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- Do you only account for assets if you are the legal owner?



Join us at our upcoming Events

The ASB will be hosting several events over the next two months. This is what we will be discussing...

Date	Topic	Contacts
15 September 2021	Roundtable discussion on ED 190 on Amendments to IPSAS 17 on <i>Property, Plant and Equipment</i> https://www.asb.co.za/ed-190/	Elizna van der Westhuizen elizna@asb.co.za
16 September 2021	Roundtable discussion on ED 192 on <i>Proposed Improvements to IPSAS, 2021</i> https://www.asb.co.za/ed-192/	Elizna van der Westhuizen elizna@asb.co.za
22 September 2021	Roundtable discussion on ED 191 on <i>Proposed IPSAS on Non-Current Assets Held for Sale and Discontinued Operations</i> https://www.asb.co.za/ed-191/	Amanda Botha amandab@asb.co.za
1 October 2021	Roundtable discussion on ED 193 on the IPSASB's Mid-Period Work Program Consultation https://www.asb.co.za/ed-193/	Jeanine Poggiolini jeaninep@asb.co.za

If you are interested in attending these sessions, please email the relevant staff member listed in the table.

Proposed Improvements to IPSAS, 2021

The IPSASB issued proposed amendments to IPSAS for comment. These amendments were proposed to maintain alignment with the International Financial Reporting Standards on which IPSAS are based.

The IPSASB proposed a range of amendments to the IPSAS. The most significant amendments are as follows:

- Classification of liabilities as current or non-current – Guidance was added in IPSAS 1 on *Presentation of Financial Statements* to explain how rights to defer liabilities affect their classification as current or non-current. If the right exists at the reporting date, the classification of liabilities is based on the existence of the right to defer settlement regardless of the entity's intention to exercise its right.
- Onerous contracts - Onerous contracts are contracts where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it, which includes amounts recoverable. IPSAS 19 on *Provisions, Contingent Liabilities and Contingent Assets* has been updated to explain how to calculate the “unavoidable costs”.
- Selling items produced from an asset before ready for intended use – IPSAS 17 on *Property, Plant and Equipment* was amended to explain how to treat the proceeds received from items that are produced from property, plant and equipment that is not yet ready for its intended use.
- Benchmark interest rate reform – The relevant IPSAS on financial instruments have been updated to explain how changes in interest rates affect various assessments related to the classification and measurement of financial instruments.

Have your say...

The proposed amendments can be accessed on our website by following this [link](#). The comment deadline locally is 20 September 2021. The ASB will host a roundtable discussion on the 16th of September 2021 - join us and share your comments.

The ASB will undertake its own Improvements Project in 2022/23, and it is possible that some of the amendments being discussed will also need to be made to Standards of GRAP. Any feedback received on the changes proposed by the IPSASB will be helpful when proposing similar changes to Standards of GRAP.

Should there be separate classification for non-current assets that are held for sale?

The classification of assets and liabilities on the statement of financial position is broadly based on whether assets will be realised or liabilities settled within twelve months of the reporting date. Non-current assets such as land, buildings, and moveable assets are typically held by entities to execute their service delivery and other objectives. If an entity decides to sell non-current assets at year end, arguably their classification should change from non-current to current.

The IPSASB issued a proposed IPSAS on *Non-current Assets Held for Sale and Discontinued Operations* (issued locally as ED 191) to deal with presentation of non-current assets on the statement of financial position when they are “held for sale”.

In terms of ED 191, assets (or disposal groups) are classified as held for sale and presented as such on the statement of financial position when:

- The assets will be sold – In this context, the disposal of the asset must occur through a sale. Assets that will be transferred to another party in a non-exchange transaction or those that will be abandoned, are not in the scope of ED 191.

- The sale of the asset is highly probable – For the sale to be probable, management must be committed to sell the asset and initiated an active programme to locate a buyer. The asset (or disposal group) must be marketed at a reasonable price relative to its fair value, and the sale expected to be executed within 12 months from classification date.
- The asset must be available for immediate sale in its present condition.

If management decides to sell an asset, then its “use” has changed, which means that the asset’s value should reflect the fact that its value will be realised through a sale. When assets (or disposal groups) are classified as held for sale, they are measured at the lower of fair value less costs to sell and their carrying amount.

Depreciation of the asset also ceases. If assets (or disposal groups) are measured at their carrying amount and the fair value is materially different, the fair value is disclosed in the notes to the financial statements.

How does this affect the ASB’s work?

The ASB issued GRAP 100 on *Non-current Assets Held for Sale and Discontinued Operations* in 2010. It was subsequently revised based on feedback from stakeholders that the requirements for assets held for sale had limited relevance for the public sector. As disposals of public sector assets are regulated in the local environment, it took entities a significant period of time to complete disposal transactions. Given the length of time taken to complete the transactions, the information in the financial statements lost relevance. The Board decided to require the disclosure of information on planned disposals rather than changing the measurement and presentation of assets.

Based on the IPSASB’s proposals, the Board will need to decide whether local circumstances have changed such that the requirements for assets held for sale need to be reconsidered.

Have your say....

The proposed amendments can be accessed on our website by following this [link](#). The comment deadline locally is 1 October 2021. The ASB will host a roundtable discussion on the 22nd of September 2021 - join us and share your comments.

Do you only account for assets if you are the legal owner?

The Secretariat of the ASB has received several queries from preparers about assets and whether they are only accounted for based on legal title.

The purpose of financial statements is to reflect the economic characteristics of transactions, events and arrangements. This means that accounting reflects economic substance and not legal form. This is why the Standards of GRAP refer to recognising assets based on “control” rather than “ownership”.

“Control” is a broad term that refers to whether an entity is able to control the economic benefits and/or service potential of an asset. Control of the economic benefits or service potential is assessed based on the rights an entity possesses. These rights could be ownership rights but could also be rights to use assets (whether in exchange for consideration like leases, or other rights of use).

Control means that an entity has the ability to direct the benefits of the asset such that the entity will receive economic gain or receive value in terms of providing services. When there are arrangements to use assets, an important factor to consider may be the period of use in relation to the asset’s economic life. Rights to use an asset for substantially all its economic life mean that the entity will receive substantially all the benefits associated with the asset. Options to acquire assets at the end of an arrangement and whether they are below fair value may also be a key consideration.

The concept of control applies regardless of the type of asset. However, the considerations and conclusions may vary depending on the nature of the asset. For example, because land has an unlimited useful life, rights of use would need to be for a very long period to conclude that control exists.

As accounting for assets based on control is a topical issue, the Board has provided guidance on control and related issues for specific assets:

- IGRAP 18 on *Recognition and Derecognition of Land*.
- *Guideline on Accounting for Housing Arrangements Undertaken in terms of the National Housing Programme*.
- *Guideline on Accounting for Landfill Sites*.

These can be accessed on our website on www.asb.co.za.



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Accounting Standards Board

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