national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 106 – Transfer of Functions Between Entities Not Under Common Control

Effective 1 April 2021

DEFINITIONS

A **function** is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential

A **transfer of functions** is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity

IDENTIFY THE ACQUIRER

Must be identified for each transfer of functions

- An **acquirer** is the entity that obtains control of the acquiree
- An **acquiree** is the entity and/or the functions that the acquirer obtains control of in a transfer of functions

DETERMINE THE ACQUISITION DATE

- The **acquisition date** is the date on which the acquirer obtains control of the acquiree
- Evidenced in a binding arrangement

The acquisition method…

IDENTIFY ASSETS ACQUIRED AND LIABILITIES ASSUMED

- All assets must be identifiable, if it either:
  - ✓ Is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
  - ✓ Arises from contractual rights or other legal rights regardless of whether those rights are transferable or separable form the entity or from other rights and obligations
- Assets and liabilities must meet the definition thereof to be recognised as part of the acquisition
- Assets and liabilities are classified and designated as necessary to apply the standards of GRAP

RECOGNISING AND MEASURING THE IDENTIFIABLE ASSETS ACQUIRED, LIABILITIES ASSUMED AND NON-CONTROLLING INTERESTS IN ACQUIREE

- The acquired assets and liabilities are required to be measured at their acquisition-date fair values
- There are certain exceptions to the recognition and/or measurement principles which cover contingent liabilities, employee benefits, indemnification assets, reacquired rights
- Non-controlling interests (NCI) that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation (e.g. shares) are measured at acquisition-date fair value or at the NCI's proportionate share in net assets
- All other components of NCI are required to be measured at their acquisition-date fair values

The difference between the assets acquired and liabilities assumed and the consideration transferred (if any) is recognised in surplus or deficit

SUBSEQUENT MEASUREMENT

- In general, after the date of acquisition an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in accordance with other applicable GRAPs
- However, GRAP 106 includes accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets

DETERMINING WHAT IS PART OF THE TRANSFER

The acquirer should consider if the consideration includes amounts attributable to other transactions within the arrangement (pre-existing relationship, arrangements that remunerate employees etc.).

Acquisition and other costs:

- Not capitalised - expensed in the period they are incurred
- Costs to issue debt or equity - recognised per GRAP 104

TRANSFER OF FUNCTIONS ACHIEVED IN STAGES

- An acquirer sometimes obtains control of an acquiree in which it held an residual interest immediately before the acquisition date. This is known as a transfer of function achieved in stages or as a step acquisition
- Obtaining control triggers re-measurement of previous investments (residual interests)
- The acquirer remeasures its previously held residual interest in the acquiree at its acquisition-date fair value. Any resulting gain / loss is recognised in surplus / deficit

MEASUREMENT PERIOD

- Applies when initial accounting is incomplete at the end of the reporting period in which the transfer occurs
- Measurement period ends when acquirer receives information it was seeking about facts and circumstances at acquisition date, not to exceed two years from acquisition date.