of statutory receivables is largely dependent on the measurement outlined in GRAP 9 on *Revenue from Exchange Transactions* and GRAP 23 on *Revenue from Non-exchange Transactions (Taxes and Transfers),* to be read in conjunction with GRAP 108. The revenue Standards indicate the following:

- GRAP 9 – Fair value of the consideration received or receivable.
- GRAP 23 – Fair value at the date of acquisition.

GRAP 108 explains that the measurement in the revenue Standards should be read to mean the “transaction amount” as outlined in GRAP 108. The transaction amount is “the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means”. The effect is that fair value in the revenue related Standards of GRAP and GRAP 108 should be determined solely based on what is prescribed in legislation. This is important because it rules out the need to assess the impact of providing credit, or allowing payment over a period of time, e.g. for goods and services provided, taxes, fines, grants, appropriations or similar transfers, on initial recognition.

How are statutory receivables measured at each reporting date?

Given the lack of a market for compulsory transactions, statutory receivables are measured at each reporting date using the cost method as outlined in GRAP 108. Applying the cost method means that the initial transaction amount is only adjusted for the following:

- Interest or other penalties (if required to be charged in terms of legislation or similar).Interest is charged based on the nominal rate outlined in legislation rather than using a market rate or effective interest rate as outlined in GRAP 104.
- Payments received and other amounts that are derecognised by the entity, e.g. amounts waived by the entity.
- Impairment losses.

An entity assesses at each reporting date whether there is any indication that an impairment loss should be recognised by comparing the carrying amount of the receivable to the cash flows the entity expects to receive. The cash flows are discounted if the time value of money is material. While there are specific indicators that identify the need to asses if an impairment loss exists, entities should also consider the effect of delayed payment and whether this affects the carrying amount of the receivable.

Are there specific disclosure requirements for statutory receivables?

As statutory receivables are different from other receivables, there are specific disclosures required about how these transactions arise, how the transaction amount is determined, whether interest or levies are charged (and if yes, how), how impairment is assessed and if a discount rate is applied. Importantly, the carrying amount of statutory receivables is disclosed separately in the notes to the financial statements from receivables that are financial assets and other receivables.

Note: this is not a comprehensive list of disclosures in GRAP 108 and focuses on aspects specific to statutory receivables.

What should an entity do to prepare to adopt GRAP 108 and are there transitional provisions?

The Standard is effective for financial years commencing on or after 1 April 2019. The Standard should be applied retrospectively with the exception of (a) the impairment principles that are applied prospectively, and (b) amounts previously derecognised need not be reassessed for derecognition using GRAP 108.

Although the Standard is effective from 1 April 2019, entities are allowed a three-year period within which to change the classification (e.g. from another type of receivable to a statutory receivable) and measurement (e.g. from fair value, amortised cost or another basis to the cost method) of their statutory receivables. This three-year period is voluntarily adopted by entities. Entities should comply with GRAP 108 by 31 March 2022 or 30 June 2022 (whichever is applicable). Where the three-year transitional relief is applied, certain information should be provided to users of the financial statements during this period.

In preparing for the adoption of the Standard, entities should, among other actions:

- review their revenue transactions and identify how they arise, i.e. through contracts or through other means;

- once the transactions have been identified, compare existing accounting policies to the principles in GRAP 108 to identify differences and update policies to align with GRAP 108; and review existing processes to support the implementation of the new policies, particularly understanding how the information required to be disclosed in the financial statements will be sourced.

GRAP Updates

There are a number of new Standards that will need to be applied by entities for their 31 March or 30 June 2020 year ends. The ASB, hosted by SAICA and CIGFARO, will be presenting a high-level overview of these Standards on the dates below. To register, send an email to the relevant address(es) listed.

Date	Organisation	To register, contact
January 2020		
30 January	Public Entity GRAP Update to be held in Johannesburg – hosted by SAICA	https://saicaevents.co.za/2020-saica-public-entity-discussion/
February 2020		
13 February	KwaZulu Natal – hosted by CIGFARO	kznbranch@cigfaro.co.za or branch@cigfaro.co.za
19 February	Western Cape - hosted by CIGFARO	westerncape@cigfaro.co.za or branch@cigfaro.co.za
21 February	Northern Cape - hosted by CIGFARO	jwagner@solplaatje.org.za or branch@cigfaro.co.za
March 2020		
5 March	Eastern Cape - hosted by CIGFARO	jngcelwane@mandelametro.gov.za or branch@cigfaro.co.za
12 March	Limpopo – hosted by CIGFARO	makhongelam@gmail.com or branch@cigfaro.co.za
13 March	Mpumalanga – hosted by CIGFARO	lengwatetm@nkangaladm.gov.za or branch@cigfaro.co.za
26 March	Gauteng – hosted by CIGFARO	asmas@joburg.org.za or branch@cigfaro.co.za

Newly issued FAQs

IGRAP 18 on the *Recognition and Derecognition of Land* is effective for financial years commencing on or after 1 April 2019. Questions have been raised about whether land invasions or similar illegal occupations of land mean that an entity loses control of land when this occurs.

An FAQ was issued by the Secretariat in November 2019 explaining the effect of land invasions and illegal occupations on control. The broad considerations are as follows:

- The accounting for land is based on the rights that an entity is presently able to exercise in terms of its ownership of the land or other rights granted in terms of a binding arrangement.

- Where an entity controls land because of legal ownership - The invasion of land may be an illegal act. While the occupants may have certain rights, these rights do not supersede or eliminate the entity's currently exercisable rights in terms of its legal ownership of the land. The fact that the entity may not execute these rights because of political, socio-economic or other factors, is irrelevant in establishing whether control exists for accounting purposes. These rights may however subsequently be changed through another legal action, such as the outcome of a court process such as the outcome of court case, court order, etc.
- Where an entity controls land because of rights to use land (other than through legal ownership) - When an entity controls land through other rights, it is likely that the entity would need legal advice as to the rights of the various parties.

The FAQs can be accessed by following this link: http://www.asb.co.za/frequently-asked-questions/

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