national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 3 – Accounting Policies, Changes in Accounting Estimates and Errors

Effective 1 April 2021

ACCOUNTING POLICIES

DEFINITION

Accounting policies are specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Selection and application of accounting policies:
- If a Standard of GRAP deals with a transaction, use the standard
- If no Standard of GRAP on a transaction, management judgment should be applied in developing and applying an accounting policy resulting in information that is relevant, reliable and complete in all material respects

The following sources should be referred to, to make judgment:
- Requirements in other Standards of GRAP (or interpretation) dealing with similar issues
- Definitions, recognition criteria and measurement concepts in the Framework
- Use of the most recent pronouncements of other standard setting bodies and accepted public or private sector practices to the extent that these are not in conflict with the sources above

Consistency of accounting policies – accounting polices should be consistent for similar transactions, events or conditions unless required or permitted otherwise by a Standard of GRAP

Only change a policy if:
- Standard of GRAP requires it

or
- The change will provide more relevant and reliable information

Principle:
Apply changes in accounting policies:
- If change is due to a new Standard of GRAP → apply transitional provisions;
- If no transitional provisions → apply retrospectively

If impractical to determine period specific effects or cumulative effects of the change in policy, then prospectively apply to earliest period that is practical

CHANGES IN ACCOUNTING ESTIMATES

DEFINITION

A change in an accounting estimate is an adjustment of the carrying amount of an asset or liability, or the amount of periodic consumption, resulting from assessing the present status of, and the expected future benefits and obligations associated with, the asset or liability.

Principle:
Recognise the change prospectively in surplus or deficit in:
- Period of change, if the change only affects that period; or
- Period of change and future periods (if the change affects both)

ERRORS

DEFINITION

Prior period errors are omissions from and misstatements in, an entity's financial statements for one or more prior periods arising from failure to use/misuse of reliable information that:
- ✓ was available when the financial statements for that period are authorised for issue; and
- ✓ could have been reasonably expected to have been obtained and taken into account in the preparation and presentation of the financial statements.

Errors include:
- Mathematical mistakes
- Mistakes in applying accounting policies
- Oversights and misinterpretation of facts
- Fraud

Principle:
Correct all errors retrospectively. Restate the comparative amounts for prior periods in which error occurred OR if the error occurred before that date, restate opening balance of assets, liabilities and net assets for the earliest period presented

If impractical to determine period specific effects of error, restate opening balances for earliest period practicable

If impractical to determine cumulative effects o the error, restate comparative information for the earlies period practicable