

## EXECUTIVE SUMMARY – ED 207

# POST-IMPLEMENTATION REVIEW OF GRAP 108 ON STATUTORY RECEIVABLES

This Executive Summary provides an overview of the Invitation to Participate in the Post-implementation Review of the Standard of GRAP on *Statutory Receivables* (GRAP 108)

### Overview

The Accounting Standards Board (the Board) is undertaking a post-implementation review (PIR) of GRAP 108.

GRAP 108 applies to receivables that arise from legislation, regulations, supporting legislation, by-laws or other documents issued in terms of legislation or similar means (hereafter “legislation or similar means”). Examples include taxes, fines, penalties, grants and appropriations.

The objective of the PIR is to assess if GRAP 108 meets its objectives in providing relevant and useful information to users, and to understand preparers’ difficulties and implementation challenges with applying GRAP 108.

### Consultation process

The *Invitation to Participate in the Post-implementation Review of GRAP 108* was published as ED 207.

Comment on ED 207 closes on 27 October 2024.

### Next steps

The Board will assess if any amendments are required to GRAP 108 and if any other actions may be required based on the results of the PIR.



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### ED 207 – INVITATION TO PARTICIPATE IN THE POST-IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON *STATUTORY RECEIVABLES* (GRAP 108)

#### Background to the project

##### Phases of the PIR

The GRAP 108 PIR is undertaken in two phases.

Phase one identified issues that exist in the environment on the application of GRAP 108. The information gathered in this phase identified specific areas where feedback is sought from users, preparers and auditors in the next phase of the project.

Phase two involves obtaining feedback from stakeholders through direct consultations.

##### High-level overview of the results from phase one

The objective of phase one was to understand how entities apply the principles in GRAP 108, what information is presented and disclosed in the financial statements on statutory receivables, and what the practical challenges are with the application of GRAP 108. This phase of the project highlighted the following key observations:

| Issue  | What was observed?   |
|--|--|
| Use of boilerplate information and wording from GRAP 108 | Accounting policies and notes include boilerplate information and wording from GRAP 108 instead of explaining how the principles in GRAP 108 apply to an entity's circumstances. For example, including the GRAP 108 definitions of a statutory receivable, transaction amount and cost method as part of the accounting policy. |
| Unaware that GRAP 108 is effective                       | Some entities are unaware that GRAP 108 is effective and have not applied it in preparing financial statements.  |
| Unsure if receivables are statutory or contractual       | Entities are unsure when to classify a receivable as statutory using GRAP 108, or contractual using GRAP 104 on <i>Financial Instruments</i> .   |

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## Background to the project

|   | Issue  | What was observed?  |
|---|--|---|
| High-level overview of the results from phase one (continued) | Applying an incorrect measurement basis on initial recognition   | Some accounting policies indicate that statutory receivables are initially measured at amortised cost. GRAP 108 requires that statutory receivables are initially measured at the amount specified in legislation or similar means, with reference to the specific tariffs, fees, scales or calculation basis.  |
|   | Presenting insufficient information about statutory receivables  | Some entities present statutory receivables as a separate line item on the face of the statement of financial position, without explaining whether statutory receivables arise from an exchange or non-exchange transaction.  |
|   | Incomplete disclosures   | Not all the GRAP 108 disclosures are presented. For example, some accounting policies do not explain how the statutory receivable arises, how the transaction amount is determined, and if any interest, fines or penalties are levied. Disclosures on impairment and collectability of statutory receivables are also lacking from the financial statements. |
| Phase two is requesting feedback from stakeholders            | The Secretariat will engage with stakeholders through direct consultations to obtain feedback on GRAP 108 in phase two of the project. |   |

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| Overview of ED 207          |  |
|-----------------------------|--|
| Focus areas of the review   |  |
| <b>Definition and scope</b> | <p>Two types of receivables exist in the public sector – contractual receivables and statutory receivables.</p> <p>Statutory receivables arise from legislation or similar means and are compulsory.</p> <p>Contractual receivables involve voluntary transactions that parties enter into willingly. These transactions arise from contracts that grant an entity a contractual right to receive cash or another financial instrument, for example the sale of goods such as water and electricity, or the provision of services for cash.</p> <p>The Secretariat developed a Frequently Asked Questions (FAQ) on <i>How do statutory receivables arise?</i> and GRAP 104 on <i>Financial Instrument Fact Sheet #1 on Applying the Definition of a Financial Instrument</i> to assist entities in clarifying whether a receivable is statutory or contractual in nature.</p> <p>The PIR requests stakeholders' views on whether they are able to distinguish statutory receivables from contractual receivables based on the guidance included in GRAP 108.</p> |
| <b>Recognition</b>          | <p>The recognition of a statutory receivable is linked to whether the transaction is exchange or non-exchange. If the receivable is exchange, it is recognised using GRAP 9 on <i>Revenue from Exchange Transactions</i>. If the transaction is non-exchange, it is recognised using GRAP 23 on <i>Revenue from Non-exchange Transactions (Taxes and Transfers)</i>.</p> <p>When neither GRAP 9 or GRAP 23 applies, the receivable is recognised when the definition and recognition criteria of an asset are met.</p> <p>The PIR seeks to identify challenges stakeholders experience to recognise statutory receivables.</p>   |

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| Focus areas of the review                  |  |
|--|--|
| <b>Initial measurement</b>                 | <p>A statutory receivable is initially measured at the amount specified, or calculated, levied or charged in legislation or similar means, with reference to the specific tariff, fee, scale or calculation basis (referred to as the transaction amount). The “fair value” of the statutory receivable in GRAP 9 or GRAP 23 is the transaction amount in GRAP 108.</p> <p>The PIR requests preparers to share challenges in measuring statutory receivables at the transaction amount.</p>  |
| <b>Subsequent measurement</b>              | <p>Statutory receivables are subsequently measured using the cost method. Under the cost method, the transaction amount is adjusted to reflect interests or other charges levied on overdue or unpaid statutory receivables and impairment losses.</p> <p>The PIR request preparers’ views on challenges to apply the cost method.</p>   |
| <b>Impairment of statutory receivables</b> | <p>In providing information to users about the collectability of amounts owed to an entity, statutory receivables are assessed for impairment at each reporting date.</p> <p><u>Grouping statutory receivables for impairment</u></p> <p>An entity should develop an appropriate methodology to categorise statutory receivables for purposes of impairment. Information about the receivables’ collectability per category is accumulated to assess impairment in a meaningful way. An impairment assessment is required for:</p> <ul style="list-style-type: none"> <li>• any individually significant statutory receivables;</li> <li>• groups of individually insignificant statutory receivables; and</li> <li>• any individually significant receivables not impaired on their own.</li> </ul> <p>The PIR requests input from preparers on their challenges to group receivables for purposes of impairment.</p> |

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### ED 207 – INVITATION TO PARTICIPATE IN THE POST-IMPLEMENTATION REVIEW OF THE STANDARD OF GRAP ON *STATUTORY RECEIVABLES* (GRAP 108)

#### Focus areas of the review

##### Impairment of statutory receivables (continued)

##### Impairment indicators

GRAP 108 lists indicators that can be applied to assess if a statutory receivable should be tested for impairment. The list is not exhaustive and there may be other indications that a receivable is impaired.

The PIR requests input from stakeholders on whether the impairment indicators are helpful, and whether any other indicators are applied to assess if a statutory receivable or group of statutory receivables is impaired.

##### Calculating the impairment loss or reversal thereof

An impairment loss is measured as the difference between the estimated future cash flows and the carrying amount of the receivable. In estimating the future cash flows of the statutory receivable, the entity considers both the amount of the cash flows that it will receive in future, and their expected timing. The time value for money is considered if the cash flows are receivable in future. In these instances, the estimated future cash is discounted using a risk-free interest rate, adjusted for any risk specific to the statutory receivable.

Preparers are requested to share challenges in calculating impairment losses.

##### Impairment model

GRAP 108 applies an incurred loss model for impairing statutory receivables. Applying this model means that the receivable is impaired when it is negatively affected because of a default or other event impacting its collectability. The revised GRAP 104 (2019) adopts a "forward-looking" approach, referred to as the expected credit loss model (ECL), to assess if a contractual receivable is impaired. The ECL model requires an entity to estimate impairment by comparing contractual cash flows that are due, and the cash flows that the entity expects to receive. Impairment is assessed based on past and current data and future expectations.

The PIR requests preparers' views on any practical and other issues they foresee with applying the ECL impairment model to statutory receivables. Users' views are requested on whether applying two different impairment models to contractual and statutory receivables may impact their ability to hold entities accountable and to make decisions.

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| Focus areas of the review                    |  |
|--|--|
| <b>Derecognition versus impairment</b>       | <p>Derecognition of a receivable means that the entity no longer controls the receivable and/or will no longer have the right to the future economic benefits or service potential of the receivable. When a statutory receivable is derecognised, it is removed from the entity’s statement of financial position.</p> <p>Impairment on the other hand, results in the recognition of a loss against the statutory receivable, but the receivable continues to be included on the entity’s statement of financial position. This is because the entity retains control of the right to the future economic benefits or service potential of the receivable.</p> <p>As part of the PIR, preparers are requested to indicate whether the guidance in GRAP 108 is clear and sufficient to distinguish derecognition from impairment. Preparers are also requested to share their challenges in making the distinction.</p> |
| <b>Presentation of statutory receivables</b> | <p>If material, receivables from exchange and non-exchange transactions are presented separately on the statement of financial position, with the notes to the financial statements providing separate disclosures on statutory and contractual receivables.</p> <p>The PIR requests users to indicate if it is useful to receive separate information on statutory and contractual receivables in holding entities accountable and to make decisions.</p> <p>Preparers are required to share challenges in presenting statutory receivables separately from contractual receivables, and in presenting statutory receivables as exchange and non-exchange.</p>  |
| <b>Disclosure of statutory receivables</b>   | <p><u>Disclosures on statutory receivables required by GRAP 108</u></p> <p>Disclosing information about statutory receivables enables users to make decisions about the nature and type of the receivable, and the basis used to account and measure the receivables, including the circumstances when, and the basis used to levy interest or other. GRAP 108 also requires disclosure of information about an entity’s ability to collect the statutory receivable and when it is derecognised.</p>  |

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#### Focus areas of the review

##### Disclosure of statutory receivables (continued)

The PIR requests users to share whether the disclosures required by GRAP 108 is appropriate, and to indicate what other information is needed to hold entities accountable and to make decisions.

Preparers' views are sought on challenges to provide the GRAP 108 disclosures, and to indicate what other disclosures could be relevant to users.

##### Disclosures on contractual receivables not currently required by GRAP 108

GRAP 104 (2019) requires the presentation of qualitative and quantitative information about an entity's exposure to credit and liquidity risks. This information enables users to evaluate the nature and extent of the entity's exposure to these risks, understanding the effect of these risks on the amount, timing and uncertainty of future cash flows, and explains how the entity intends to settle obligations. The information presented is primarily based on internal management information. GRAP 108 does not require disclosure of an entity's exposure to credit and liquidity risks. The PIR requests stakeholders' views on whether, and if so, what information about statutory receivables' exposure to credit risk and liquidity risk could be useful to hold entities accountable and to make decisions.

#### How to access information

##### Access information on ED 207

Visit our website on [www.asb.co.za](http://www.asb.co.za) to access the Invitation to Participate in the Post-implementation Review of GRAP 108.