Accounting Standards Board

Newsletter February 2021 Edition

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Upcoming events

Proposed Interpretation on *The Effect of Past Decisions on Materiality* (ED 185)

The Board issued ED 185 in September 2020 for comment.

We will be hosting a series of roundtable discussions in February 2021 to discuss the proposals in ED 185. Feedback received at these sessions will form part of the Board's public consultation process on the Exposure Draft.

ED 185 can be accessed by following this link. If you are interested in attending a session, please email jeaninep@asb.co.za.

Date	Event	Stakeholder group
5 February 2021	**Roundtable discussion**	**Auditors, firms, technical specialists, professional bodies, and academics**
12 February 2021	**Roundtable discussion**	**Preparers**
19 February 2021	**Roundtable discussion**	**Auditors, firms, technical specialists, professional bodies, and academics**
26 February 2021	**Roundtable discussion**	**Preparers**

What are the new accounting requirements for 2021?

What's new?

There are several new mandatory accounting requirements that are effective for financial years commencing on or after 1 April 2020. The new mandatory accounting requirements relate to the following areas:

- Interests in other entities.
- Living and non-living resources.
- Adjustments to revenue.

It is important to note that the requirements for interests in other entities and living and non-living resources are only mandatory for trading entities from 1 April 2021.

A summary of the accounting requirements for entities in the public sector can be accessed on the ASB's website by following this link.

A brief summary of the new requirements is outlined below.

Interests in other entities

Accounting for interests in other entities deals with how to prepare financial statements when an entity controls, jointly controls, or exercises significant influence over other entities, activities or assets. The existing Standards of GRAP on Consolidated and Separate Financial Statements (GRAP 6), Investments in Associates (GRAP 7), and Interests in Joint Ventures (GRAP 8) and related Interpretations have been withdrawn and replaced by new Standards from 1 April 2020. The new Standards are as follows:

- Separate Financial Statements (GRAP 34)
- Consolidated Financial Statements (GRAP 35)
- Investments in Associates and Joint Ventures (GRAP 36)
- Joint Arrangements (GRAP 37)
- Disclosure of Interests in Other Entities (GRAP 38)

The changes to the existing Standards were needed to align them with international standards in the public and private sector. Alignment with international standards – particularly in this area – aids in the preparation of consolidated financial statements that include entities that apply Standards of GRAP and IFRS Standards.

The key differences between the existing and new Standards are as follows:

1. Accounting for investments in other entities in the separate financial statements – When entities prepare separate financial statements, i.e. stand-alone financial statements of the entity, they can account for investments in controlled entities, joint ventures and associates at cost, fair value, or using the equity method. The equity method was previously not permitted.
2. Introduction of "investment entities" – Entities are required to consolidate interests in other entities where control exists. The exception is investments that are held by "investment entities". "Investment entities" obtain funds from one or more investors and provide management services to those investors, invest funds on behalf of those investors to provide capital returns or investment revenue, and measure and evaluate the performance of those investments on a fair value basis. Investments that are controlled by investment entities are measured at fair value rather than being consolidated.
3. Definition of control – The definition of control has changed to include scenarios where an entity is exposed to, or has rights to, variable benefits because of its involvement with the other entity (which could include losses), and the entity has the ability to affect the nature or amount of those benefits (or losses) because of its power over the entity. Additional application guidance is provided to explain how control should be applied in various scenarios in the public sector.
4. Treatment of jointly controlled entities – Previously, entities could either apply the equity method or proportionate consolidation when including jointly controlled entities in their financial statements. The application of the equity method is now mandatory for jointly controlled entities.
5. Revised disclosure requirements – The disclosure requirements of the existing Standards have largely been combined into one Standard. A number of new disclosure requirements have been introduced for the different arrangements that could exist where an entity has an interest in another entity.

Living and non-living resources

GRAP 110 provides guidance on the accounting for:

- Living resources, which are those resources that undergo a biological transformation. Examples include animals and plants that are used to provide services, and/or held for research, conservation, recreation, and educational purposes.
- Non-living resources, which are those that are not living resources and that occur naturally and have not been extracted. Examples include water, minerals, oil, gas and other non-regenerative resources that have not been extracted. Extracted resources are accounted for using existing Standards of GRAP, for example GRAP 12 on Inventories.

The key accounting issue for living resources is whether an entity controls those resources. Control may be demonstrated if the entity intervenes to manage the physical condition of the resource, e.g.:

- by intervening in its nutrition, health, reproduction, and environment;
- the entity has the ability to restrict the movement of the resource, e.g. through the use of cages and enclosures; and/or
- the entity has the ability to direct how the resource is used including its disposal.

Where control exists and the other recognition criteria are met, the resource is recognised as an asset in the financial statements. The accounting requirements are similar to other assets. Certain disclosures are required even if the definition of an asset or the control criteria are not met.

Non-living resources are not controlled by entities and are therefore not recognised as assets in the financial statements. Entities are required to disclose information about certain aspects related to non-living resources in their financial statements.

Adjustments to revenue

The charging of revenue in the public sector is frequently regulated by legislation, regulation, or similar means. Due to the statutory nature of this revenue, the amount of revenue charged may be subject to a review, objection, or appeal process which may result in changes to revenue already recognised. IGRAP 20 on Adjustments to Revenue explains whether these changes are changes in accounting estimates or errors.

A typical example of the arrangements included in IGRAP 20 is the charging of property rates by municipalities. Municipalities charge property rates based on the valuation roll. Property owners may object, or appeal to the rates being charged when specific circumstances exist. The outcome of any objection or appeal process may mean that adjustments are needed to property rates already recognised in the financial statements. Depending on why the changes arose, e.g. because of a failure to follow legal processes, new information becomes available that was not previously known, etc., the adjustment to recognised revenue may be a change in estimate or an error.

Access the relevant documents

Entities should consult the following documents in preparing their financial statements in the new financial year:

- Directive 5 on Determining the GRAP Reporting Framework and related resources: Directive 5.
- Interests in other entities: GRAP 34; GRAP 35; GRAP 36; GRAP 37; and GRAP 38.
- Living and non-living resources: GRAP 110.
- Adjustments to revenue: IGRAP 20 and amendments to IGRAP 1.
- FAQs: Link.

What's next for the ASB Board?

The Board will meet on the 25th of March 2021. The following topics will be considered:

- An analysis of the responses and proposed actions to address the comments received on the proposed changes to GRAP 25 on Employee Benefits.
- Results of the desktop review of the application of GRAP 2 on Cash Flow Statements.
- Revised Preface to the Standards of GRAP and related documents.

If you are interested in observing the meeting, please follow this link for the Observer Guidelines and registration form.

IFRS Foundation publishes educational material on going concern and climate related disclosures

The IFRS Foundation supports the implementation of the IFRS Standards issued by the IASB through the publication of educational material.

Although the educational material is focused on the application of IFRS Standards, the Standards of GRAP are based on International Public Sector Accounting Standards (IPSAS), which are in turn based on IFRS Standards. As a result, the educational material may be helpful to preparers of financial statements based on Standards of GRAP in considering certain issues.

The IFRS Foundation recently published educational material on going concern and the effect of climate related matters on an entity's financial statements.

The ASB will commence with a project in the next few months to consider the application of going concern in the public sector. Due to the dire economic situation in the country, questions are being raised about whether public sector entities are going concerns, and what the potential differences could be between entities in financial distress versus those that are validly no longer going concerns. Developments on this project will be communicated in the Newsletter and social media.

Entities may need to consider the potential risks and obligations of climate related issues on an entity's financial statements either in terms of the potential recognition of obligations, and/or disclosures in the accounting policies or notes to the financial statements.

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