



GRAP 104 on *Financial Instruments* (Revised)



Your guide to understanding and applying the revised Standard

This article is part of a series of articles that discuss the key amendments to GRAP 104 (revised). GRAP 104 is the authoritative source. Other supplementary resources are intended to be read alongside GRAP 104 and do not replace or override its guidance. The article has been prepared by the Secretariat of the ASB for information purposes only. It has not been reviewed, approved, or otherwise acted on by the Board.

Accounting for investments in residual interests under GRAP 104 (2019)

What is a residual interest and how is it obtained?



A residual interest means that an entity has a contract with another entity that represents an interest in the net assets of that entity. Net assets comprise assets less liabilities of the entity.

Examples of financial assets that are investments in the residual interest of another entity include:

- an investment in the shares of another entity, for example, when an entity acquires shares in a listed or unlisted entity; or
- a capital contribution from one entity to another, for example, a capital contribution to another through the budget process.

Recognition, classification and measurement of investments in residual interests using GRAP 104 (2019)

An investment in a residual interest meets the definition of a financial asset as the investment arises from a contractual arrangement that results in an interest in the net assets of another entity.

Initial recognition and measurement

An investment in a residual interest is recognised when the entity becomes a party to the contractual provisions of the instrument. The substance of the transaction, rather than the legal form, is considered to determine if the financial instrument comprises a residual interest.

On initial recognition, an investment in a residual interest is initially measured at its fair value. The fair value on initial recognition is usually the transaction price. Fair value is determined with reference to a quoted price in an active market, but if there is no active market, a valuation technique is used to determine fair value. Transaction costs are excluded from the amount initially recognised if the investment in a residual interest is subsequently measured at fair value.

Concessionary investments

A concessionary investment is an investment in another entity where part of the investment is a residual interest and part is a non-exchange transaction. Investments in residual interests are often used to provide funding to a public sector entity to, for example, achieve particular policy objectives. The accounting treatment of these investments is the same as for concessionary loans. For more information on accounting for concessionary loans, refer to the ASB article on 10 June 2025.

Classification and subsequent measurement

Financial assets are classified as subsequently measured at amortised cost or fair value through surplus and deficit on the basis of the:

- (a) entity's management model under which the financial asset is managed; and
- (b) contractual cash flow characteristics of the financial asset based on the solely payments of principal and interest test (SPPI test).

Investments in residual interests do not meet the SPPI test and are therefore classified and subsequently measured at fair value through surplus and deficit. For more information on the classification of financial assets refer to the ASB article on 31 March 2025.

As a practical expedient, GRAP 104 (2019) allows that an investment in a residual interest can be measured at cost less impairment losses. The practical expedient is applied when a reliable measure of fair value cannot be determined. This will be when there is no active market and the:

- (a) variability in the range of reasonable fair value estimates is significant; or
- (b) probabilities of the various estimates within which the range cannot be reasonably assessed.

Accounting for investments in controlled entities, associates or joint ventures

Investments in the residual interests of controlled entities, associates or joint ventures are outside the scope of GRAP 104 (2019). There are however exceptions that require or permit the application of GRAP 104 (2019). These exceptions are included in GRAP 35 on *Consolidated Financial Statements* and GRAP 36 on *Investments in Associates*. Examples include:

- a controlled entity meets the criteria of an investment entity in GRAP 35 and values the investment at fair value;
- a controlling entity of an investment entity, that is not itself an investment entity, measures an investment of a controlled investment entity at fair value in accordance with GRAP 35; or
- an entity elects to measure an investment in an associate or a joint venture that is held by or is held indirectly through an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities (including investment-linked insurance funds) at fair value, in accordance with GRAP 36.

GRAP 34 on *Separate Financial Statements* allows an entity to measure, in its separate financial statements, investments in controlled entities, associates or joint ventures at cost, at fair value or by applying the equity method. If the entity measures any of these investments at fair value, the principles in GRAP 104 (2019) are applied.

Can an investment in a residual interest be reclassified?

Yes, an investment in a residual interest can be reclassified from fair value to cost less impairment losses when a reliable measure of fair value ceases to be available for the investment. When an investment in a residual interest is measured at cost, an entity discloses why it used cost and specifies the inputs that could not be estimated reliably to determine fair value.

For more information on how to account for investments in residual interest, access the [Fact-sheet-9-Investments-in-residual-interests \(asb.co.za\)](https://www.asb.co.za/fact-sheet-9-investments-in-residual-interests) on the ASB website.