

APPLICATION OF STANDARDS OF GRAP BY SMALL ENTITIES



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.

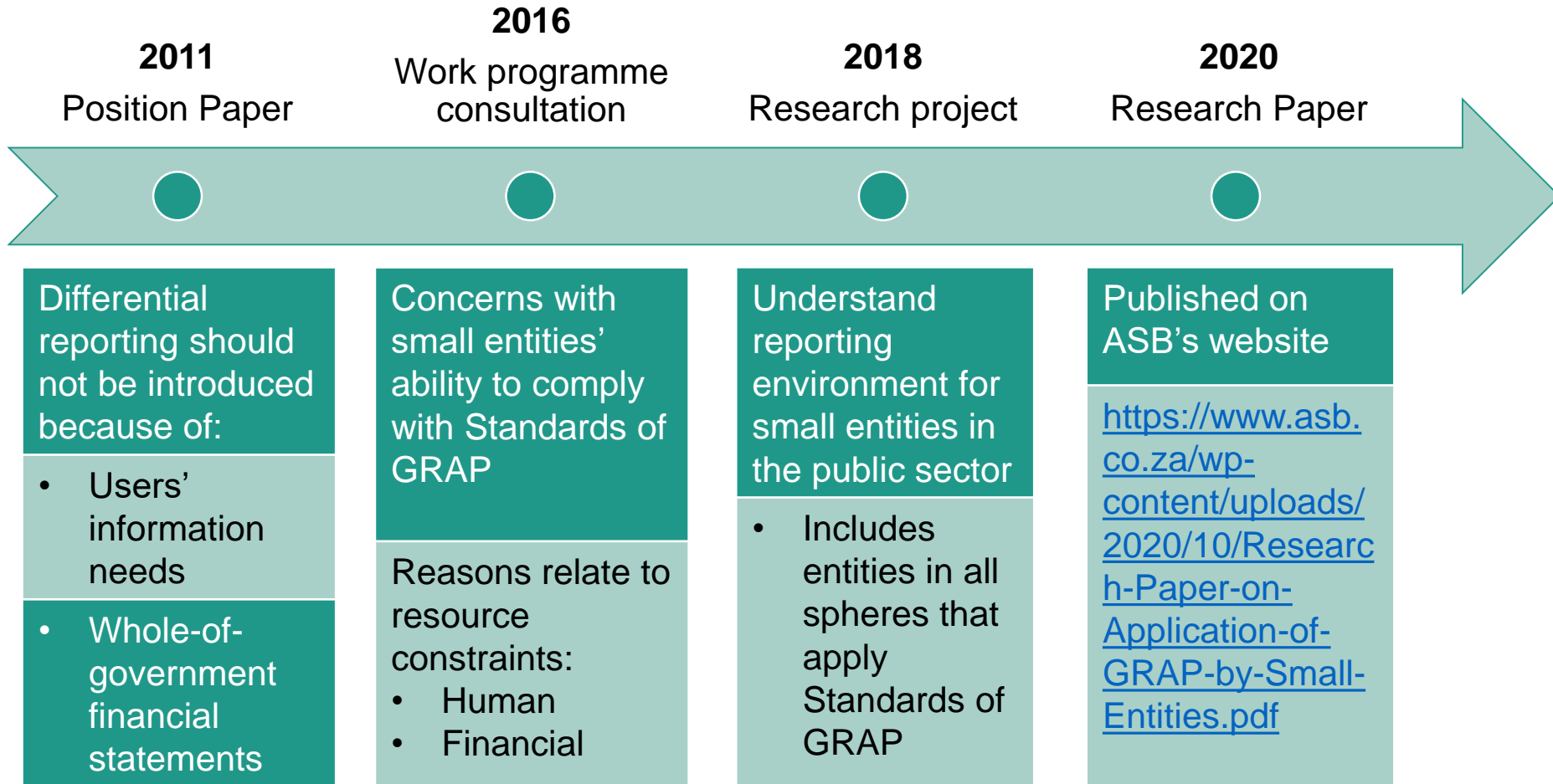
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Project background

Why did the Board do research?



What was the research about?

- Research focussed on:
 - *Characteristics* that could be used to classify entities as small
 - *Challenges and issues* experienced by small entities to prepare financial statements using Standards of GRAP
- Conducted through various means



Results of research

(a) Characteristics



Considerations for characteristics

- Classification necessary?
 - If decided to prescribe reporting requirements or provide guidance to small entities

Considerations for characteristics

- If classified, consider:

Who?

- Who should classify entities?

Timing?

- When should entities be classified?

How?

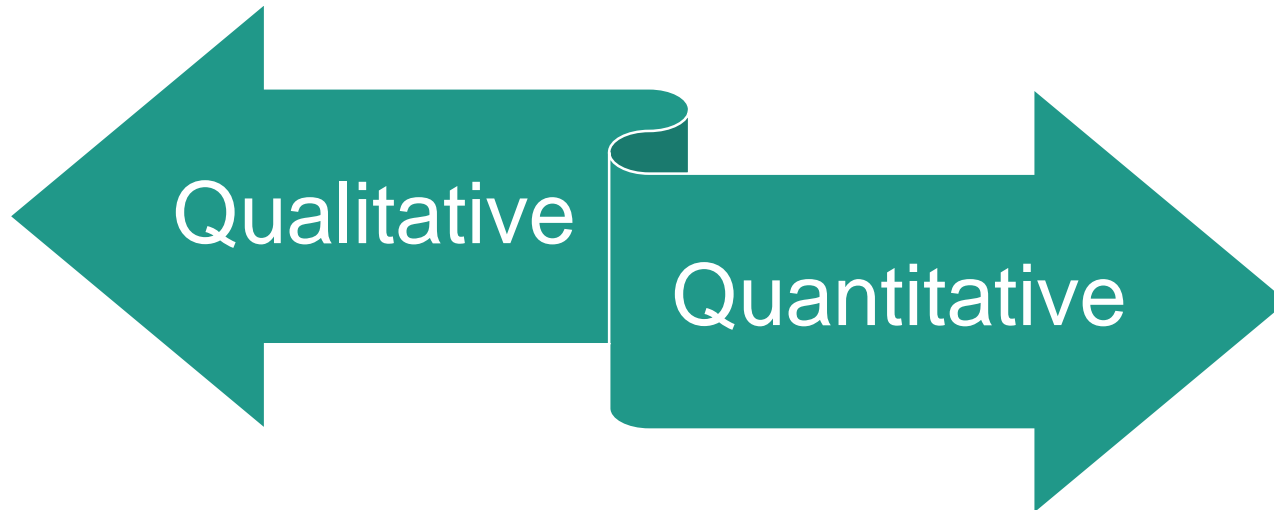
- What methods could be used to classify entities?



Considerations for characteristics

What did stakeholders think?

- If necessary to classify, use a combination



Characteristics

What did stakeholders think...

Value of revenue

Number of employees

Functions performed
by entity

Value of expenses

Value of the budget

(b) Understanding the problem

Accounting challenges

Accounting for non-current assets

Determining FV

Judgement to separate assets into components

Judgement to determine UL & residual values

Adjusting for fully depreciated assets still in use

GRAP is complex

Complexity of Standards of GRAP can be challenging when readers are not financially literate

Financial instruments

Inability to account for & disclose financial instruments was raised as the Standard is complex.

Keeping up-to-date

Requirements of Standards change annually; new Standards become effective & amendments made to existing Standards

Applying materiality

Unable to apply materiality, including determining appropriate accounting policies

Issues with broader small entity environment

Human resource capacity and skills

One person responsible for wide range of tasks

Preparers not educated in Standards of GRAP & entities unable to train

Unable to attract needed skills

Budget constraints

Limited budgets & high costs to comply with requirements of Standards, e.g. to appoint experts & consultants

Regular controls and record keeping lack

Daily & monthly controls not in place & record keeping lacks

Unreliable financial information and asset management

Overreliance on consultants

Because of small entities' capacity constraints:
 > Consultants used extensively
 > Skills not transferred

Difficulty complying with legislation

Issues go beyond preparing financial statements & include inability to comply with broader legislative requirements

Conclusion of the project

(a) Considerations

What did Board consider to conclude the project?

Legislative environment

- To support current legislative reporting requirements, consistent reporting framework is needed to hold entities accountable

Impact on consolidations & other reporting requirements

- To meet existing reporting requirements, areas where consistent information should be available for all entities, including small entities

Effectiveness to address problem

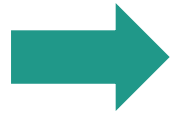
- Not resolved by different reporting framework or guidance for small entities
- Issues not unique to small entities

Stakeholder views

- Did not support a different reporting framework for small entities

(b) Decisions of the Board

What did the Board decide?

- 
- A large teal arrow pointing to the right, highlighting the main decision.
- Not introducing reporting requirements or guidance specific to small entities
 - Other more appropriate actions that would assist environment include:
 - Board's other projects & related guidance
 - Publishing results & resources available in Research Paper
 - Communicated issues outside Board's mandate to stakeholders that may be able to assist

Mapping of challenges

Finalised projects of Board	Guidance available
Review of amendments to GRAP 16 and GRAP 17	<ul style="list-style-type: none"> • Research Paper published • FAQs developed
Guideline on materiality	<ul style="list-style-type: none"> • Guideline on materiality and accounting policies • FAQ developed
Revision of GRAP 104	<ul style="list-style-type: none"> • Fact sheets explaining basic principles • FAQs available

Mapping of challenges

Finalised projects of Board	Guidance available
Annual Directive 5 update	<ul style="list-style-type: none"> • Annexure on changes in reporting framework • New annual summary • FAQs updated
GRAP updates and various recordings	Published on ASB website, raise awareness
Ongoing projects	Actions
Post-implementation review of GRAP 103	Board considers at December 2020 meeting



QUESTIONS / COMMENTS?



Contact details

Tel: (011) 697-0660

Fax: (011) 697-0666

Email: info@asb.co.za

Website: www.asb.co.za

