Frequently Asked Questions on the Standards of GRAP

Disclaimer

These Frequently Asked Questions (FAQs) have been prepared by the Secretariat of the Accounting Standards Board in consultation with the technical division of the Auditor-General of South Africa (AGSA) and the Office of the Accountant-General at National Treasury (OAG). These FAQs have not been approved by the Board. Consequently, they are not authoritative and do not form part of the Standards of Generally Recognised Accounting Practice (GRAP).

The questions and responses outlined in this document are based on queries commonly received by the Secretariat, the AGSA and the OAG and have been compiled to assist preparers of the financial statements. The questions and responses provide a summarised analysis of topical issues and are not comprehensive. Any examples provided are illustrative only and do not represent a comprehensive list of scenarios or circumstances that may exist in practice. As a result, the examples are not prescriptive and should not be used by analogy to other circumstances. In all instances, readers are encouraged to refer to the relevant Standard of GRAP, Interpretation of the Standards of GRAP, Directive or Guideline. Appendix B includes a list of abbreviations used in the FAQs.

The Standards of GRAP apply only to material items. Consequently, the FAQs have been drafted on the basis that a particular issue is material. When considering the FAQs, entities should apply judgement in determining whether an issue outlined in the FAQs is material to its operations.

The questions and responses focus on issues that are of interest to public entities, constitutional institutions, municipalities, municipal entities, Parliament and the provincial legislatures, trading entities, Technical and Vocational Education and Training (TVET) and Community Education and Training (CET) colleges collectively called “entities” in this document (unless indicated otherwise).

Action	Date	Description of change
Issued	15 February 2011	Publication of combined FAQs for all entities.
Updated	18 February 2026	Updated the following FAQs: • Section 2 for the 2025/2026 reporting framework. Revise the following FAQs with the new requirements and paragraph reference of the revised GRAP 104: • FAQ 6.4 on Are liabilities for employee benefits in the scope of GRAP 104? • FAQ 7.6 on How should an entity account for renegotiated payment arrangements? • FAQ 9.1 on When (and/or how) should receivables and payables be discounted in accordance with GRAP 104?

Action	Date	Description of change
		• FAQ 9.2 on What is the effective interest rate and how do you calculate it? Revise FAQ 2.7 on Per Directive 5, what does it mean to formulate an accounting policy? to be consistent with FAQ 2.13. Add FAQ 9.3 on How should interest be treated on credit-impaired instruments that are subsequently 'cured' (i.e. paid or no longer impaired)?



FAQs on the Standards of GRAP

FAQ	Subject
Section 1 – Conceptual Framework	
1.1	What is the role of the Conceptual Framework and when is it applied?
1.2	What is the effective date of the Conceptual Framework?
1.3	What is the role of materiality in the reporting of information in the financial statements?
1.4	How should the old and new Conceptual Framework be read with the Standards of GRAP?
Section 2 – Reporting Framework and Related Issues	
2.1	What is the status and purpose of Directive 5?
2.2	What Reporting Framework should be used by entities for the 2025/2026 reporting period?
2.3	Are entities allowed to early adopt Standards of GRAP for which the Minister of Finance has determined an effective date?
2.4	What Standards of GRAP have been issued by the Board but are not yet effective, and what effect do these Standards have on the GRAP Reporting Framework for 2025/2026?
2.5	What is the impact of recently issued IPSAS and IFRS Accounting Standards on the 2025/2026 GRAP reporting framework?
2.6	Deleted.
2.7	Per Directive 5, what does it mean to formulate an accounting policy?
2.8	At what date should deemed cost be determined using Directive 7 if an entity did not complete its adoption of Standards of GRAP within the specified time frame?
2.9	What is the intention of the phrase “effective for financial periods commencing on or after 1 April 201X”, when referring to the applicability of the GRAP Reporting Framework to different entities?
2.10	When does the three-year transitional period relating to the initial adoption of Standards of GRAP expire?
2.11	What are the implications on compliance with the Standards of GRAP when an exemption is granted by the Minister of Finance?
2.12	What versions of the Standards of GRAP should be applied on first time adoption?
2.13	What disclosures should an entity provide on newly effective Standards of GRAP?
2.14	What should be disclosed about Standards of GRAP where no effective date has been approved by the Minister of Finance?
2.15	What is the difference between transitional provisions and the measurement period?
2.16	When and how do entities develop accounting policies?
Section 3 – Asset Related Accounting Issues (GRAP 12, 16, 17, 27, 31, Directive 11, IGRAP 18)	
3.1	Must an asset always have a residual value?
3.2	What is the treatment of fully depreciated assets still in use (other than on the initial adoption of the Standards of GRAP)?

3.3	How does an entity account for naturally occurring non-purchased water?
3.4	Can the valuation roll be used to measure an entity's assets at fair value?
3.5	How should an entity apply the requirements in Directive 11 retrospectively in the absence of cost records for assets on the date of adoption of the Standards of GRAP?
3.6	What are the implications of non-recognition of certain assets when permitted by Standards of GRAP?
3.7	Should an entity always use an external valuer or expert to determine the fair value of an asset?
3.8	Are changes to useful lives, residual values and depreciation methods changes in an accounting policy or a change in accounting estimate?
3.9	Do land invasions affect whether an entity recognises land?
3.10	How should an entity account for servitudes?
3.11	How should an entity account for library books?
3.12	When should an entity start depreciating major spare parts and stand-by equipment?
3.13	How should information on the cumulative expenditure on assets in the process of being constructed or developed be presented?
3.14	What amount should be disclosed for projects that are taking significantly longer to complete than expected and what does "significantly longer" mean?
3.15	How should municipalities classify electricity and water meters?
3.16	Will the presentation of assets in the financial statements increase an asset's risk profile?
3.17	Should assets on land be accounted for separately from the land?
3.18	How does an entity account for "software as a service" in a cloud computing arrangement?
3.19	What is harvested produce in the case of living animals?
3.20	When and how should entities assess for impairment in terms of GRAP 21 and GRAP 26?
Section 4 – Presentation and disclosure	
4.1	In preparing the financial statements, should a municipality use the presentation requirements and bases of preparation outlined in the Standards of GRAP or the budget regulations?
4.2	How does an entity decide which accounting policies should be included in its financial statements?
4.3	Should a municipality disclose the councillors' remuneration on an individual basis or in aggregate?
4.4	What does it mean to analyse expenditure by either nature or function?
4.5	What items should be included in "cash and cash equivalents"?
4.6	What is considered when presenting information in addition to what is required by GRAP 24 on a comparison of actual and budget information?

4.7	How could entities determine the amount of repairs and maintenance expenditure incurred?
4.8	When should an entity present revenue and receivables from exchange and non-exchange transactions on the face of the financial statements or in the notes?
4.9	Should all errors be accounted for using GRAP 3?
4.10	Are all adjustments related to the adoption of a new pronouncement a change in accounting policy in accordance with GRAP 3?
4.11	When should GRAP 109 be applied?
4.12	Is VAT receivable or payable an exchange or a non-exchange receivable or payable?
4.13	When should geographical information be provided as required by GRAP 18?
4.14	What is the interaction of legislated disclosure requirements and disclosure requirements in Standards of GRAP?
4.15	What is the interaction of Standards of GRAP where two or more Standards have similar requirements?
4.16	What are the disclosure requirements in the Standards of GRAP on commitments?
4.17	How should the cash movement in consumer deposits be presented in the cash flow statement?
4.18	What do entities consider to determine whether certain persons are management in GRAP 20?
4.19	What related party transactions are exempt from disclosure?
4.20	When is an entity an agent in a principal-agent arrangement?
4.21	What is a binding arrangement in the context of a principal-agent arrangement?
4.22	How should an agent present cash in- and outflows arising from a principal-agent arrangement in its cash flow statement?
4.23	What disclosures should be presented by an agent and principal?
Section 5 – Accounting for Non-exchange Revenue	
5.1	How should entities account for non-exchange revenue, such as transfer payments received?
5.2	Should revenue received from licence fees and similar transactions be accounted for as exchange or non-exchange revenue by the issuer?
5.3	Do in-kind benefits only involve goods and services provided by individuals and how should in-kind benefits be accounted for?
5.4	What is the effect of IGRAP 1 on traffic fines?
5.5	What is the interaction between GRAP 20 and GRAP 23 for services in-kind?
5.6	How should entities account for revenue related to donated assets, e.g. land and buildings?
Section 6 – Accounting for Employee Benefits	

6.1	How should vacation leave be accounted for?
6.2	Must an entity appoint an actuary at every reporting date to measure its defined benefit obligations?
6.3	Are informal arrangements to provide post-employment benefits within the scope of GRAP 25?
6.4	Are liabilities for employee benefits in the scope of GRAP 104?
Section 7 – Sundry Accounting Issues	
7.1	How should a municipality account for free or subsidised goods and services, as well as rebates provided to its consumers and other foregone revenue?
7.2	Are there any accounting considerations relating to World Cup Stadiums after the World Cup?
7.3	How should an entity account for expenses it incurs, but which are settled by another entity?
7.4	What is the interaction between GRAP 32, GRAP 36 and GRAP 37 and GRAP 109?
7.5	What should be considered when determining the discount rate for calculating provisions in accordance with GRAP 19?
7.6	How should an entity account for renegotiated payment arrangements?
7.7	When should revenue be recognised for the sale of pre-paid electricity?
7.8	How should conditional grants be accounted for by the transferor when conditions have not yet been fulfilled, or have been partially fulfilled by the recipient?
7.9	What accounting should a transferor apply in a transfer of functions between entities not under common control?
7.10	When should a transfer of functions be accounted for in accordance with GRAP 105 and when should GRAP 106 be applied?
7.11	What should be considered in deciding whether a transaction or event should be accounted for as a merger?
7.12	What is the interaction between GRAP 11 and the Housing Guideline?
Section 8 – Heritage Assets	
8.1	Should all assets that are designated as a heritage asset by legislation or similar means be classified as a heritage asset in the entity's financial statements?
8.2	Should an entity only classify an asset as a heritage asset if it is designated as such in terms of legislation or similar means?
8.3	How should an asset be classified if it does not meet the definition of a heritage asset?
8.4	How should specimens held for research be classified in an entity's financial statements?
8.5	Can a living animal or plant be classified as a heritage asset?
8.6	Are statues, sculptures, monuments, similar structures and replicas classified as heritage assets?

8.7	How does an entity distinguish heritage assets from “old assets”?
8.8	What should be considered when determining a reliable value for a heritage asset?
8.9	How should items collected by an entity be classified in its financial statements?
Section 9 - Financial Instruments	
9.1	When (and/or how) should receivables and payables be discounted in accordance with GRAP 104?
	Part A – How should entities determine when an initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation for purposes of applying the discounting exemption in GRAP 104?
	Part B – Can the exemption in GRAP 104.AG5.9 be applied to receivables if the interest rate is not market-related?
	Part C – What are some common misconceptions about the discounting requirements?
9.2	hat is the effective interest rate and how do you calculate it?
9.3	How should interest be treated on credit-impaired instruments that are subsequently ‘cured’ (i.e. paid or no longer impaired)?
Section 10 – Interests in Other Entities	
10.1	How should the definition of investment entities be applied?
Section 11 – Statutory receivables	
11.1	How do statutory receivables arise?

Section 1 – Conceptual Framework

1.1 What is the role of the Conceptual Framework and when is it applied?

The Board issued its new *Conceptual Framework for General Purpose Financial Reporting* (the Conceptual Framework) in June 2017. It replaced the *Framework for the Preparation and Presentation of Financial Statements*.

Objective of the Conceptual Framework

The purpose of the Conceptual Framework is to establish concepts that are to be applied in developing Standards of GRAP for the preparation and presentation of general purpose financial statements (GPFSs) of public sector entities. The Board broadened the scope of the Conceptual Framework so that it covers concepts for the preparation and presentation of general purpose financial reports (GPFRs) which deals with information reported outside the financial statements, and which complements and supplements the information in the financial statements.

The Conceptual Framework can be applied by various parties. It is intended to:

(a) provide the Board with a conceptual basis for developing Standards of GRAP;

(b) promote the advancement of financial reporting so that the preparation and presentation of GPFRs by preparers is comprehensive, cohesive and consistent with the concepts used to prepare and present GPFSs;

(c) assist preparers of GPFSs in applying Standards of GRAP and in dealing with topics where there is no Standard of GRAP;

(d) provide users of GPFSs with information on the basis on which GPFSs are prepared and to assist them to hold entities accountable and make decisions;

(e) assist users of GPFSs in interpreting the information contained in GPFSs prepared in conformity with the Standards of GRAP; and

(f) provide auditors with a framework to form an opinion as to whether financial statements conform with Standards of GRAP.

Authority of the Conceptual Framework

The Conceptual Framework is not authoritative. This means that it is does not establish authoritative requirements for financial reporting by public sector entities that adopt Standards of GRAP, nor does it override the requirements of any specific Standard of GRAP.

The authoritative requirements relating to the recognition, measurement and presentation of transactions are specified in the Standards of GRAP. However, the Conceptual Framework can provide guidance when dealing with topics that are not covered in a particular Standard of GRAP. In such cases, the Conceptual Framework may be considered by preparers and others to determine the applicability of the definitions of the elements used in the financial statements, recognition criteria, measurement principles and other concepts identified in the Conceptual Framework.

Similarly, the Conceptual Framework does not override any existing legislative or similar requirements issued by other organisations that prescribe requirements for the preparation and

presentation of information in the GPFRs. As a result, it does not establish requirements for what information should be included in the GPFRs – it only sets out the broad principles on how that information can be prepared and presented.

Since the Conceptual Framework introduces new concepts, including new recognition criteria and measurement bases, there may be inconsistencies between the concepts in the Conceptual Framework and the existing principles in the Standards of GRAP. In such cases, the principles in the Standards will take precedence until the Board amends the principles in existing Standards.

1.2 What is the effective date of the Conceptual Framework?

Since the Conceptual Framework is not authoritative, it does not have an effective date or transitional provisions.

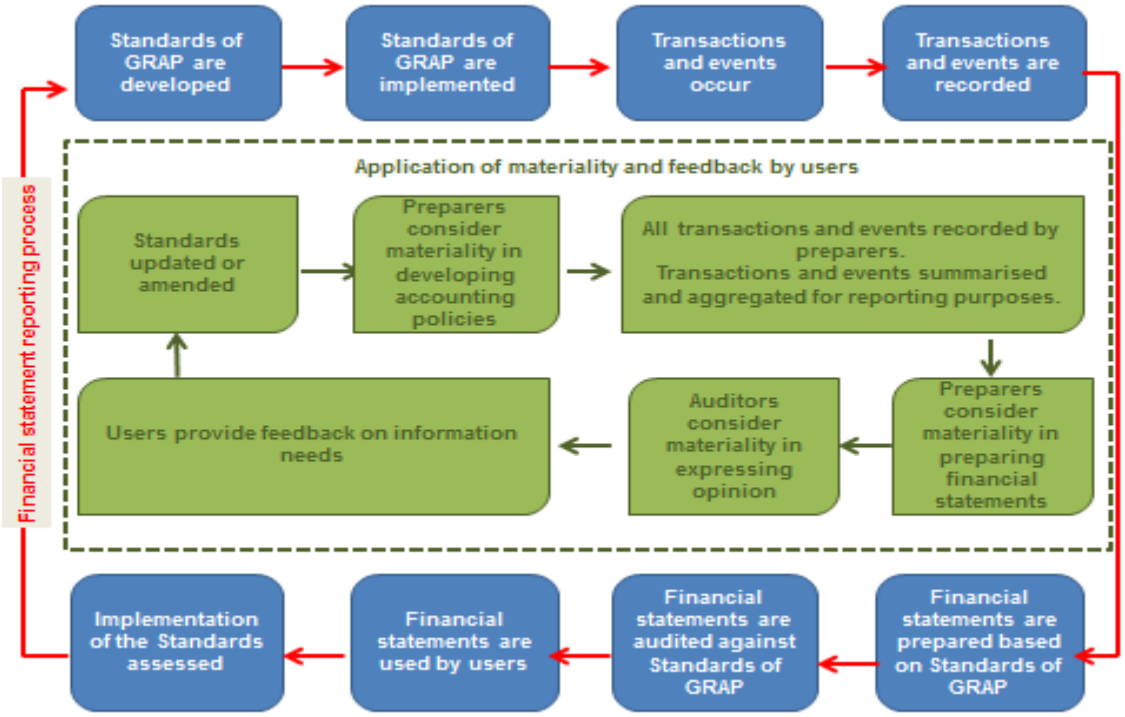
The Board issued its new *Conceptual Framework for General Purpose Financial Reporting* (new Conceptual Framework) in June 2017. It replaced the *Framework for the Preparation and Presentation of Financial Statements* (old Conceptual Framework).

The new Conceptual Framework is applicable from the date when it was issued by the Board, i.e. June 2017.

1.3 What is the role of materiality in the reporting of information in the financial statements?

In the public sector, resources are raised from taxpayers, donors, and other resource providers and allocated to entities for use in the provision of services to citizens and other service recipients. The objective of financial reporting is to provide relevant information about the entity that is useful to the users of the financial statements to hold management accountable and to make decisions.

The diagram below illustrates the financial reporting process.



The Standards of GRAP set out the principles for the preparation of financial statements. The Standards ensure that relevant, credible and consistent information is provided in the financial statements which enhances accountability[1], comparability and informed decision-making.

Legislation sets out which entities are required to prepare financial statements using the principles in the Standards of GRAP. Management is responsible for the preparation of the financial statements that comply with the requirements in the Standards of GRAP. This means that management is responsible for ensuring that the financial statements provide *relevant* information about the resources entrusted to an entity for service delivery, and compliance with legislation, regulation, or other authority that governs the entity's operations and service delivery.

The *relevance* of the information included in the financial statements is affected by its nature and *materiality*. Information is material if its omission or misstatement could influence the discharge of accountability by management, or the users' decisions. Materiality is considered both when preparing and auditing the financial statements.

The Materiality Guideline provides guidance to preparers when making materiality assessments and decisions in applying the Standards of GRAP. The Materiality Guideline introduces a process that may be followed by preparers when applying materiality in the financial statements.

The Standards of GRAP set out accounting policies that the Board has concluded result in financial statements containing relevant and reliable information about the transactions, other events, and conditions to which they apply. The requirements of the Standards apply only to

[1] Accountability is the cornerstone of financial reporting in the public sector. It is based on the belief that citizens have the right to know, a right to receive openly declared facts that may lead to a public debate.

material items, transactions and events. Items, transactions and events are material if their nature or size (or both) affects users' decisions. Materiality therefore ensures that the most relevant information is provided to users in the financial statements.

Preparers consider materiality in (a) developing accounting policies, which dictate how items, transactions and events are recognised, measured, presented and disclosed in the financial statements, and (b) assessing misstatements, errors and omissions. When transactions and events occur, they are recorded by entities. Preparers apply the accounting policies developed in identifying, aggregating and summarising the information about those transactions and events in the financial statements.

Since the accounting policies set out in the Standards of GRAP are subject to materiality considerations, management may conclude that those requirements need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from the Standards to achieve a particular presentation of an entity's financial position, financial performance, or cash flows. Applying the Materiality Guideline will ensure that materiality is applied properly when applying the Standards and improve the quality of the financial statements by reducing clutter.

By law, the financial statements are required to be audited as this will give the users of the financial statements assurance that management has fairly presented the state of affairs of an entity. Auditors consider materiality in the context of expressing an audit opinion, and in determining the nature, timing and extent of their audit procedures. As a consequence, auditors assess materiality based on whether the omission or misstatement of information could influence the decisions of users, and they evaluate the information in the financial statements against the principles in the Standards of GRAP to determine whether or not the financial statements are materiality misstated.

While the definition of materiality is the same for both preparers and auditors, they consider materiality from different perspectives. As a result, differences in the application and assessment of material by preparers and auditors are inevitable.

Note: This FAQ only deals with materiality in relation to the application of the Standards of GRAP. It does not apply to assessments or decisions related to materiality in relation to legislation, regulations or similar.

For more information on materiality, refer to the Fact Sheet on *Applying Materiality* issued by the Secretariat.

1.4 How should the old and new Conceptual Framework be read with the Standards of GRAP?

The Board issued its new *Conceptual Framework for General Purpose Financial Reporting* (new Conceptual Framework) in June 2017. It replaced the *Framework for the Preparation and Presentation of Financial Statements* (old Conceptual Framework). The Board applied the old Conceptual Framework to develop Standards of GRAP prior to June 2017, while the Board is applying the new Conceptual Framework to Standards of GRAP developed thereafter (see FAQ 1.2). A footnote is included in the Introduction to each Standard of GRAP developed prior to June 2017 to explain the replacement.

Each Standard of GRAP should be read with its basis for conclusions, and/or the basis of conclusions of its international equivalent (if applicable), the Preface to the Standards of GRAP and the applicable Conceptual Framework (old or new).

Section 2 – Reporting Framework and Related Issues

2.1 What is the status and purpose of Directive 5?

Sections 89(1)(a) and (b) of the Public Finance Management Act, Act No. 1 of 1999 (PFMA) require the Board to set Standards of GRAP and prepare and publish directives and guidelines concerning the Standards of GRAP. GRAP 1 defines Standards of GRAP as comprising the Standards, Interpretations of the Standards of GRAP and Directives issued by the Accounting Standards Board[2]. Directives issued by the Board in terms of section 89(1)(b) of the PFMA therefore have the same authority as the Standards. This means that Directives are authoritative and entities have to apply them when preparing their financial statements, as far as they are applicable.

Directive 5 determines the GRAP Reporting Framework for a particular reporting period. The Appendices list the standards and pronouncements that form the GRAP Reporting Framework for that particular reporting period. They are updated each year to include the Reporting Framework for the upcoming reporting period.

Entities therefore have to apply Directive 5 and the list of pronouncements in the applicable Appendix to prepare financial statements for a particular reporting period.

2.2 What Reporting Framework should be used by entities for the 2025/2026 reporting period?

Entities use Directive 5 in preparing their financial statements for the financial years ended 31 March, 30 June and 31 December 2026. Appendix: 1 April 2025 to Directive 5 lists the Standards of GRAP and other pronouncements that should be used by entities to prepare financial statements for the years ended 31 March, 30 June and 31 December 2026.

2.3 Are entities allowed to early adopt Standards of GRAP for which the Minister of Finance has determined an effective date?

Entities are not prohibited from early adopting the new and amended Standards of GRAP for which the Minister of Finance has determined an effective date.

Entities may not early adopt new and amended Standards of GRAP if the Minister of Finance has not determined an effective date for that Standard, but may consider a new Standard in developing an accounting policy. Amended Standards for which the Minister has not determined an effective date may not be considered in developing an accounting policy.

2.4 What Standards of GRAP have been issued by the Board but are not yet effective, and what effect do these Standards have on the GRAP Reporting Framework for 2025/2026?

Directive 5 determines the GRAP Reporting Framework for a particular reporting period. This FAQ has been developed in accordance with Directive 5 for 2025/2026. Refer to the ASB website: Determining the GRAP Reporting Framework 1 April 2025. As a result of the timing when Directive 5 is finalised, some Standards of GRAP approved and issued by the Board but not yet effective may not be included in the Directive. FAQ 2.13 issue #2 explains the extent of the required disclosures.

[2] Guidelines are not included as they are not authoritative. The Board may, however, include particular Guidelines in the GRAP Reporting Framework, making them authoritative.

New and amended Standards of GRAP that have been issued by the Board but for which the Minister of Finance has not determined an effective date cannot be early adopted. New Standards may however be used to formulate an appropriate accounting policy, but only if a specific IPSAS or IFRS Accounting Standard has not been included in the Appendix to be applied for a particular reporting period.

The Board issued a number of pronouncements, and changes to pronouncements that are not yet effective at the time of updating this FAQ. Their impact on the 2025/2026 GRAP Reporting Framework for public entities, constitutional institutions, Parliament and provincial legislatures, municipalities and municipal entities, trading entities and public TVET and CET colleges are as follows:

Document	Title of pronouncement	Impact on GRAP Reporting Framework
GRAP 1 (amendments related to going concern)	Presentation of Financial Statements	The Minister of Finance determined the effective date as 1 April 2027.
GRAP 103 (amendments)	Heritage Assets	The Minister of Finance determined the effective date as 1 April 2027.
GRAP 105, GRAP 106 and GRAP 107 (amendments)	Transfer of Functions and Mergers	The Minister of Finance determined the effective date as 1 April 2027.
Improvements to Standards of GRAP (2023)		The Improvements are approved by the Board. The effective date is yet to be determined by the Minister of Finance. The Improvements may not be applied by entities in developing an accounting policy. Entities are only permitted to adopt the Improvements once an effective date has been determined by the Minister of Finance.
Guideline	The Application of Materiality to Financial Statements	The Guideline is not authoritative, but entities are encouraged to consider it when preparing financial statements.

2.5 What is the impact of recently issued IPSAS and IFRS Accounting Standards on the 2025/2026 GRAP reporting framework?

Directive 5 is updated each year to include the Reporting Framework for the upcoming reporting period. The Appendices outline the pronouncements issued by the ASB, the IPSASB and IASB that should either be applied or considered by entities in preparing their financial statements for a particular reporting period. Pronouncements of other standard-setters can only be used to

formulate accounting policies as part of the GRAP Reporting Framework; they cannot be adopted by entities.

There are several IPSAS and IFRS Accounting Standards that have been issued recently and questions have been raised about whether they should be considered by entities. IPSAS or IFRS Accounting Standards are used to formulate an accounting policy in the absence of a Standard of GRAP dealing with an issue. Any IPSAS or IFRS Accounting Standards which the Board believes should be considered by entities in formulating accounting policies are included in the relevant Appendix to Directive 5. Any IPSAS or IFRS Accounting Standards not included in the relevant Appendix to Directive 5 may not be considered by entities in formulating accounting policies.

The following recently issued IPSAS and IFRS Accounting Standards should not be applied by entities, either by directly adopting them or using them to formulate accounting policies, for the 2025/2026 reporting period.

Title of Standard	**Status and rationale**
IPSAS 40 on *Public Sector Combinations*	Amendments made to GRAP 105, GRAP 106 and GRAP 107 dealing with "public sector combinations" were approved by the Board to align with IPSAS 40. Refer to FAQ 2.4.
IPSAS 41 on *Financial Instruments*	Entities should apply GRAP 104, issued by the Board in 2019.
IPSAS 42 on *Social Benefits*	The Board did not support aspects of both the insurance and general approaches in IPSAS 42. The application of the general approach to some schemes locally may not result in a faithful representation of the scheme's liabilities. As a result, IPSAS 42 should not be applied. The Board published Exposure Drafts (EDs) 205 and 214 for comment.
IPSAS 43 on *Leases*	The Board will consider IPSAS 43 as part of its 2027-2029 work programme.
IPSAS 44 on *Non-current Assets Held for Sale and Discontinued Operations*	Entities should apply GRAP 100 on *Discontinued Operations* as part of the GRAP Reporting Framework.
IPSAS 45 on *Property, Plant and Equipment*	The Board considered the revisions to IPSAS 45 on *Property, Plant and Equipment* on infrastructure as part of its Improvements Project (2026), published as ED 216. The Board will consider the revisions to IPSAS 45 on measurement as part of its project on *Measurement*. The heritage asset revisions will be considered in future.

Title of Standard	Status and rationale
IPSAS 46 on *Measurement* and Conceptual Framework Update: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*	The impact of these changes on the GRAP Reporting Framework will be considered as part of project on *Measurement* included in the 2024 to 2026 work programme. The Board published amendments to Chapter 7 of the *Conceptual Framework for General Purpose Financial Reporting* as ED 217.
IPSAS 47 on *Revenue*	The impact of the Standard will be reviewed as part of the Board's 2027 to 2029 work programme to consider revising the Standards of GRAP on revenue.
IPSAS 48 on *Transfer Expenses*	The impact of the Standard on the GRAP Reporting Framework will be considered in the 2024 to 2026 work programme.
IPSAS 49 on *Retirement Benefit Plans*	The Board did not find IPSAS 49 relevant to the South African environment.
IFRS 14 on *Regulatory Deferral Accounts*	The Standard only applies to first-time adopters of IFRS Accounting Standards. It is not applicable to entities that apply Standards of GRAP.
IFRS 18 on *Presentation and Disclosure in Financial Statements*	IFRS 18 is not included in the GRAP Reporting Framework. The IPSASB is progressing a project on Presentation of Financial Statements. A project to revise the Standards of GRAP will be considered after the completion of the IPSASB project.
IFRS 19 on *Subsidiaries without Public Accountability: Disclosures*	IFRS 19 is not included in the GRAP Reporting Framework. The Standard may have limited application locally. Previous research by the Board concluded that most entities in the public sector are publicly accountable.

2.6 DELETED

Deleted.

2.7 Per Directive 5, what does it mean to formulate an accounting policy?

To formulate an accounting policy using new Standards of GRAP that are not yet effective means that:

- Entities use the new Standards of GRAP that are not yet effective (as outlined in FAQ 2.4) to determine the recognition, measurement and presentation of a transaction or event. Accounting policies should describe, depending on the nature of the item, transaction or event, the classification, recognition, initial and subsequent measurement and derecognition.
- Entities consider the disclosure requirements in the Standards of GRAP that are not yet effective for disclosing a particular transaction or event.

Where an entity changes its accounting policy, it must consider the requirements of GRAP 3.

When an entity has not applied a new or amended Standard of GRAP that is not yet effective, GRAP 3.32 and GRAP 3.33 require the entity to disclose:

(a) this fact; and

(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new or amended Standard will have on the entity's financial statements in the period of initial application.

An entity is only required to disclosure this information for Standards that are applicable to the entity.

2.8 At what date should deemed cost be determined using Directive 7 if an entity did not complete its adoption of Standards of GRAP within the specified time frame?

Directive 7 allows an entity to determine the deemed cost of its assets when cost information is not available for these assets on the initial adoption of Standards of GRAP. The deemed cost of the assets is determined at the "measurement date" and is defined in Directive 7 as follows:

> *Measurement date is either (a) the date that an entity adopts the Standards of GRAP and is the beginning of the earliest period for which an entity presents full comparative information, in its first financial statements prepared using Standards of GRAP; or (b) the transfer date or the merger date.*

Entities may be permitted a three-year period within which to measure certain assets. If an entity is required to adopt Standards of GRAP on 1 April 20x1, applying this transitional relief period, along with the relief to use deemed cost, means that the measurement date is 1 April 20x0.

If an entity has not determined the deemed cost of those assets within the scope of Directive 7, they consider GRAP 3 and consider whether this change in accounting policy can be applied retrospectively from the measurement date, or whether it is impracticable to do so. GRAP 3.26 states that:

> *When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable….*

An entity considers whether it is impracticable to retrospectively adjust comparative information using the following criteria, which are defined in GRAP 3:

> *Impracticable: Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:*
>
> *(a) the effects of the retrospective application or retrospective restatement are not determinable;*

(b) *the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or*

(c) *the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:*

(i) *provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and*

(ii) *would have been available when the financial statements for that prior period were authorised for issue from other information.*

In applying GRAP 3, an entity assesses whether it is impracticable to determine the deemed cost of assets retrospectively as at the measurement date (1 April 20x0) as required by Directive 7. It may be impracticable to determine the deemed cost retrospectively if, for example, the following circumstances exist:

(a) Relevant data may not have been collected in the prior period and cannot be obtained by alternative means that allows for retrospective application.

(b) The entity is required to make significant estimates and assumptions about conditions that existed at a point in time in the past and cannot do so objectively without using hindsight.

However, it should be kept in mind that impracticability regarding the retrospective determination of deemed cost can only be claimed after the entity has made, and can demonstrate that it made, every reasonable effort to comply with the requirements of Directive 7.

2.9 *What is the intention of the phrase "effective for financial periods commencing on or after 1 April 201X", when referring to the applicability of the GRAP Reporting Framework to different entities?*

Directive 5 prescribes the Standards of GRAP and pronouncements that are applicable to entities effective for financial periods commencing on or after 1 April of each year.

An entity's financial period is the period of time for which information is reported in its annual financial statements. Annual financial statements cover the accounting cycle of an entity from the start to the end of the reporting period. The start date is the first day of a financial period and the end date, which is also known as the "reporting date", is the last day of an entity's financial period.

The application of the meaning of *"effective for financial periods commencing on or after"* can be illustrated using the following scenarios:

- Entities, such as public entities, constitutional institutions, Parliament and the provincial legislatures, have a financial period commencing on 1 April. They are required to apply the GRAP Reporting Framework that is prescribed from 1 April 2025 in preparing their financial statements for the 2025/2026 financial period.
- Municipalities and municipal entities have a financial period commencing on 1 July. They are required to apply the GRAP Reporting Framework that is prescribed from 1 April 2025 in preparing their financial statements for the 2025/2026 financial period.

- Public TVET and CET colleges have a financial period commencing on 1 January. They are required to apply the GRAP Reporting Framework prescribed from 1 April 2025 in preparing their financial statements for the year 1 January 2026 to 31 December 2026.

2.10 When does the three-year transitional period relating to the initial adoption of Standards of GRAP expire?

Directives outline the transitional provisions and transitional arrangements for the different entities that adopt Standards of GRAP.

In some Directives, the transitional provisions are such that entities are not required to measure items for reporting periods beginning on or after a date within three years following the date of initial adoption of the relevant Standard of GRAP.

This three-year transitional period commences on the date that an entity initially adopts the Standards of GRAP, i.e. at the beginning of a reporting period. Full compliance with the relevant Standard of GRAP is required by the end of the third year. For example, if an entity adopts Standards of GRAP on 1 April 20X1 and decides to take advantage of the relief period in the Directive, it must comply in full with the Standards of GRAP by 31 March 20X4.

2.11 What are the implications on compliance with the Standards of GRAP when an exemption is granted by the Minister of Finance?

Background

The Minister of Finance (the Minister) has in some instances granted entities exemption from applying a Standard(s) of GRAP or a requirement thereof. This FAQ provides guidance on the implications of such an exemption on asserting compliance with the Standards of GRAP.

Requirements

GRAP 1.26 states the following:

> *Departures from the requirements of a Standard of GRAP in order to comply with statutory or legislative reporting requirements do not constitute departures that conflict with the objective of financial statements set out in paragraph .21 of this Standard. If such departures are material an entity cannot claim compliance with Standards of GRAP.*

Section 92 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA) grants the Minister the power to approve an exemption from any specific provision of the PFMA, including an exemption from applying a Standard(s) of GRAP or a requirement thereof, for a period as determined by the Minister.

An exemption granted by the Minister can be seen as a departure from applying a Standard(s) of GRAP, or a requirement thereof, as a result of statutory or legislative reporting requirements.

The *Framework for the Preparation and Presentation of Financial Statements*[3] (the Framework) describes the objective of financial statements and materiality as:

[3] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting.*

.26 The objective of financial statements is to provide information … that is useful to a wide range of users. Financial statements also show the results of the stewardship of management, and the accountability of management for the resources entrusted to it.

.47 Information is material if its omission, misstatement, or non-disclosure could influence the decisions of users made on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission, misstatement, or non-disclosure in the financial statements.

When an entity departs from a requirement of a Standard of GRAP in accordance with GRAP1.21, it shall make the following disclosures as per GRAP 1.22:

(a) *that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;*

(b) *that it has complied with applicable Standards of GRAP, except that it has departed from a particular requirement to achieve a fair presentation;*

(c) *the title of the Standard of GRAP from which the entity has departed, the nature of the departure, including the treatment that the Standard of GRAP would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements in the Framework for the Preparation and Presentation of Financial Statements, and the treatment adopted; and*

(d) *for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.*

Assessment of the requirements and disclosure

Although an exemption granted by the Minister would make it permissible and within the regulatory framework of an entity to depart from applying a Standard(s) of GRAP or a requirement thereof, an entity would still need to assess such a departure with reference to GRAP 1.21. Therefore, even though an exemption granted by the Minister may be legal, it remains necessary for an entity to assess the impact thereof on compliance with the Standards of GRAP for financial reporting purposes.

In the *extremely rare and exceptional* circumstances that an entity departs from a Standard of GRAP, or a requirement thereof, because of an exemption granted by the Minister, an entity assesses (with reference to GRAP 1.21) if it is necessary because compliance with a Standard of GRAP, or a requirement thereof, would be so misleading that it would conflict with the objective of financial statements and the qualitative characteristics as described in the Framework.

In addition, an entity should also determine how it would have accounted for the transactions if it complied with all the requirements of the Standards of GRAP and discloses this information to the users, together with the rest of the disclosures required by GRAP 1.22. This is to ensure that the objective of financial statements is still met.

Conclusion

If an entity concludes that an exemption granted by the Minister meets the objective of financial reporting, the entity shall assert compliance with the Standards of GRAP in the notes, in accordance with GRAP 1.18, and shall disclose the information required by GRAP 1.22.

If an entity concludes that an exemption granted by the Minister is not in terms of GRAP 1.21 or is unable to disclose the information required by GRAP 1.22, the objective of financial statements will not be met and an entity that applies such an exemption is not able to assert compliance with the Standards of GRAP.

2.12 What versions of the Standards of GRAP should be applied on first time adoption?

An entity that adopts the Standards of GRAP for the first time should apply the versions of the Standards effective for the first GRAP reporting period. The versions of the Standards that are applicable can be determined with reference to the annexure to Directive 5 and by reference to the ASB's website.

An entity should use the same accounting policies, based on the versions of the Standards of GRAP effective at the end of the entity's first GRAP reporting period, for both the current and comparative information presented.

An entity is not permitted to apply earlier versions of the Standards of GRAP that were effective at earlier dates. An entity may, however, early adopt a new Standard of GRAP for which the Minister of Finance has determined an effective date which is in the future. Other Standards of GRAP for which the Minister of Finance has not yet determined an effective date, may be used by an entity to formulate its accounting policies.

The following **example** illustrates the principle.

The end of Entity A's first GRAP reporting period is 31 March 20X8. Entity A presents comparative information in those financial statements. Therefore, its date of transition to the Standards of GRAP is 1 April 20X6. Entity A is required to apply the Standards of GRAP in Directive 5 effective for the 31 March 20X8 period in preparing and presenting its:

(a) statement of financial position, statement of financial performance, statement of changes in net assets, statement of cash flows and notes for 31 March 20X8 (including comparative information for 31 March 20X7); and

(b) a comparison of budget and actual amounts and notes for the year 31 March 20X8.

The transitional provisions in other Standards of GRAP apply to changes in accounting policies made by an entity that already applies the Standards of GRAP.

2.13 What disclosures should an entity provide on newly effective Standards of GRAP?

GRAP 3 requires entities to make certain disclosures related to Standards of GRAP in the year of initial application, as follows:

> *.30 When initial application of a Standard of GRAP has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods,*

an entity shall disclose:

(a) the title of the Standard;

(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;

(c) the nature of the change in accounting policy;

(d) when applicable, a description of the transitional provisions;

(e) when applicable, the transitional provisions that might have an effect on future periods;

(f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;

(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(h) if retrospective application required by paragraph .21(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Two issues have arisen regarding these disclosures.

Issue #1 – Quality of the required disclosures

Notwithstanding GRAP 3.30, when an entity has not applied a new or amended Standard of GRAP that has been issued but is not yet effective, GRAP 3.32 and 3.33 require entities to disclose:

(a) the existence of issued but not yet effective Standards of GRAP, and

(b) known or reasonably estimable information relevant to assessing the possible impact of the application of the new or amended Standard of GRAP on the entity's financial statements in the period of application.

(Note: "Standards of GRAP" includes all pronouncements issued by the Board.)

It has been observed that entities generally only comply with part (a) listed above. A list of issued but not yet effective Standards is provided in the financial statements, but the impact of the requirements is not often provided. It is insufficient to merely list the Standards. Entities should consider what the potential impact of the new or amended Standard would be on their financial statements. This means both qualitative (e.g. what transactions might be affected, how different the old and new accounting policies could be regarding recognition, measurement etc.) and quantitative information (e.g. if determinable, an estimate of the potential Rand-value of the impact).

The provision of this information in the financial statements serves two purposes:

- Preparers are able to assess the implications of new or amended Standards early. This helps to ensure that accounting policies, systems and processes are changed in time to accommodate new or amended accounting requirements.
- Users are provided with predictive information that is useful for planning and making decisions. It also ensures users can adequately understand the new or amended requirements and assess entities' readiness.

Issue #2 – Extent of the required disclosures

Directive 5 is issued in September each year. The Annexures to Directive 5 outline the Standards issued but not yet effective. It is possible that the Board issues new or amended Standards of GRAP after the update of Directive 5, i.e. there may be more issued but not yet effective Standards compared to the list included in the Annexures to Directive 5 when an entity prepares its financial statements. Questions have been raised about whether only the list in Directive 5 should be applied, or whether the disclosures required by GRAP 3 apply to all issued but not yet effective Standards.

As Directive 5 is formally approved by the Board, the list included in the Annexures is authoritative and outlines the minimum disclosures required in the financial statements. Entities may voluntarily provide information on other issued but not yet effective Standards not yet included in the Annexures if they are relevant to the entity. In those instances, entities should however still provide the disclosures outlined in (a) and (b) above. FAQ 2.4 explains the effect that pronouncements issued by the Board that are not yet effective have on the GRAP Reporting Framework for 2025/2026.

2.14 *What should be disclosed about Standards of GRAP where no effective date has been approved by the Minister of Finance?*

The ASB sets and issues Standards of GRAP and other pronouncements. The Standards of GRAP – or amendments to the Standards - are approved for implementation by the Minister of Finance by approving their effective dates.

At any point in time, there may be a number of Standards of GRAP, or amendments, that have been issued by the Board, but that need to be approved for implementation by the Minister of Finance.

In terms of GRAP 3, the following disclosures are required for Standards of GRAP that are not yet effective:

> *.32 When an entity has not applied a new Standard of GRAP that has been issued but is not yet effective, the entity shall disclose:*
>
> *(a) this fact; and*
>
> *(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.*
>
> *.33 In complying with paragraph .32, an entity considers disclosing:*
>
> *(a) the title of the new Standard;*

(b) the nature of the impending change or changes in accounting policy;

(c) the date by which application of the Standard is required;

(d) the date as at which it plans to apply the Standard initially; and

(e) either:

(i) a discussion of the impact that initial application of the Standard is expected to have on the entity's financial statements; or

(ii) if that impact is not known or reasonably estimable, a statement to that effect.

Based on the requirements of GRAP 3, there are potentially two elements that need to be addressed in the disclosures, i.e. the timing of the change based on the effective dates of the Standards, as well as the potential impact of the change in accounting policies because of the adoption of a new or amended Standard.

If the Minister of Finance has not yet approved the implementation of a Standard (or a revision thereto) by announcing an effective date, entities will not be able to fully meet the requirements of the disclosures in paragraphs .32 and .33.

While entities are not precluded from providing information about these Standards, the information value to users should be considered. Simply providing a list of Standards that are not yet effective without any additional information about their impending adoption may not be useful to users.

An example of amendments to Standards for 2025/2026 for which no effective date has been approved includes the Improvements to the Standards of GRAP (2023).

2.15 What is the difference between transitional provisions and the measurement period?

Transitional provisions on initial adoption of Standards of GRAP

Transitional provisions specify how a new or changed Standard of GRAP should be applied on adoption, and how an entity should change from one accounting policy to another. Transitional provisions may require an entity to adopt a new or changed Standard of GRAP retrospectively, i.e. as if the Standard had always been applied, or prospectively, i.e. from a certain date onwards. Transitional provisions may also require adjustments to financial statements such as recognising or derecognising assets and liabilities or changing the measurement or presentation of a transaction or event.

Depending on the nature and impact of the new or changed Standard of GRAP, transitional provisions may allow an entity a period of time to comply with the Standard's requirements [also refer to FAQ 2.10].

The transitional provisions for the different entities that adopt Standards of GRAP are set out in the Directives.

Measurement period other than on initial adoption of Standards of GRAP

A measurement period allows an entity additional time to identify and measure assets and liabilities based on new information that becomes available after a transaction or event occurs.

For example, GRAP 105, GRAP 106 and GRAP 107 allow a measurement period of two years. This period allows an entity additional time to identify and measure the assets acquired or received and/or liabilities assumed following the transfer of functions or merger.

The measurement period is applied to each transaction rather than on the initial adoption of a Standard. During the measurement period, the entity recognises provisional amounts for the assets and/or liabilities for which the accounting and measurement is incomplete. These provisional amounts are adjusted retrospectively as new information becomes available about the assets and/or liabilities as at the date on which the transaction or event occurs.

2.16 When and how do entities develop and disclose accounting policies?

Entities are often uncertain about when and how to develop accounting policies, which can lead to the inclusion of boilerplate information in financial statements, such as presenting extracts of the Standards of GRAP as accounting policies. This FAQ provides guidance on developing accounting policies.

When does an entity develop accounting policies?

Entities develop or amend accounting policies when implementing new or revised Standards of GRAP, encountering new transactions or events not covered by existing policies, or when changes in the entity's operations or environment necessitate a review of existing policies.

Entities develop an accounting policy when a new or revised Standard *applies to the entity*. If a new or revised Standard does not apply to the transactions and events of the entity, it is not necessary to develop an accounting policy.

How does an entity develop accounting policies?

In developing accounting policies, entities refer to Directive 5 and consider their specific circumstances and transactions. Entities refer to FAQ 2.4 for guidance on the framework of a particular year.

In terms of GRAP 3, an entity is not required to apply the requirements of the Standards of GRAP if the effect of applying them is immaterial. This means that an entity may develop alternative accounting treatments for immaterial items, provided these treatments are consistent with the definitions, qualitative characteristics and constraints principles set out in the *Conceptual Framework for General Purpose Financial Reporting* (Refer to IGRAP 21).

Entities consider both qualitative and quantitative materiality to ensure that the policies provide useful and relevant information to users of financial statements. While entities have accounting policies (or alternative accounting treatments) for all their transactions or events, only the material information is provided in the financial statements.

What is included in accounting policies?

Accounting policies are developed to provide users with entity-specific and relevant information about the transactions and events and how they are accounted for. For example, accounting policies could include:

- The measurement basis (or bases) used in preparing the financial statements, covering both initial and subsequent measurement.

- Judgements made by management in applying the Standards of GRAP. This includes decisions on whether certain transactions or events meet the definitions set out in the Standards, such as related parties and principal-agent arrangements.
- Key decisions made by management in applying the Standards, such as the recognition of items and the determination of the unit of account.
- Information regarding transactions and events that are material to the entity and the entity's decision on the accounting treatment of these transactions and events.

Reviewing and updating policies at least annually to reflect changes in the Standards of GRAP and the entity's specific circumstances assists in maintaining the quality of accounting policies.

Section 3 – Asset Related Accounting Issues (GRAP 12, 16, 17, 27, 31, Directive 11, IGRAP 18)

3.1 Must an asset always have a residual value?

No, an asset does not always have a residual value. There are also different requirements for residual values of tangible assets and intangible assets.

For tangible assets, such as property, plant and equipment or investment property, an asset only has a residual value when the useful life of an asset (the period the asset is used or available for use by the entity) is shorter than the economic life of an asset (the period the asset is used or available for use by all users or owners of the asset). As entities in the public sector often plan to use an asset for its entire economic life, the residual value may be negligible or even zero.

For intangible assets with a finite useful life, the residual value is always deemed to be zero, unless:

(a) a third party has committed to purchase the asset at the end of its useful life; or

(b) there is an active market for the asset and:

  (i) the residual value can be determined by reference to that market; and

  (ii) it is probable that such a market will exist at the end of the asset's useful life.

3.2 What is the treatment of fully depreciated assets still in use (other than on the initial adoption of the Standards of GRAP)?

The response to this question has been developed on the basis that the assets, and any facts and circumstances surrounding those assets, are material.

An entity may have fully depreciated assets that are still being used. The decision tree and related discussions outline when and how an entity should adjust its financial statements.

Principles to be considered in the Standards of GRAP

In terms of GRAP 17, an entity is required to assess the useful lives, residual values and depreciation methods of assets at every reporting date. This is done by assessing at each reporting date whether there is any indication that the entity's expectations about the useful lives and residual values of an asset have changed since the preceding reporting date. Indications of a change in the expected useful life or residual value of an asset are included in GRAP 17.57 and .58. When such indications exist, an entity is required to revise the expected useful life and/or residual values accordingly.

If an entity has fully depreciated assets at the reporting date that it continues using, appropriate adjustments to the financial statements may be required, if those assets are material.

In deciding whether any adjustments are required, and entity considers whether the existence of fully depreciated assets results from a change in estimate or an error in the application of the Standards.

GRAP 3 defines estimates and errors as follows:

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

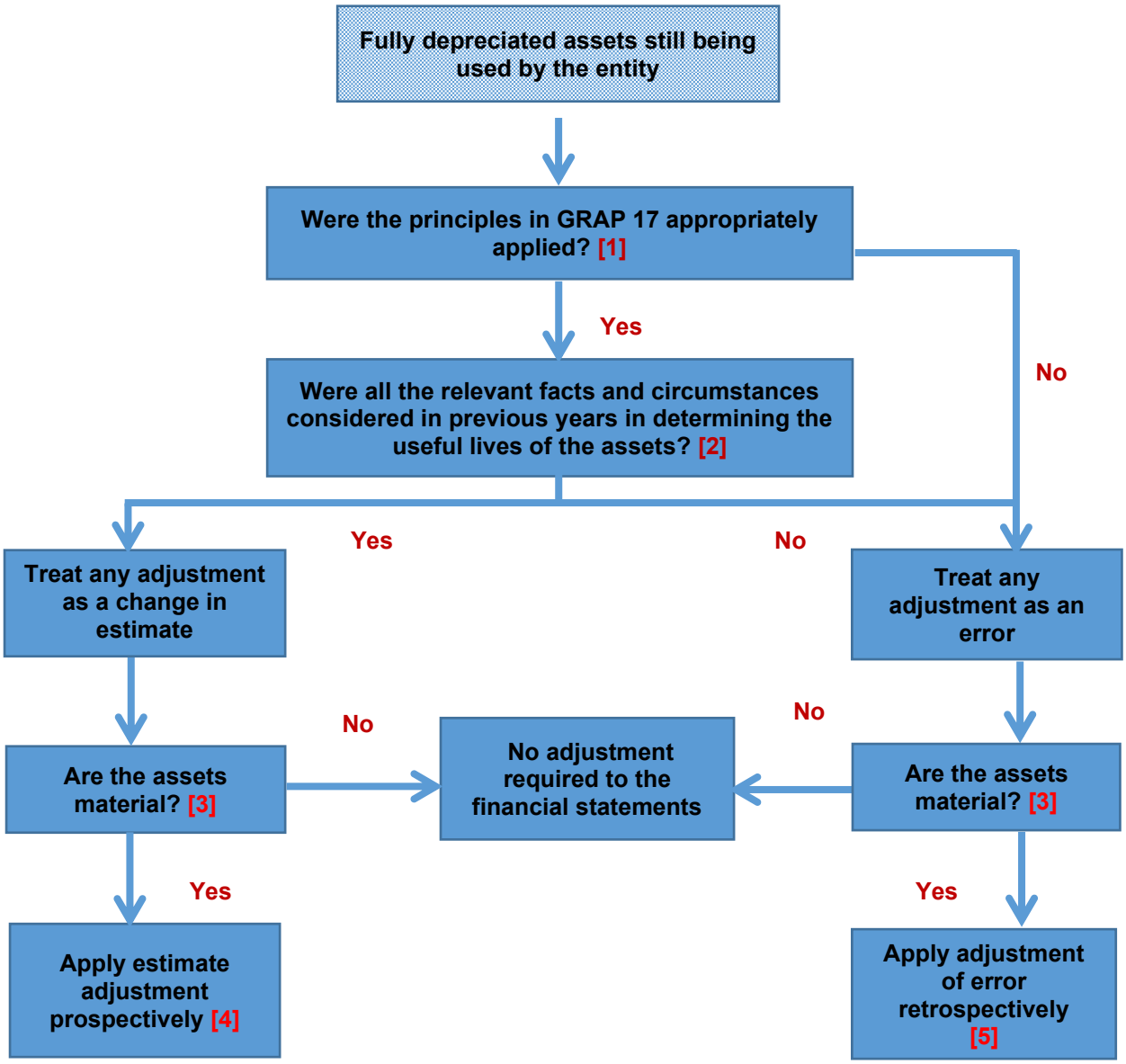
Determining whether adjustments are required to fully depreciated assets in use

The following decision tree, along with the narrative that accompanies it, illustrates whether adjustments are required to fully depreciated assets still in use:

1. Were the principles in GRAP 17 appropriately applied?

An entity is required to assess the appropriateness of the useful lives, residual values and depreciation methods of assets at every reporting date.

Where an entity has fully depreciated assets because it did not appropriately apply the principles of GRAP 17, and as a result did not assess the useful lives or residual values of assets at previous reporting dates, any adjustment is treated as an error. The manner in which an error is adjusted is discussed in (5) below.



2. Were all the relevant facts and circumstances considered in previous years in determining the useful lives of the assets?

The useful life of an asset is defined in terms of the asset's expected utility to the entity and may be shorter than its economic life. However, when an entity intends using an asset for its entire life, the useful life and economic life are the same. The estimation of the useful life of an asset is a matter of judgement based on the experience of an entity with similar assets. An entity considers all facts and circumstances in estimating the useful lives of assets, which could include technical, financial and other information. For example:

- Technical information from engineers about the performance, maintenance and replacement of assets can affect the useful lives of assets. Such information could also signal new developments with certain assets that change the period over which the asset will be used.
- Financial information such as budgets, forecast, plans, and any other relevant information. Policy decisions to delay the disposal or replacement of assets due to budgetary constraints affect the period over which the asset may be used (as well as its residual value).
- Other information indicating how an entity intends using its assets.

If the requirements of GRAP 17 were correctly applied in prior periods, and all available information and relevant facts and circumstances considered, but expectations of how the asset is or will be used is subsequently changed, then the adjustment is a change in accounting estimate. The manner in which a change in accounting estimate is accounted for is discussed in (4) below.

If all the available information and relevant facts and circumstances were not considered by the entity, then any adjustment is treated as an error.

If an entity is not able to determine if the information, and facts and circumstances available at previous reporting dates were appropriately considered, an entity treats any adjustment as an error as discussed in (5) below.

3. Are the fully depreciated assets still in use material?

Fully depreciated assets still in use may be material quantitatively and/or qualitatively. These assets, and their effect on the statement of financial performance and statement of financial position, may be:

- Qualitatively material if, as a result of their nature, the asset is critical to an entity's operations and delivering on its mandate.
- Quantitatively material if the extension in the asset's useful life results in an adjustment to depreciation and accumulated depreciation that is material in value and would affect users' decisions of the statement of financial position and statement of financial performance.

An entity should correct the effects of fully depreciated assets still in use unless their possible effects are immaterial.

4. Prospective adjustments for a change in accounting estimate relating to fully depreciated assets still in use

When management has assessed that it needs to adjust the financial statements for the effect of fully depreciated assets still in use, and that adjustment is a change in estimate, an adjustment is made to the carrying amount of the asset.

In the year in which the change is made, a portion of the accumulated depreciation is reversed to surplus or deficit. The cost or revalued amount of the asset is then depreciated over its revised useful life.

The portion of the accumulated depreciation that is reversed is calculated as the difference between:

- the total depreciation recognised in the previous periods using the previous expected useful life of the asset; and
- the total depreciation that would have been charged for those periods based on the revised useful life of the asset.

The depreciation is recognised in accordance with GRAP 17.

In addition to the disclosure requirements prescribed in GRAP 3, an entity should, in the year during which the adjustment is made, disclose the gross movements in depreciation relating to the asset in the notes to the financial statements.

For assets other than those that are fully depreciated and are still in use, an entity may continue to apply its existing method when making prospective adjustments relating to a change in accounting estimate.

5. Retrospective adjustments relating to an error

An entity corrects material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

A prior period error is corrected by retrospective restatement except where it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity restates the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).

When it is impracticable to determine the cumulative effect of an error on all prior periods at the beginning of the current period, an entity restates the comparative information to correct the error prospectively from the earliest date practicable.

3.3 How does an entity account for naturally occurring non-purchased water?

Definition

Part of the definition of an asset is that *"...it is a resource controlled by an entity ..."*. Control is demonstrated by an entity's ability to access and regulate the benefits of an asset. It may be difficult to argue that naturally occurring resources, like water, are under the control of an entity.

GRAP 110 explains the accounting for living and non-living resources. Water that is naturally occurring or in its natural state meets the definition of a non-living resource in GRAP 110. Some examples include water in rivers, streams, lakes, boreholes and the sea. GRAP 110 explains that control of naturally occurring water cannot be demonstrated until it is extracted.

Recognition criteria

The process of extracting water involves human intervention, which impacts when the water should be recognised by an entity. An entity applies the principles in the Standards of GRAP and the Asset Decision Tree to classify extracted water. Where the definition of inventory is met, GRAP 12 is applied. In accordance with GRAP 12, an asset is recognised if:

(a) it is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) the cost can be measured reliably.

An entity would therefore only recognise inventory once it can demonstrate that it controls the resource, for example, once the water enters the purification process, and that the recognition criteria in GRAP 12 are met.

Measurement

Entities need to develop their own accounting policies to measure water using the principles in GRAP 12.

Once the entity demonstrates that it can recognise the water, it is initially measured as follows:

- costs incurred to bring the inventory to its current location and condition including related infrastructure costs. Some examples include costs of extraction and depreciation; plus
- costs of conversion.

3.4 Can the valuation roll be used to measure an entity's assets at fair value?

GRAP 16 and GRAP 17 allow an entity to subsequently measure its assets using the fair value (investment property) or revaluation model (property, plant and equipment). These Standards require fair value to be used in either of these models, unless there are items of property, plant and equipment that are of a specialised nature, in which case depreciated replacement cost can be used.

It has been noted in practice that many entities use the municipal valuation roll to determine fair value for purposes of revaluing their assets in accordance with GRAP 16 or GRAP 17. The suitability of the valuation roll as a basis for measuring assets depends on both the measurement basis that is used to value properties in the valuation roll, as well as how often the values in the valuation roll are updated. An entity should assess whether the measurement basis and valuation frequency are consistent with, or aligned to the concept of fair value envisaged in the Standards.

"Fair value" in GRAP 16 and GRAP 17 means: *"The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction"*.

GRAP 16 states that: *"Fair value of investment property shall reflect market conditions at the date of reporting."* GRAP 17 states that: *"The fair value of land and buildings is usually determined from market based evidence by appraisal"* and that *"revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date."*

From both GRAP 16 and GRAP 17, it is clear that fair value should reflect market conditions. Fair value should also reflect the market conditions that exist at a reporting date, which means that

periodic valuations should be undertaken. The Municipal Property Rates Act outlines the basis on which a municipal valuation roll should be prepared, including the basis on which properties should be valued and the frequency of the valuations. Each municipality develops its own policies in implementing the provisions of the Municipal Property Rates Act.

Where an entity intends using the municipal valuation roll in measuring assets for accounting purposes, it should assess the municipality's policies for preparing the valuation roll and determine whether the measurement basis used in the valuation roll is consistent with, or aligned to, both these criteria in determining fair value.

3.5 *How should an entity apply the requirements in Directive 11 retrospectively in the absence of cost records for assets on the date of adoption of the Standards of GRAP?*

Directive 11 allows an entity that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model.

In accordance with GRAP 3, an entity is required to apply the change in accounting policy retrospectively.

If the entity, on the initial adoption of the Standards of GRAP, used deemed cost where the acquisition cost of an asset was not available, the deemed cost will be the acquisition cost at that date.

Therefore, when the entity applies the change in accounting policy retrospectively, it uses the deemed cost at the date of adoption, as "cost" when changing its accounting policy from the revaluation model or the fair value model to the cost model.

If an entity has cost records for its assets as at the date of initial adoption of the Standards of GRAP, it would apply the change in accounting policy retrospectively using the cost of assets as at that date.

Timeline for application of Directive 11

An entity can only take advantage of the provisions in Directive 11 within a period of three years following the expiry of the transitional provisions applied on the initial adoption of the Standards of GRAP, or the effective date of Directive 11, whichever is later. Directive 11 is effective for periods commencing on or after 1 April 2015.

3.6 *What are the implications of non-recognition of certain assets when permitted by Standards of GRAP?*

Background

Some preparers of financial statements have indicated that they are unsure if they can still assert compliance with the Standards of GRAP if they do not recognise certain assets in their statement of financial position because a reliable measure for certain assets does not exist.

This FAQ does not apply to first time adoption of the Standards of GRAP. The relevant Directive should be referred to for any transitional provisions when an entity initially adopts the Standards of GRAP.

Requirements

The *Framework for the Preparation and Presentation of Financial Statements*[4] (the Framework) requires an entity to recognise all items that meet the definition and recognition criteria of an asset. An asset is recognised in the statement of financial position when it is probable that the future economic benefits or service potential will flow to the entity and the asset has a cost or value that can be measured reliably. This refers to the existence of a reliable measure for an asset, rather than an entity's ability to determine a reliable measure.

The Framework further discusses reliable measurement in paragraphs .116 to .118, as follows:

> *In many cases, cost or value must be estimated; the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made the item is not recognised in the statement of financial position or statement of financial performance.*
>
> *An item that, at a particular point in time, fails to meet the recognition criteria … may qualify for recognition later, because of subsequent circumstances or events.*
>
> *An item that possesses the essential characteristics of an element but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is considered relevant to the evaluation of the financial position, financial performance and changes in net assets of an entity by the users of financial statements.*

Assessment of requirements

A Standard of GRAP might indicate that an entity should not recognise an asset if a reliable measure for an asset does not exist. The relevant Standards of GRAP outline principles on when a reliable measure for an asset does not exist. The principles may vary from Standard to Standard. For example:

- GRAP 103 includes principles in paragraph .58 such as when market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable.
- GRAP 110 also includes these principles in paragraph .31 and is described as an absence of a market; the range of possible fair values is so wide that there is no reliable measure; as well as where an acceptable valuation technique commonly used to price the asset is not available. GRAP 110.45 does, however, state that the fair value of an asset for which comparable market transactions do not exist is reliably measurable if:

  (a) the variability in the range of reasonable fair value estimates is not significant for that asset; or

[4] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting.*

(b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

The applicable Standard of GRAP should be considered to determine whether a reliable measure exists for an asset in a particular circumstance.

These principles outlined above should be distinguished from an entity's inability to reliably measure an asset for other reasons, such as time or resource constraints. Such reasons do not demonstrate the lack of a reliable measure.

Where a reliable estimate for an asset does not exist, the Standards often require information about the asset to be disclosed in the notes to the financial statements, for example, GRAP 103.17.

Where an entity does not recognise an asset, questions have been asked about how to account for any initial and subsequent costs incurred in relation to such an item. The relevant Standard of GRAP will describe how any initial and subsequent costs incurred relating to such an item should be treated, for example GRAP 103.20 states that any initial and subsequent costs should be recognised in surplus or deficit as incurred.

Conclusion

If an entity does not recognise assets because a reliable measure for the assets does not exist, there is no impact on an entity's ability to assert compliance with the requirements of the Standards of GRAP. Such an entity can still assert compliance with the Standards of GRAP.

If, however, an entity does not recognise assets because of its own inability to reliably measure assets, e.g. due to time or resource constraints, it cannot assert compliance with the Standards of GRAP.

3.7 Should an entity always use an external valuer or expert to determine the fair value of an asset?

Where an entity has elected to apply the revaluation or fair value model as its accounting policy to measure its assets subsequent to initial recognition, the Standards of GRAP allow an entity to use a valuer or another expert, including an employee, to determine the fair value of an asset if the:

(a) valuer is a member of a valuation profession and holds a recognised and relevant qualification; or

(b) the other expert has the requisite competence to undertake such an appraisal in accordance with the requirements of the Standards of GRAP.

3.8 Are changes to useful lives, residual values and depreciation methods changes in an accounting policy or a change in accounting estimate?

In terms of GRAP 17, an entity is required to assess the useful lives, residual values and depreciation methods of assets at every reporting date. Paragraph .56 states that where there is an indication that the useful life and residual value of an asset has changed since the preceding reporting date, such changes are accounted for as a change in accounting estimate in accordance with GRAP 3, unless an error has occurred as explained in FAQ 3.2.

Similarly, paragraph .72 requires that significant changes to the expected pattern of consumption of the future economic benefits or service potential (i.e. depreciation method), should be accounted for as a change in accounting estimate in accordance with GRAP 3.

Other asset-related Standards i.e. GRAP 16 (if the cost model is applied) and GRAP 31 have similar requirements that should be considered.

3.9 Do land invasions affect whether an entity recognises land?

Questions have been raised about whether the land invasions or similar illegal occupations of land means that an entity loses control of land when this occurs.

IGRAP 18

IGRAP 18 indicates that land is recognised based on control. Control of land is evidenced by the following criteria:

(a) legal ownership; and/or

(b) the right to direct access to land, and to restrict or deny the access of others to land.

IGRAP 18 outlines the following:

Legal ownership

.18 Legal ownership refers to the owner being the registered title deed holder of the land. Legal ownership also arises where the land is transferred from the legal owner to another entity or party, through legislation or similar means. For example, when a change in ownership is recorded by way of an endorsement on the existing title deed, rather than a formal transfer or change in ownership reflected on the title deed. References to legal owner or legal ownership in this Interpretation include both situations.

.19 In the absence of an entity demonstrating that it has granted the right to direct access to and restrict or deny access of others to the land to another entity, the legal owner controls the land as it retains the right to direct access to land, and to restrict or deny the access of others to land. The legal owner is thus able to demonstrate both criteria in paragraph .16.

The right to direct access to land, and to restrict or deny the access of others to land

.20 In assessing whether the rights that have been granted to an entity in a binding arrangement result in control of the land, it is important to distinguish between substantive rights and protective rights. Only substantive rights are considered in assessing whether an entity controls land.

.21 Substantive rights grant the entity the ability to make decisions about, and benefit from, certain rights and assets, such as how to use the land to provide services, and when to dispose of the land, to whom and at what price. For the right to be substantive, the holder of the right must have the present ability to exercise that right.

Analysis

The accounting for land is based on the rights that an entity is presently able to exercise in terms of its ownership of the land or other rights granted in terms of a binding arrangement.

Legal ownership

The invasion of land may be an illegal act. Although the illegal occupants may have certain rights, these rights do not supersede or eliminate the entity's currently exercisable rights in terms of its legal ownership of the land. Land ownership means that the entity has substantive rights to direct or restrict access to the economic benefits or service associated with the land. The fact that the entity may choose not to execute these rights because of political, socio-economic or other factors, is irrelevant in establishing whether control exists for accounting purposes.

An entity would need to assess if its ownership rights are subsequently changed through another legal action, such as the outcome of a court process such as the outcome of court case, court order, etc.

The illegal occupation of land may indicate that an impairment loss should be recognised. An entity should apply the principles in either GRAP 21 or GRAP 26 when these occupations occur (and throughout their duration). If the indicator assessment indicates that an impairment loss should be calculated, the land's recoverable amount/recoverable service amount is the higher of its fair value less costs to sell and its value in use. GRAP 21 and GRAP 26 provides guidance on the impairment calculation. The impairment calculation is not expected to result in zero or a nominal value.

For land measured on the fair value model in GRAP 16, the fair values determined at the reporting date take into consideration any reduction in value of the land.

Rights to use land other than through legal ownership

When an entity controls land through other rights, it is likely that the entity would need legal advice as to the rights of the various parties to understand which party has substantive rights to direct or restrict access to the economic benefits or service potential of the land.

3.10 How should an entity account for servitudes?

Servitudes are rights granted by a property owner to another person or entity to use land for certain purposes, e.g. to construct assets on or over a specific property or the right to access a property.

Servitudes may be acquired in a number of ways including through expropriation, township establishment conditions, agreement between parties, court order, statute or other means.

In the public sector, servitudes are usually acquired in connection with infrastructure such as roads, water reticulation systems, power lines, substations etc.

As servitudes are rights attached to property, an entity considers whether the definition and recognition criteria in GRAP 31 are met.

In accordance with GRAP 31, an intangible asset is an identifiable non-monetary asset without physical substance.

Per paragraph .14, an intangible asset is identifiable if it either:

> *(a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licenced, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or*
>
> *(b) arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.*

Creation of servitudes through the exercise of legislation

Entities may be granted certain rights regarding the creation of servitudes in terms of legislation. For example, servitudes may be registered over certain parts of land falling within the boundaries of reserves to be used for the development of infrastructure.

A key feature of servitudes created using rights granted in legislation is that no compensation is paid to the landowner for the acquisition of these rights. Costs may however be incurred to register the servitude with the Deeds Office.

Servitudes granted under these conditions do not meet the “identifiability’ criteria above for the following reasons:

- They cannot be sold, transferred, rented or exchanged freely and are not separable from the entity.
- They arise from rights granted to the entity in legislation and are specifically excluded from GRAP 31 (see paragraph .03(e)).

Consequently, an entity would not treat these rights as intangible assets. Costs incurred to register these servitudes (if any) are expensed.

Creation of servitudes through acquisition (including by way of expropriation or agreement)

An entity may need to acquire the rights associated with a specific piece of land, e.g. to span power cables related to an electricity distribution network. When an entity acquires rights associated with land and registers a servitude, the landowner is usually compensated.

Servitudes granted under these conditions are distinguished from those that are created through the exercise of legislation. These servitudes meet the definition of an “identifiable” intangible asset because they arise from contractual or other legal rights that are acquired through a specific binding arrangement, rather than through rights conferred on an entity in legislation.

In these instances, an entity would recognise the servitude as an intangible asset initially at cost if the recognition criteria are met.

The cost of these servitudes on initial recognition is usually the transaction price, i.e. the compensation paid to the landowner and any other costs that can be capitalised to the cost of the asset (see paragraphs .27 to .35 of GRAP 31).

Tangible or intangible

Servitudes, although intangible, are associated with an asset that has physical substance (land). In accordance with GRAP 31.05, an entity uses judgement to assess which element is more significant. Applying judgement, an entity may conclude that even though a servitude may meet the definition of an intangible asset, it is essential to the operation of a tangible asset. For example, an entity would not be able to construct or operate infrastructure on land that it does not own without acquiring certain rights from the landowner. In these instances, it may be appropriate to include the cost of the servitude in the cost of the tangible asset rather than recognising a separate intangible asset.

3.11 How should an entity account for library books?

Entities may provide community libraries within their respective jurisdictions. Library books are an integral part of these libraries.

Step 1: Who accounts for the library books?

As a starting point, entities assess whether the library books are their assets or whether they are another party's assets. An entity only accounts for those assets they control. Control means that an entity has the ability to exclude or regulate the access of others to the benefits of an asset. In assessing control, an entity would consider, among others, legislation or any other binding arrangement that may indicate:

- whether the entity controls the library books; and
- its role and responsibility in providing community libraries.

If an entity has determined that it controls library books, it applies step 2.

Step 2: How are library books accounted for?

Library books may differ in nature and use both within and between entities. Each entity therefore carefully considers the nature of its books (e.g. fiction, non-fiction, periodicals, reference books) and their use (e.g. certain books may have a finite life if they are revised regularly). Refer to the asset classification decision tree on the ASB website.

For example, the following definitions may be relevant in formulating an appropriate accounting policy[5]:

> *Property, plant and equipment are tangible items that:*
>
> *(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and*
>
> *(b) are expected to be used during more than one reporting period.*
>
> *Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of*

[5] Note: This list is not comprehensive. An entity should assess whether any other Standards of GRAP are relevant based on its circumstances.

liabilities that result in decreases in net assets, other than those relating to distributions to owners[6].

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Library books are held to provide a service to the community. Depending on the nature of an entity's library books and their use by an entity, they may meet part (a) of the definition of property, plant and equipment, or meet the definition of a heritage asset (see FAQ 8.7).

Certain library books may be expected to be used over more than one reporting period. As circumstances may differ both within and between entities, an entity assesses which library books are expected to be used over more than one reporting period. Library books that are expected to be used over more than one reporting period could be classified as property, plant and equipment or heritage assets and accounted for using the principles in GRAP 17 or GRAP 103 respectively.

Where an entity does not expect to use library books over more than one reporting period, they are recognised as an expense in accordance with the *Framework for the Preparation and Presentation of Financial Statements*[7].

As library books differ in both nature and use, it may not be possible for an entity to apply a single approach to all its books. It may need to capitalise certain books using GRAP 17 or GRAP 103, and expense certain books.

Using the principles in GRAP 1 and GRAP 3, an entity provides sufficient information in the accounting policies and notes to the financial statements regarding the treatment of library books.

3.12 When should an entity start depreciating major spare parts and stand-by equipment?

An entity starts depreciating major spare parts and stand-by equipment when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operation in the manner intended by management. This implies that depreciation may commence while the item is held in storage. Under a usage-based depreciation, the depreciation of items held in storage may be zero.

If major installation of the spare part is however required, it may be argued that the spare part is not immediately available for use in the manner intended by management. In these instances, depreciation may only commence once the installation is complete.

Management exercises judgement in applying the requirements in GRAP 17 regarding the depreciation of major spare parts and standby equipment.

[6] As defined in the *Framework for the Preparation and Presentation of Financial Statements.* In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting.*

[7] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting.*

3.13 How should information on the cumulative expenditure on assets in the process of being constructed or developed be presented?

GRAP 16.92(a) and GRAP 17.87(a) require an entity to disclose the cumulative expenditure recognised in the carrying value of investment property and property, plant and equipment in the process of being constructed or developed, respectively. These expenditures are disclosed in aggregate, per class of asset.

Practice in the past was that entities disclosed this information as a separate class of asset, referred to as "work-in-progress". Users were not able to understand what the nature of the work-in-progress was and therefore found it difficult to hold entities accountable and make decisions.

As part of the amendments to GRAP 16 and GRAP 17, the clarification was made that cumulative expenditure on assets in the process of being constructed or developed should be disclosed in aggregate, per class of asset.

3.14 What amount should be disclosed for projects that are taking significantly longer to complete than expected and what does "significantly longer" mean?

GRAP 16.92 requires an entity to disclose the following, in the notes to the financial statements, for investment property which is in the process of being constructed or developed:

> *…*
>
> *(b) The carrying value of investment property that is taking a significantly longer period of time to complete than expected, including reasons for any delays.*
>
> *(c) The carrying value of investment property where construction or development has been halted either during the current or previous reporting period(s). The entity should also disclose reasons for halting the construction or development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.*

The same is required in GRAP 17 paragraph .87(b) and (c) for property, plant and equipment which is in the process of being constructed or developed.

Carrying amount

The carrying amount is defined in GRAP 16 as the amount at which an asset is recognised in the statement of financial position. For work-in-progress, it would be the cumulative cost of the capital work in-progress less any accumulated impairment losses at the reporting date when the cost model is applied, or the fair value at the reporting date if the fair value model is applied.

The carrying amount is defined in GRAP 17 as the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses. For work-in-progress, it would be the cumulative cost of the capital work-in-progress less any accumulated impairment losses at the reporting date.

An entity discloses the carrying amount recognised and not the total value of the contract or the budget.

Significantly longer period of time

The requirement in GRAP 16 and GRAP 17 refers to the period of time that assets take to be completed in relation to the expected project plans.

GRAP 16 and GRAP 17 are not specific in terms of the period of time that would constitute a significantly longer period of time than expected. This would need to be assessed by management on a project-by-project basis, with reference to the nature and circumstances of the project and taking the information needs of users into account. This will apply when construction takes a significantly longer period of time in relation to what was expected or planned for the project.

For example, a five-year project that is meant to be completed in equal proportions over the five years, but where only 20% of the work has been completed at the end of year four, would likely meet the requirement of a significantly longer period of time than expected. It is also likely that users would need this information to hold entities accountable and make decisions. This example illustrates one method to determine what "significantly longer" means. An entity should determine the method that is most appropriate with reference to the nature and circumstances of the project.

GRAP 16.92 and GRAP 17.87 do not require the disclosure of an ageing of capital work-in-progress. The disclosure requirement only relates to those assets that are taking a significantly longer period of time than expected to be completed.

Level of disclosure

Both GRAP 16 and GRAP 17 do not require information to be presented on an asset basis. The Standards allow an entity to decide how to present the information required, i.e. individually or in aggregate. An entity could, for example, decide to present the information per asset, per project, or another relevant basis.

3.15 How should municipalities classify electricity and water meters?

Questions have been asked about how a municipality should classify conventional or prepaid electricity and water meters, since there are different arrangements and practices in place that have led to divergent accounting. It may depend on, for example, whether service providers are used to provide electricity and water and the type of residence or establishment (e.g. apartment complexes and estates may have one bulk municipal meter with each unit or house having privately owned meters).

Water and electricity meters that are assets of the municipality may meet the definition of inventory or property, plant and equipment. A municipality considers the following in classifying water and electricity meters:

- Inventories are assets that are held for sale, distribution or consumption in the provision of services. For example, a municipality procures 2 000 electricity meters that will be sold to the developer of a new residential development. These electricity meters will ultimately be owned by the residential owners. The developer expects delivery of the meters in two months, when the development will be at the stage where the meters can be installed. In this instance the electricity meters meet the definition of inventory until control of the meters is transferred to the developer.
- Property, plant and equipment are assets used in the production or supply of goods or services or for administrative purpose and are expected to be used during more than one

reporting period. For example, a municipality procures 100 water meters that will be installed in a business complex. The municipality controls the water meters after they have been installed. Water meters have a useful life of five years. In this instance the water meters meet the definition of property, plant and equipment.

Municipalities could refer to the asset classification decision tree to assist with classifying assets. Refer to the ASB website.

Whether meters are recognised as inventory when they meet the definition of inventory, or as property, plant and equipment when they meet the definition of property, plant and equipment, may depend on an entity's materiality.

The accounting may vary between municipalities.

3.16 Will the presentation of assets in the financial statements increase an asset's risk profile?

Entities raised concerns with the presentation and separate classification of some assets in their financial statements. As financial statements are publicly available, information about the type and nature of assets controlled by an entity are known. This may increase the risk of theft or misappropriation.

Financial statements result from processing large numbers of transactions or other events that are aggregated according to the nature or function of the transaction or event. The final stage in the process of aggregation and classification is the presentation of line items on the face of the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement, or in the notes.

GRAP 1 requires that each material class of similar items shall be presented separately in the financial statements. If a line item is not individually material, it is aggregated with other items either on the face of those statements, or in the notes. An item that is aggregated with other items on the face of those statements because it is not sufficiently material to warrant separate presentation, may nevertheless be sufficiently material for it to be presented separately in the notes. For example, an entity may control a building that is held to earn rentals, rather than for the production or supply of goods or services, or for administrative purposes. If the entity concludes that, in presenting its statement of financial position, the investment property is immaterial, the building may be aggregated with other buildings that is classified as property, plant and equipment.

In deciding what, and how information needs to be presented in the financial statements, an entity considers materiality, the information needs of its users and apply judgement when aggregating and classifying information in its financial statements. Presenting information in this manner does not necessarily increase the entity's risk profile.

Reference can be made to the Materiality Guideline and to the Fact Sheet on *Applying Materiality* issued by the Secretariat that will assist entities with applying the concept of materiality when preparing financial statements in accordance with Standards of GRAP.

3.17 Should assets on land be accounted for separately from the land?

Some entities are uncertain if land, and assets on the land should be accounted for separately from the land itself. Examples include fauna and flora, burial sites, a landfill site asset and infrastructure assets.

GRAP 1 requires that each material class of similar items shall be presented separately in the financial statements. In terms of GRAP 17, land and buildings are separable assets, and therefore need to be accounted for separately, even when they are acquired together. This

principle applies equally to other assets on land, when material. If an item is not individually material, it may be aggregated with other items either on the face of the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement, or in the notes.

An asset needs to be accounted for in accordance with the applicable Standard of GRAP, based on the purpose for which it is held, or intended to be used. Reference can be made to the asset classification decision tree for guidance.

For example:

- when an asset meets the definition of a living resource, the entity will apply GRAP 110 to recognise, measure, present and disclose the asset. The land on which the living resource is found is accounted for based on the purpose for which the land is held, or intended to be used;
- when a burial site on land meets the definition of a heritage asset, the burial site may be accounted for using GRAP 103, while the land is accounted for as a separate asset;
- land that is used to operate a landfill site is accounted for separately from the landfill site asset; and
- in a housing project, the land is accounted for separately from the infrastructure assets on the land. In many cases, the municipality controls the infrastructure asset, while the provincial department controls land.

3.18 How does an entity account for "software as a service" in a cloud computing arrangement?

"Software as a service" in cloud computing arrangements are usually arrangements in which the entity contracts to pay a fee in exchange for a right to receive access to a supplier's application software for a specified term. The supplier's software runs on cloud infrastructure managed and controlled by the supplier. The entity accesses the software as and when needed for the duration of the contract. An entity assesses whether it acquires a software asset when entering into the contract. In making this assessment, the entity determines whether it has:

(a) entered into a finance lease agreement; or

(b) obtained control of the software asset.

(a) Finance lease

GRAP 13 states that a finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

A right to access the supplier's software running on the supplier's cloud infrastructure does not in itself transfer to the entity the risks and rewards of ownership of the software asset. The supplier bears the risks of losses from technological obsolescence or changes in value of the asset due to changing economic conditions. The supplier also bears the rewards of the asset represented by the revenue received from the asset over its economic life and gains from appreciation in value of the asset.

(b) Control of the asset

GRAP 31 states that an entity controls an asset if the entity has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or service potential.

If a contract conveys to the entity only the right to receive access to the supplier's application software over the contract term, the entity does not receive a software intangible asset. A right to access the supplier's software does not give the entity the power to obtain the future economic benefits or service potential flowing from the software itself and to restrict others' access to those benefits or service potential.

Therefore, a contract that conveys to the entity only the right to receive access to the supplier's application software is a service contract. The entity receives the service i.e. the access to the software over the contract term. If the entity pays the supplier before it receives the service, that prepayment gives the entity a right to future service and is accounted for in accordance with the Conceptual Framework.

Costs of configuration or customisation

An entity may incur costs to configure or customise the supplier's application software to which the entity receives access. The assessment of whether the configuration or customisation of the software results in an intangible asset for the entity depends on whether the entity can demonstrate that the configuration or customisation is identifiable and meets the recognition criteria in GRAP 31. The entity would often not recognise an intangible asset because the configuration or customisation activities do not generally create a resource controlled by the entity that is separate from the software.

In rare circumstances, however, the arrangement may result in, for example, additional code from which the entity has the power to obtain the future economic benefits or service potential and to restrict others' access to those benefits or service potential. In that case, in determining whether to recognise the additional code as an intangible asset, the entity assesses whether the additional code is identifiable and meets the recognition criteria in GRAP 31.

3.19 What is harvested produce in the case of living animals?

GRAP 27 is applied to agricultural produce up until the point of harvest. Thereafter, GRAP 12 or another applicable Standard of GRAP is applied. It is therefore important to understand what constitutes "agricultural produce at the point of harvest" in order to apply GRAP 27.

GRAP 27 explains that **agricultural produce is the harvested produce** of the entity's biological assets. Biological assets include living animals or plants. The point of harvest of a biological asset is either:

- the detachment or extraction of produce from a biological asset; or
- the cessation of a biological asset's life processes.

In the case of living animals, the following are examples of harvested produce:

Biological asset	Harvested produce
Sheep	Wool

Cattle	Carcass
Pig	Weaned piglets that will be sold or distributed

Determining the point of harvest and the harvested produce is specific to each entity's particular circumstances. An entity's accounting policy clarifies how it has made this assessment.

3.20 When and how should entities assess for impairment in terms of GRAP 21 and GRAP 26?

At each reporting date, entities are required in terms of GRAP 21 or GRAP 26 to assess whether there is any indication that an asset may be impaired. The assessment is done per individual asset. There are various ways to assess whether any indicators of impairment are present. While physical inspection of an asset is a common way to assess the condition of an asset, it is not the only way to identify indicators of impairment. The classification of the asset as either a cash-generating or a non-cash-generating asset will determine whether GRAP 21 or GRAP 26 should be applied. GRAP 21 and GRAP 26 include guidance to assist entities in making this classification. An impairment calculation is performed if any one of the impairment indicators are present. If no impairment indication is present, no formal impairment calculation is required (with the exception of an intangible asset with an indefinite useful life or an intangible asset not yet available for use for which an impairment calculation must be performed annually).

Indicators that an asset may be impaired include, amongst others:

- Cessation of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the entity are expected to take place in the near future, in the technological, legal or government policy environment.
- The asset's market value has declined significantly.
- Market rates have increased and those increases are likely to affect the discount rate used in calculating an asset's recoverable amount materially.
- Obsolescence or physical damage of an asset that results in a permanent or significant decline in the service potential of the asset.
- Significant long-term changes with an adverse effect on the entity have taken place or are expected to take place in the near future that will affect the extent or manner in which the asset is used.
- Decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the performance of an asset is, or will be, significantly worse than expected.

GRAP 21.24 to .30 and GRAP 26.24 to .29 provide guidance on the indicators. Judgement is required to determine whether an indicator should trigger an impairment test.

Entities are also required to assess at reporting date whether there is any indication that their expectations about the useful life and residual value of an asset have changed since the preceding reporting date. While there may be similarities between indicators of changes in an asset's useful life/residual value and indicators of impairment, these are separate assessments.

Adjusting the asset's useful life, depreciation method and residual value alone does not replace the recognition of an impairment loss.

Section 4 – Presentation and disclosure

4.1 In preparing the financial statements, should a municipality use the presentation requirements and bases of preparation outlined in the Standards of GRAP or the budget regulations?

The financial statements and the budget are two separate documents with separate objectives:

- The financial statements are external reports which are issued to a wide range of users such as Parliament or the legislatures, the public, financiers and other creditors, other governments, ratings agencies and analysts, to meet their specific information needs. The financial statements are prepared using Standards of GRAP.
- Budgets, while they might be publicly available, are not designed to meet the information needs of a wide range of external users. Budgets are primarily prepared as a management and accountability tool for use by councillors, the relevant treasuries and officials of a municipality. The preparation of the budget is regulated by the Municipal Budget and Reporting Regulations (issued in Gazette 32141) and should be applied in preparing the budget.

As the objectives of the two reports are different, there may be differences between the types of information reported, as well as the bases used to prepare the information.

Consequently, when an entity presents and discloses information in its financial statements (statements of financial performance, financial position, changes in net assets, cash flows and notes), it applies GRAP 1, along with the requirements in the individual Standards of GRAP. Similarly, in determining the recognition and measurement requirements for transactions and events, the Standards of GRAP must be applied. There is however one possible exception to this principle, which is the preparation and presentation of information comparing actual and budget information using GRAP 24. For purposes of applying GRAP 24, the Standard allows two ways in which the information can be presented:

(a) Include additional columns in the financial statements, but only where the budget and financial statements are prepared using the same basis i.e. on the same basis of accounting, for the same entity(ies), the same reporting period, and the same classification structure (as described in GRAP 24).

(b) Present a separate statement in the financial statements called the “Comparison of Budget and Actual Information”. This alternative must be used where the basis used to prepare the budget and financial statements differs, and may be used where the basis is the same. Where this presentation method is used an entity presents the actual and budget information in a separate statement. Where the budget information is prepared on a different basis to the financial statements, an entity adjusts the financial statement information to make it comparable to the basis used to prepare and present the budget (referred to in the Standard as “actual information on a comparable basis”).

The presentation of budget information in financial statements is dealt with in a Fact Sheet on the *Presentation of Budget Information in the Financial Statements* issued by the Secretariat.

4.2 How does an entity decide which accounting policies should be included in its financial statements?

An entity includes accounting policies in its financial statements for those material transactions or events included in the entity's financial statements for the current or prior years (either recognised or included in a specific component of the financial statements, e.g. the statement of financial position or the comparison of budget and actual information, or disclosed in the notes to the financial statements).

An entity would not include accounting policies in its financial statements that are not relevant to the transactions and events undertaken for the current or prior years. For example, an entity would not include an accounting policy in its financial statements for internally generated intangible assets if it has not undertaken such transactions in the current or prior years.

4.3 Should a municipality disclose the councillors' remuneration on an individual basis or in aggregate?

Note: This question arose in the context of municipalities with a large number of councillors, some of whom are remunerated at standard amounts, and it was unclear whether or not the remuneration for those councillors should be disclosed separately on an individual basis or in aggregate.

GRAP 20 provides guidance on the identification of related parties and outlines the minimum information that shall be disclosed for those transactions in the notes to the financial statements.

GRAP 20.28 specifies how related party transactions should be categorised and includes a separate category for management. As the council of a municipality plays a prominent decision-making role, councillors are considered part of management in a municipality. Thus, the disclosure requirements prescribed for management are applicable to councillors of a municipality.

GRAP 20.31 states that related party transactions may be disclosed in aggregate when they relate to the same related party, and are of a similar nature, except when separate disclosure is necessary to provide relevant and reliable information for decision-making and accountability purposes.

GRAP 20.35 prescribes that an entity shall disclose the remuneration of management per person and in aggregate, for each class of management. Therefore, where an entity has major classes of management, it shall provide separate disclosures on remuneration for those classes of management. The structure of a municipality and its council is known to vary but if there are major classes of councillors then the remuneration of each class shall be disclosed per person and in aggregate.

GRAP 1.36 requires that each material class of similar items shall be presented separately in the financial statements; and items of a dissimilar nature or function shall be presented separately unless they are immaterial. Therefore, if a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the notes.

GRAP 1.38 prescribes that when an entity applies the concept of materiality, it means that the specific disclosure requirements of a Standard of GRAP need not be satisfied if the information

is not material. Materiality as defined in GRAP 1 depends on the nature (quality) or size (quantity) of the line item, or a combination of both.

Consequently, when a municipality presents and discloses the councillors' remuneration in its financial statements it shall apply the specific disclosure requirements of GRAP 20 (i.e. disclose the remuneration of councillors, as a category of management, per person and in aggregate) after considering materiality (i.e. qualitative and quantitative factors), particularly at an individual line-item level. In accordance with GRAP 1.36, if a line item is not individually material, then it is aggregated with other similar items either on the face of the financial statements or in the notes. Aggregation may be applied on the basis of GRAP 1.38 if it can be demonstrated that the disclosure of the remuneration of management per person is considered not to be material. In addition to the disclosures required by GRAP 20, an entity also identifies any disclosures required by legislation in this regard.

4.4 What does it mean to analyse expenditure by either nature or function?

GRAP 1.104 requires an entity to present an analysis of expenses using a classification based on either the nature of expenses *or* their function within the entity, whichever provides information that is reliable and more relevant. Management applies its judgement to select the most relevant and reliable presentation for the entity. Entities are encouraged to present this analysis on the face of the statement of financial performance.

Analysing expenses by nature

Analysing expenses by nature identifies costs and expenses in terms of their character and groups expenses according to the kinds of economic benefits or service potential received in incurring those expenses, irrespective of their application in the entity's operations and/or where the expenses are incurred. The entity therefore analyses the direct goods or services acquired or assets consumed – i.e. the main inputs that are consumed in order to accomplish an entity's activities (what has been bought or used), and not the ultimate use thereof. For example, the entity will analyse expenses into categories such as depreciation, purchases of materials, transport costs, employee costs, advertising costs, etc. Under this method, the expenses are not allocated among various functions within the entity.

It has been observed that line items such as "repairs and maintenance", "grant expenditure", "contracted services", "project expenditure" and "agency expense" are presented separately in the financial statements where entities have chosen to present an analysis of expenses by nature. These line items usually consist of a combination of different elements of expenditure by nature. This presentation may not be in accordance with the requirements of GRAP 1 where the nature of expense method is chosen.

For example, it may be inappropriate to present the following:

- A line item "repairs and maintenance" that consists of different elements of expenses by nature, such as labour costs, consumable materials, other overhead costs, etc.
- A line item "grant expenditure" that consists of different elements of expenses by nature related to a specific grant, such as labour costs, raw materials, transport costs, administrative expenses, etc.

- A line item “contracted services” that consists of different services by nature, such as cleaning services, professional services, security services, etc. It may be particularly inappropriate where “contracted services” includes the procurement of goods, such as cleaning materials, while a separate line item is presented for similar goods procured.
- A line item “project expenditure” that consists of different elements of expenses by nature, such as professional fees (engineers and valuers), labour costs, raw materials, electricity, water, lease of equipment, etc.
- A line item “agency expense” for expenses incurred in performing agency services where the performance of such services requires different expense elements such as labour costs, consumable materials, other overhead costs, etc.

This incorrect presentation is distinguished from when an entity procures a complete service from an outside party for e.g. maintenance services, project management services, etc. This may qualify for separate presentation when expenses are analysed by their nature as the entity has in this case procured a turn-key service. For example, if material, an entity could conclude it is appropriate to present a line item “maintenance services” where the entity procures a completed maintenance service from an outside party.

GRAP 1 does not require separate presentation of each material item in the statement of financial performance. An entity would need to assess what information is appropriate for the face of the statement compared to the notes. For example, an entity may determine it appropriate to present services procured as one item in the statement of financial performance, with information on each material service presented in the notes. Immaterial items should not be presented separately in the financial statements.

An entity should always consider if the information presented to users provides information about the nature of what the entity has procured, for material items separately.

Analysing expenses by function

The function of expense method analyses expenses according to the programme, activity from which the item arises, or purpose for which they were incurred. For example, health expenses, education expenses, administrative expenses, etc. GRAP 1.110 requires entities that analyse expenses by function to also disclose additional information about the nature of those expenses.

Unlike the nature of expense method, an entity that presents its expenses based on the entity’s functions will allocate the elements of expenses such as “labour costs”, “consumable material” and “transport costs”, among the functions of the entity, for example, “water”, “electricity”, “roads”, “housing” and “administration” functions are presented, with each function including its share of total expenses.

It is unlikely that an entity has functions such as “repairs and maintenance”, “grant expenditure”, “contracted services” and “project expenditure” that are presented separately in a statement of financial performance presented by function; however, it would need to be assessed. An entity that has, for example, a repairs and maintenance function for a large asset base that is maintained in-house through an internal works department, which is significant, may conclude that “repairs and maintenance” is a function that is presented separately.

An entity that previously incorrectly presented line items that combine different elements of expenditure by nature on the face of the statement of financial performance, e.g. “repairs and maintenance”, “project expenditure”, “grant expenditure” and “contracted services”, reclassifies these items by either the nature or function thereof, depending on the entity’s choice of presentation. The comparative amounts are also restated, and information about the nature, amount, and reason of reclassification disclosed, as required by GRAP 1.33 and 1.49.

Specific presentation requirements in the Standards of GRAP

Standards of GRAP may require specific items to be presented in the financial statements. Questions have been asked about where and how this information could be presented, if presenting certain items as a separate line item in the statement of financial performance is inappropriate.

To determine how to appropriately present information where a Standard of GRAP requires specific items to be presented separately, the requirements of the various Standards of GRAP are read together.

For example, GRAP 1 states the following regarding information to be presented either on the face of the statement of financial performance *or* in the notes:

> *.101 When items of revenue and expense are material, their nature and amount shall be disclosed separately.*
>
> *.102 Circumstances that would give rise to the separate disclosure of items of revenue and expense include:*
>
> *…*
>
> *(c) expenditure incurred on assets to repair and maintain them.*

GRAP 17 states that the following presentation should be made in the notes:

> *.88 An entity shall separately disclose expenditure incurred to repair and maintain property, plant and equipment in the notes to the financial statements.*
>
> *.89 As entities may apply different bases for determining expenditure on repairs and maintenance, an entity shall disclose information about the specific costs included in the amount of repairs and maintenance disclosed in the notes. In determining the amount disclosed in the notes to the financial statements on expenditure incurred to repair and maintain property, plant and equipment, an entity may include amounts paid to service providers, as well as amounts spent on materials and time spent by employees in repairing and maintaining the asset(s).*

When reading the requirements of GRAP 1.102(c) and GRAP 17.88 and .89 together, an entity that incurs material expenditure to repair and maintain assets, and concludes it is inappropriate to present a separate line item in the statement of financial performance, will disclose the information in the notes.

An entity that concludes it is appropriate to include a “repairs and maintenance” line item in the statement of financial performance, will present a “repairs and maintenance” line item according to nature or function for all repairs and maintenance incurred. The entity will present the

information required by GRAP 17.88 and .89 in the notes, for property, plant and equipment only, and including the specific costs the entity determines to be appropriate.

Other asset-related Standards have similar disclosure requirements that should be considered with the requirements of GRAP 1.

4.5 What items should be included in "cash and cash equivalents"?

Some preparers questioned the requirement in the Standards of GRAP that "cash and cash equivalents" should only include those investments with a maturity of 3 months or less.

GRAP 2 includes the following definitions of cash and cash equivalents:

> *Cash comprises cash on hand and demand deposits.*
>
> *Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.*

GRAP 2 describes cash equivalents as those items that meet the definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Bank overdrafts that are repayable on demand usually form part of an entity's cash management activities and are part of cash and cash equivalents.

GRAP 2 also clarifies that the following items are not cash and cash equivalents:

- Equity investments unless they are cash equivalents in substance.
- Bank borrowings.

Neither GRAP 2 nor the National Treasury Accounting Guideline on GRAP 2 provides specific guidance on which investments are considered to be cash equivalents. GRAP 2 (and IPSAS 2 on *Cash Flow Statements*) is based on the principles of IAS 7 on *Cash Flow Statements*. Guidance provided in the private sector was therefore considered. The IFRS Interpretations Committee (IFRIC) received questions in the past about which items could be included in cash equivalents but has not issued any guidance as it believed the requirements in IFRS, which are the same as GRAP 2, are clear.

Entities therefore assess their investments to determine if they are classified as cash and cash equivalents, by considering:

1. The definitions in GRAP 2, and
2. The purpose of holding the investments.

1. <u>Definition</u>

The definition of cash equivalents comprises three elements that entities consider, as follows:

(a) Short term, highly liquid

An investment requires a short maturity to meet the definition of a cash equivalent. GRAP 2 is not definitive, but it refers to an investment with a maturity date of three months or less from the date of acquisition, as an example of this. This does not automatically mean an

investment with a maturity date of more than three months cannot be classified as a cash equivalent. Note that the maturity period is measured from the date of acquisition, not the reporting date.

(b) Readily convertible to known amounts of cash

This implies that an investment must be convertible into cash without an undue period of notice and without incurring a significant penalty on withdrawal. Known amounts of cash means that the amount of cash that will be received must be known at the time of the initial investment. The IFRIC concluded that investments in shares or units of money market funds that are redeemable at any time are not considered cash equivalents, even though they can be converted to cash at any time at the then market price in an active market. This is because the share price or unit price fluctuates and the amount of cash for which the shares or units of money market funds can be exchanged are not known at initial investment.

(c) Insignificant risk of change in value

This implies that an investment must be so similar to cash that any changes in value are insignificant. For this reason, a short maturity period is necessary because a longer maturity period exposes an investment to fluctuations in value. Entities consider the effect on the redemption amount of e.g. cancellation clauses, termination fees or usage restrictions and whether they create a more than insignificant risk of change in value.

2. Purpose of holding an investment

An entity assesses why it is holding an investment, which would be reflected in the way in which the entity has invested the item. For example, if the purpose of holding an investment is to meet short-term cash commitments to fund on-going operations or settle liabilities in the short-term, an entity would invest it for only a short period of time in a way that resembles cash.

Restrictions on use

At times, cash and cash equivalent balances held by an entity are subject to legal or contractual restrictions on use. For example:

- Conditional grants received by an entity where the grant money received can only be used for a specified purpose.
- Monies held by agents on behalf of the principal.

Generally, restrictions on the use of cash and cash equivalents arising from legislation or a contract with a third party do not result in the asset no longer being cash and cash equivalents for the holder, unless those restrictions change the nature of the asset in a way that it would no longer meet the definition of cash and cash equivalents in GRAP 2.

An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities. Where restrictions on cash and cash equivalents are imposed or lifted, an entity assesses whether its classification in the cash flow statement is still appropriate.

When relevant to an understanding of its financial position, the entity would disaggregate the “cash and cash equivalents” line item and present the restricted cash items separately in an

additional line item. GRAP 2.51 states that the disclosure of the amount and the nature of restricted cash balances is an example of additional information that may be relevant to users.

Accounting policy

GRAP 2 recognises that entities may have a variety of cash management practices and banking arrangements that will influence which items are classified as cash and cash equivalents. For this reason, GRAP 2.47 requires that, in order to comply with GRAP 1, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.

4.6 What is considered when presenting information in addition to what is required by GRAP 24 on a comparison of actual and budget information?

GRAP 24 requires entities that are required to, or elect to, make publicly available their approved budgets and for which they are held publicly accountable, to present a comparison of actual information with the approved budget in the financial statements.

The objectives of financial statements are to provide information about the entity that is useful to users for accountability and decision-making purposes. The attributes that make information useful to users are relevance, faithful representation, understandability, timeliness, comparability, and verifiability of the information reported, as discussed in the Board's *Conceptual Framework for General Purpose Financial Reporting* (Conceptual Framework).

Entities may be required or encouraged to present information in addition to what the Standards of GRAP require. For example, the National Treasury requires entities to present more information about the entity's actual financial results compared to its budget than what the Standards of GRAP require.

Presenting information in the financial statements in addition to what the Standards of GRAP require is not prohibited. Entities may include additional information in the financial statements if it is presented in a way that meets the objectives of financial statements and attributes of useful information, as discussed in the Conceptual Framework.

For example, entities that present a statement of comparison of budget and actual information and an appropriation statement (information used by the National Treasury), often present information that is similar, but not the same, more than once in the financial statements. The information is therefore largely repeated. It is likely that this repetition of information would be more misleading to a user than provide useful information.

To comply with the Standards of GRAP, while providing additional information to specific users, it may be appropriate for entities to present:

- information required by Standards of GRAP, together with the additional information entities are required or encouraged to present, once in a single statement or note; or
- information required by Standards of GRAP in the financial statements, with additional information provided as an annexure to the financial statements.

Also see the Fact Sheet on the *Presentation of Budget Information in the Financial Statements* issued by the Secretariat for guidance on presenting both the Statement of Comparison of Budget and Actual Amounts and the Appropriation Statement.

4.7 How could entities determine the amount of repairs and maintenance expenditure incurred?

GRAP 17 requires an entity to disclose expenditure incurred to repair and maintain property, plant and equipment in the notes to the financial statements. The Standard does not prescribe how the amount to be disclosed should be determined, it acknowledges that expenditure may be incurred either internally or externally.

In particular, to determine the amount to be disclosed, an entity considers whether the expenditure arose from (a) procuring the service to repair and maintain assets from service providers, and/or (b) an internal function or department that is responsible to repair and maintain assets, in which case the expenditure may comprise the amounts incurred on materials and time spent by employees.

GRAP 17 requires that entities disclose how they have determined the disclosed amount so that the users of the financial statements can make comparable assessments.

Other asset-related Standards have similar disclosure requirements that are considered.

4.8 When should an entity present revenue and receivables from exchange and non-exchange transactions on the face of the financial statements or in the notes?

The Standards of GRAP set out various requirements for the presentation of revenue and receivables from exchange and non-exchange transactions, either on the face of the financial statements or in the notes. The table below summarises these requirements:

	Presentation requirements for revenue	**Presentation requirements for receivables**
GRAP 1	GRAP 1.96 As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period: (a) revenue … GRAP 1.98 Additional line items, heading and sub-totals shall be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance.	GRAP 1.79 As a minimum the face of the statement of financial position shall include line items that present the following amounts: … (i) receivables from non-exchange transactions (taxes and transfers); (j) receivables from exchange transactions; … GRAP 1.85 An entity shall disclose, either on the face of the statement of financial position or in the notes to the statement of financial position, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.

	Presentation requirements for revenue	Presentation requirements for receivables
GRAP 9	GRAP 9.39 An entity shall disclose the amount of each significant category of revenue recognised during the period including the revenue arising from: (i) the rendering of services (ii) the sale of goods; (iii) interest; (iv) royalties; and (v) dividends or similar distributions.	
GRAP 23	GRAP 23.115 An entity shall disclose, either on the face of, or in the notes to, the financial statements: (a) the amount of revenue from non-exchange transactions recognised during the period by major classes showing separately: (i) taxes, showing separately major classes of taxes; and *(ii)* transfers, showing separately major classes of transfer revenue.	GRAP 23.115 An entity shall disclose, either on the face of, or in the notes to, the financial statements: ….. (b) the amount of receivables recognised in respect of non-exchange revenue; …
GRAP 108		GRAP 108.35 The carrying amount of statutory receivables shall be disclosed separately in the notes to the financial statements, clearly distinguishing statutory receivables from receivables which are financial assets and other receivables.

As the Standards of GRAP set out various requirements for the presentation of revenue and receivables, an entity needs to consider materiality when preparing its financial statements. The requirements in the Standards of GRAP should be read together when presenting revenue and

receivables in the financial statements. Note: The discussions below assume that the items are material to the financial statements and/or the disclosures in the notes.

Where one Standard of GRAP requires presentation on the face, while another Standard of GRAP:

(a) allows presentation either on the face, or in the notes to the financial statements; or

(b) does not have specific requirements for presenting an item,

revenue and receivables are presented on the face.

Revenue

As required by GRAP 1, revenue is presented on the face of the statement of financial performance.

If revenue is presented on the face of the statement of financial performance, additional line items, distinguishing between exchange and non-exchange revenue, may be included on the face of the statement of financial performance, if:

(a) the exchange or non-exchange revenue is material; and

(b) relevant information is provided to the users in understanding the entity's financial performance.

If the distinction between exchange and non-exchange revenue is not included on the face of the statement of financial performance, it is disclosed in the notes to the financial statements.

The notes to the financial statements may also separately present the major classes of non-exchange revenue, and the significant categories of exchange revenue.

GRAP 1, GRAP 9 and GRAP 23 also require an entity to disclose the accounting policies adopted for the recognition of revenue from exchange and non-exchange transactions respectively in the notes to the financial statements.

Receivables

As required by GRAP 1, receivables from exchange transactions and receivables from non-exchange transactions are presented on the face of the statement of financial position.

The notes to the financial statements separately present statutory receivables from contractual and other receivables.

4.9 Should all errors be accounted for using GRAP 3?

Stakeholders indicated a trend of disclosing extensive information on the corrections of prior period errors – both in the statement of changes in net assets as well as the notes. Stakeholders indicated that the information provided detracted from the overall quality of the financial statements as it was not relevant to users of the financial statements. The disclosures often related to immaterial amounts, and the aggregation of information was not considered.

This practice means that the principles in GRAP 3 - particularly materiality - are not being considered by entities when preparing their financial statements.

GRAP 3 explains that the Standards of GRAP are only applied to transactions and events that are material. This is always considered by entities in deciding what accounting treatment is applied, as well as what and how information is presented in the financial statements and disclosed in the notes.

The Materiality Guideline provides guidance on the treatment of immaterial errors. The guidance is outlined below.

What are errors?

GRAP 3 explains that prior period errors are omissions from, and/or misstatements in, an entity's financial statements arising from failure to use, or misuse of reliable information that is available, or could reasonably be expected to be obtained.

Material errors

Material errors are errors that individually or collectively could reasonably be expected to influence the users' decisions taken on the basis of those financial statements. Errors could affect both numbers and qualitative descriptions provided in the financial statements. An entity must correct all material errors in accordance with GRAP 3, i.e. retrospective correction and restatement of the error, with disclosure in the notes to the financial statements.

Immaterial errors

As the Standards of GRAP only apply to material items, and entity considers the following in deciding how to treat errors that are immaterial:

- Errors need to be assessed both quantitatively and qualitatively.
- Immaterial errors do not need to be corrected, unless the errors are made to achieve a particular presentation of an entity's financial position, financial performance or cash flows.
- When an entity assesses an error not to be material individually, it considers whether it may be material in aggregate with other immaterial errors. The netting of errors is inappropriate.

4.10 Are all adjustments related to the adoption of a new pronouncement a change in accounting policy in accordance with GRAP 3?

When entities are required to apply a new pronouncement issued by the Board, the transitional provisions of that pronouncement are applied to account for any resulting adjustments. In the absence of any transitional provisions, an entity applies the requirements of GRAP 3 to account for the adjustments.

Even if a pronouncement has transitional provisions, if some of the requirements of the previous pronouncement are the same as the requirements in the new pronouncement but were previously incorrectly applied, any resulting adjustment should be treated as a prior period error in GRAP 3 rather than a change in accounting policy.

When a pronouncement does not have any transitional provisions, an entity applies GRAP 3. The following paragraphs are relevant in considering whether the adoption of a new pronouncement will give rise to a change in an accounting policy or a change in an accounting estimate. An entity also considers if any adjustments could be prior period errors.

Changes in accounting policy

GRAP 3.16 indicates the following:

> *A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.*

This is typically when the new pronouncement outlines new or different requirements or criteria for when a transaction is recognised, and how it is measured (e.g. cost, fair value or another measurement bases).

Changes in accounting estimates

GRAP 3 indicates the following regarding changes in accounting estimates:

- Paragraph .35 – "*The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability".*
- Paragraph .36 – "*An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error".*
- Paragraph .37 – "*A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate".*

Errors

GRAP 3.04 indicates the following:

> *Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:*
>
> *(a) was available when financial statements for those periods were authorised for issue; and*
>
> *(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.*
>
> *Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.*

Judgement is applied to the relevant facts and circumstances when applying a new pronouncement. Similar principles to those outlined in this FAQ are also applied when implementing the revisions to existing pronouncements.

4.11 When should GRAP 109 be applied?

It has been observed that entities incorrectly apply GRAP 109 to arrangements that are not principal-agent arrangements.

This FAQ outlines the process that is followed to determine if GRAP 109 is applied. Note: This FAQ does not deal with the first-time adoption of GRAP 109.

Step 1: When should GRAP 109 be considered?

Before accounting for an arrangement with another party, an entity considers whether GRAP 109 should be applied. As GRAP 109 provides guidance on assessing the nature of an arrangement or relationship with another party, it is considered before applying other Standards of GRAP.

Step 2: Is the arrangement a principal-agent arrangement?

To determine if GRAP 109 should be applied, an entity needs to determine if the arrangement it has entered into is a "principal-agent arrangement".

A "principal-agent arrangement" is defined as follows in GRAP 109.05:

> *A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf of, and for the benefit of, another entity (principal).*

There are two important aspects to consider in assessing whether a principal-agent arrangement exists:

1. The existence of a binding arrangement between the principal and the agent.
2. The arrangement is such that one entity (the agent) represents the interests of another party (the principal), in dealing with identified third parties.

The definition refers to undertaking transactions with third parties "on behalf of, and for the benefit of, another entity (principal)". By definition, the entity on whose behalf the activities are being undertaken and who ultimately benefits (or bears losses), is the principal in the arrangement. The assessment of whether an entity is a principal or an agent in an arrangement is not undertaken as part of the initial assessment of whether a principal-agent arrangement exists. Only after it is concluded that a principal-agent arrangement exists, is **step 3** of this FAQ undertaken to determine which entity is the principal and which entity is the agent in the arrangement.

The assessment of whether an arrangement is principal-agent arrangement is made at the arrangement-level rather than for individual transactions.

A single binding arrangement could include multiple principal-agent arrangements. Where arrangements include the fulfilment of multiple rights and obligations, the role of the parties is analysed for these different rights and obligations. For example, a single binding arrangement may require an entity to represent another party in its interactions with suppliers, as well as the recipients of the goods or services developed by the suppliers, i.e. the beneficiaries. The role of either party should be analysed in the context of the supplier and beneficiary relationships respectively.

Is there a binding arrangement?

A binding arrangement (for purposes of GRAP 109) is any arrangement that confers enforceable rights and obligations on parties to the arrangement. These rights and obligations could arise from:

- contracts;
- legislation or similar means; and/or
- common law, i.e. legal precedent set through court rulings.

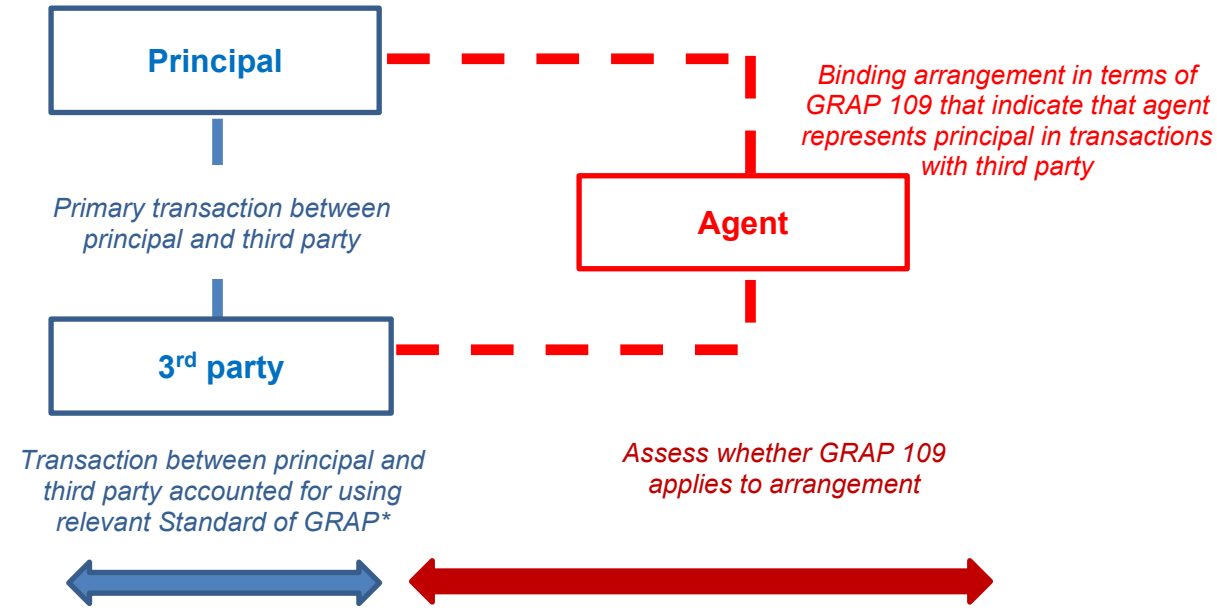
Principal-agent arrangements are most likely to arise from contracts and/or legislation or similar means. Some arrangements may be governed by both legislation (which sets the overarching framework within which certain transactions occur) and contracts (which set out the specific details of an arrangement between a principal and an agent, e.g. the activities to be undertaken, re-imbursement of costs, fees, service standards etc.). Both should be considered in deciding the nature of the arrangement and what rights and obligations exist for either parties.

Who are the parties to the arrangement?

A common misconception is that any transaction with more than two parties is a principal-agent arrangement. This is not the case. A principal-agent arrangement is where one entity (the agent) represents the interests of another entity (the principal) when that entity (the principal) transacts with third parties. The agent represents the principal and administers the transactions between the principal and the third parties, and it does so according to the specific direction given by the principal. The agent generally does not have discretion in terms of the type/types of goods or services to be rendered or the price at which these goods or services are to be rendered and to whom. The agent facilitates any transactions or interactions between the principal and the third parties in respect of the binding rights and obligations that are established between the principal and the third parties.

Representing the interests of another entity could include undertaking specific transactions, or it could include having interactions with third parties on an entity's behalf, e.g. negotiating a contract. Where there are specific transactions that are undertaken between the principal and the third parties, the agent would be involved in facilitating or executing the transaction but would not be responsible for fulfilling the rights and obligations in the transaction. In analysing the rights and obligations between the parties, the rights and obligations between the principal and the third parties are likely to be substantive in nature, i.e. they relate to the direct fulfilment of the rights and obligations of the arrangement. The agent's rights and obligations in relation to the transactions between the principal and the third parties are likely to be protective or administrative in nature.

A key characteristic of these transactions is often that the principal and the third parties are the counterparties to the transaction rather than the agent and the third parties (although there are exceptions). The diagram below illustrates the relationships in a principal-agent arrangement:



*Transaction between third party and principal will be governed by a separate binding arrangement.

The examples below illustrate when a principal-agent arrangement exists.

Examples where a principal-agent arrangement exists

Example #1: Issuing of motor vehicle licences

- Fact pattern:

  The relevant Department of Transport issues motor vehicle licences to motorists in each province in exchange for a prescribed fee. Given the geographical location of municipal offices, it is convenient for motorists to be able to renew their licences at these locations. The municipality facilitates the issuing of these licences and the collection of the prescribed fees.

- Analysis:

  The municipality acts on behalf of the Department to issue licences to, and collect money from motorists, i.e. there are three parties to the arrangement. The transaction is however between the Department of Transport – the entity responsible for issuing the licence, and the motorist (i.e. third party) - the party responsible for the payment of the licence fee. The municipality is not a party to the transaction with the third parties but rather facilitates the transaction between the Department and the motorist.

Example #2: Project management services to an entity

- Fact pattern:

  A Department is responsible for executing an infrastructure development project within a municipal boundary. In executing the project, the Department asks the municipality to provide it with spatial planning services, as well as project managing the contractor appointed by the Department for the development of the infrastructure. As the municipality

has the necessary technical expertise, they will also negotiate the contract between the Department and contractor. The Department is liable to pay the contractor, and the contractor is liable to deliver the completed infrastructure.

- Analysis:

  The municipality fulfils two roles:

  - The municipality acts on behalf of the Department in negotiating and managing the contract between the Department and the contractor, i.e. there are three parties to the arrangement. The transaction is however between the Department and the contractor (i.e. third party). The municipality is not party to the transaction with the third parties. Note: In some instances, agents may be asked to facilitate the supply chain management process and may be a party to the contract (particularly construction contracts). The agent will usually have no substantive rights or obligations in the arrangement.
  - The municipality provides spatial planning services to the Department and will receive compensation for those services. As there are only two parties to the arrangement, there is no principal-agent arrangement.

Examples where a principal-agent arrangement does not exist

Example #3: Delivery of services to a third party

- Fact pattern:

  A municipality contracts with a service provider to deliver food parcels to a community affected by a disaster. This relief is automatically provided by the municipality when specific events occur.

- Analysis:

  Although the food parcels are delivered to identified third parties, these parties are not party to the arrangement – they are merely a beneficiary of the municipality's activities. Therefore, only the municipality and the service provider are parties to the arrangement. In this instance, there is no agent, as there are no third parties in the arrangement.

Example #4: Legal services provided to an entity

- Fact pattern:

  An entity contracts with senior counsel to provide it with legal representation for environmental claims against the entity. Senior counsel advises the entity that it needs to contract with environmental and other experts to assist with the case.

- Analysis:

  Although the experts will effectively act on behalf of the client (the entity), there are essentially two contracts:

  - One between the entity and senior counsel for the provision of legal services.

- One or more contracts between senior counsel and the expert(s). Contracts between senior counsel and the experts are for the provision of services to senior counsel to ensure relevant legal services are provided to the client (the entity).

In this instance, senior counsel is not representing the entity when contracting with the experts and therefore it is not an agent. Senior counsel will act for him or herself when dealing with the experts as the one primarily responsible for fulfilling the contract.

Principal-agent arrangements and control relationships

The structure and operation of the public sector means that entities frequently control other entities. Although these control relationships mean that the controlling entity is able to direct the activities of an entity so that it benefits from those activities, these relationships by themselves do not indicate the existence of a principal-agent arrangement. Only where a controlling entity specifically directs a controlled entity to undertake transactions with third parties for the controlling entity's benefit will a principal-agent arrangement exist. In control relationships, it is possible for one or more principal-agent arrangements to exist within the context of a control relationship. This is particularly relevant in assessing the nature of grant and transfer arrangements between controlled and controlling entities.

Substance over form

The financial statements are prepared by applying "substance over form". This means that transactions or events are accounted for based on their economic substance and economic characteristics rather than their legal form.

In assessing whether a principal-agent arrangement exists, an entity applies the principle of substance over form. The terms "principal" and "agent" are described in law. As such, arrangements might stipulate that "this arrangement is (or is not) a principal-agent arrangement", or "entity X is (or is not) the agent and entity Y is (or is not) the principal", or that an entity "acts on behalf of XXX or is the implementing agent". An entity needs to assess if the definition of a principal-agent arrangement in GRAP 109 is met when accounting for the arrangement, irrespective of the terminology used in the binding arrangement or the legal interpretation of the arrangement.

Step 3: Is an entity a principal or an agent in the arrangement?

Refer to FAQ 4.20 on When is an entity an agent in a principal-agent arrangement? For guidance on step 3.

GRAP 109 provides detailed guidance on the application of each of these. Illustrative examples are provided in the Appendix A of GRAP 109.

4.12 Is VAT receivable or payable an exchange or a non-exchange receivable or payable?

GRAP 1.79(i), (j), (l) and (m), requires an entity to separately disclose receivables and payables from exchange and non-exchange transactions on the statement of financial position.

VAT is an indirect tax based on consumption of goods and services in the economy. Revenue is raised for the government by requiring certain traders or vendors to register and to charge VAT on taxable supplies of goods or services. The essential characteristics of VAT are:

- it is charged at each stage of the production and distribution process;
- the taxable person (vendor) may deduct the tax paid during the preceding stages; and
- the burden of the tax is on the final consumer.

The non-exchange transaction is the transaction concluded between the person or entity imposing the tax (national government) and the consumer of goods and services in the South African economy. Where an entity sells final goods and services to consumers, it is responsible to collect taxes from its consumers for the goods and services provided. The entity (VAT vendor) is a deemed debtor to the national government when collecting and remitting VAT. Consequently, VAT due to the national government by the entity (VAT vendor) results in a deemed debtor-creditor relationship and is an exchange rather than a non-exchange transaction.

Similarly, other types of taxes which are collected by entities as agents or where they are a deemed debtor to the national government, for example, employees' tax and UIF contributions, can be seen as exchange rather than non-exchange transactions.

The classification of VAT receivable or payable as a financial instrument or another transaction is dealt with in a Fact Sheet on the *Classification of VAT* issued by the Secretariat.

4.13 When should geographical information be provided as required by GRAP 18?

This FAQ provides guidance on the requirements of GRAP 18 to report geographical information as part of entity wide disclosures. Entity wide disclosures are distinguished from reportable segment information. This FAQ does not deal with providing geographical information as part of reportable segment information when geographical areas meet the definition of a segment(s).

Issues raised

Questions have been asked about the GRAP 18 requirement to disclose information based on geographical locations as part of entity wide disclosures when relevant for decision making purposes.

Entities noted the following difficulties in providing geographical information in their financial statements:

- When to provide the information: Entities were unsure when the entity wide disclosure requirements for geographical information apply, and how they relate to reportable geographical segment information.
- Determining locations: Entities were unsure how to determine their geographical locations. For example, most municipalities have different towns within their jurisdiction, but the activities and services delivered are the same for all areas. The level of information of each town within an entity's jurisdiction may not be relevant for decision-making purposes.
- Availability and reliability of information: Some entities noted that they are easily able to obtain information for their reportable segments based on the types of services provided, as the information is regularly reviewed by management and therefore readily available. However, limited reliable geographical information may be available, if at all, and the information is not reviewed by management. For example, an entity may capture

geographical information on its system, but the information is not reviewed and may not be reliable.

What does the Standard require?

GRAP 18 requires the disclosure of geographical information as follows:

> .30 *Paragraphs .31 to .32 apply to all entities, including those that have a single reportable segment. Some entities' activities are not organised on the basis of differences in geographical areas of operations. Information required by paragraphs .31 to .32 shall be provided only if it is not provided as part of the reportable segment information required by this Standard or if it is not reported elsewhere in the financial report.*
>
> .31 *An entity shall disclose the geographical areas in which it operates that are relevant for decision-making purposes, including any foreign countries.*
>
> .32 *An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:*
>
> (a) *external revenues from non-exchange transactions and external revenues from exchange transactions attributed to the geographical areas in which it operates;*
>
> (b) *total expenditure attributed to the geographical areas; and*
>
> (c) *non-current assets other than financial instruments, deferred tax assets (where applicable), post-employment benefit assets, and rights arising under insurance contracts for the geographical areas.*
>
> *The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide subtotals of geographical information for groups of geographical areas.*

What do the requirements of GRAP 18 mean?

When deciding what information to disclose and how to disclose it to meet the requirements of GRAP 18.30 to .32, an entity follows the following steps:

Step 1 – Assess what information is already provided (GRAP 18.30)

An entity may conclude that, based on meeting the definition of a segment, geographical information is reported as part of the reportable segment information[8]. If the information required by GRAP 18.31 and .32 is already provided in the reportable segment information or elsewhere

[8] Geographical information reported as part of the reportable segment information may be presented as one of multiple sets of segments, or as primary or secondary segment information. See GRAP 18.13.

in the financial report[9], no additional information needs to be provided. If the information is not already provided, an entity proceeds to steps 2 and 3.

Step 2 – Assess which geographical areas are relevant for decision-making purposes (GRAP 18.31)

An entity identifies geographical areas that are relevant to users of the financial statements, including management, for decision-making purposes and discloses those areas.

An entity may conclude that the geographical areas in which it operates are irrelevant for decision making purposes, i.e. the entity's geographical areas of operation can be seen as a single geographical area for decision making purposes. To meet the requirement of .31 an entity would disclose this fact. For example, although the entity operates in a number of geographical areas, it is irrelevant for users of the financial statements to make decisions about the entity as the goods or services provided are substantially the same.

Step 3 – Assess what financial information about geographical areas is available and whether the cost to develop unavailable information is excessive (GRAP 18.32)

An entity provides the financial information, which is based on the information used to produce the entity's financial statements, as required by GRAP 18.32(a) to (c). Should all or parts of the information be unavailable, an entity assesses whether the information can be generated without incurring excessive costs. An entity is not required to generate geographical information at an excessive cost if it is not already available. Should the costs to generate the information be excessive, an entity discloses that fact.

Where an entity assessed in step 2 that it operates in a single geographical area, the information required by GRAP 32(a) to (c) would already be provided in the financial statements. See step 1.

Management's policy

Management develops a policy to determine (a) when to report geographical information based on GRAP 18, (b) how to group the entity's jurisdiction into reportable areas, and (c) how it would assess whether costs to develop unavailable information is excessive.

4.14 What is the interaction of legislated disclosure requirements and disclosure requirements in Standards of GRAP?

Legislation may require entities to disclose specific information in their financial statements. For example, information about investments and cash balances, management remuneration, tangible assets, transfers of functions, etc. Standards of GRAP may require similar information to be disclosed. Since entities are required to comply with the requirements of both legislation and the Standards of GRAP when preparing financial statements, questions have been asked about how the information should be disclosed where the requirements are similar. For example, should the information be repeated in the financial statements.

Entities need to ensure that they comply with the disclosure requirements of the Standards of GRAP as well as legislation when preparing financial statements. Where legislation and the

[9] Financial report means the general purpose financial report which includes the financial statements, e.g. an entity's annual report.

Standards require similar information to be disclosed, the information need not be repeated, as long as what is disclosed will meet all requirements.

Entities apply materiality when considering what information required by the Standards of GRAP needs to be disclosed in the financial statements. The Materiality Guideline and the Fact Sheet on *Applying Materiality* issued by the Secretariat provides guidance in this regard. The Materiality Guideline also provides guidance on the interaction of materiality with laws and regulations. It states that where legislation requires certain information to be disclosed, an entity may not be in a position to apply materiality. Entities will need to analyse the specific requirements of legislation to establish whether applying materiality is appropriate.

Disclosing information required by legislation but accounted for differently in the financial statements

Legislation may require an entity to disclose information in its financial statements, even though the related transaction or event has no, or different accounting implications. Questions have been asked about whether an entity is required to disclose information required by legislation when a transaction or event is accounted for differently in its financial statements.

To comply with legislation, an entity provides the legislative disclosures even if a transaction or event is accounted for differently in the financial statements or not at all.

For example, a grant recipient concludes that it is an agent in a principal-agent arrangement for the grant received, per GRAP 109. In accordance with GRAP 109, the agent only accounts for the portion of the grant associated with performing agency services. For purposes of this example, legislation requires the grant recipient (agent per GRAP 109) to disclose information about the full grants received. The grant recipient (agent per GRAP 109) discloses information about the full grant received as required by legislation, irrespective of whether it only recognises a part of the grant received for undertaking agency services as revenue in the financial statements.

The Materiality Guideline provides guidance on assessing materiality in the context of legislative disclosures in the financial statements.

4.15 What is the interaction of Standards of GRAP where two or more Standards have similar requirements?

There may be instances where two or more Standards of GRAP require similar information to be disclosed in the financial statements about the same transaction or event. For example, GRAP 20 requires information about related party relationships, transactions and balances to be disclosed. Related parties include management. GRAP 25 requires information about employee benefits to be disclosed, including remuneration of management. Questions have been asked about whether it is necessary to repeat information in the financial statements where two or more Standards have similar requirements.

Entities need to ensure that they comply with all the disclosure requirements in the Standards of GRAP when preparing financial statements, if material. Information in the financial statements is presented and disclosed in a manner that is user friendly, easy to understand, clear and concise. (See the qualitative characteristic of understandability in the *Conceptual Framework for General Purpose Financial Reporting*).

It may be possible for an entity to provide information about a transaction or event without repetition in a way that meets the disclosure requirements of two or more Standards of GRAP simultaneously.

4.16 What are the disclosure requirements in the Standards of GRAP on commitments?

Questions are frequently asked about whether the Standards of GRAP include a universal requirement to disclose commitments. The answer is no – there is no universal requirement.

GRAP 1 refers to the disclosure of unrecognised contractual commitments in paragraph .124(d)(i) and deals with the order in which information is to be included in the financial statements. The paragraph therefore needs to be read in the context of the requirements of the other Standards to disclose commitments. As examples, the Standards of GRAP require the disclosure of commitments related to:

- Operating leases (see GRAP 13).
- The purchase, construction, development, or repair and maintenance of investment property (see GRAP 16).
- The acquisition of property, plant and equipment and intangible assets (see GRAP 17 and GRAP 31).
- The acquisition, maintenance and restoration of heritage assets (see GRAP 103).

4.17 How should the cash movement in consumer deposits be presented in the cash flow statement?

Some holders of consumer deposits are uncertain if the cash movement in these deposits should be classified as a financing activity, or as a movement in working capital as part of the entity's operating activities when preparing the cash flow statement.

Consumer deposits are amounts payable to a municipality when a consumer applies for municipal services. These deposits either represent an advance receipt by a municipality for the supply of goods or services (i.e. a prepayment received), or can be held by the municipality as collateral for potential defaults on future debts. When a consumer deposit is paid, the municipality has an obligation to provide the indicated goods or services, or to return the deposit to the consumer.

Cash flow items that are classified as operating activities within the cash flow statement are those that relate primarily to the entity's revenue-producing activities that enter into the determination of surplus or deficit. Investing activities are those that relate to investment-related activities, such as the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Financing activities comprise activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Irrespective of how the consumer deposits will be used by a municipality, they do not:

- comprise borrowings from customers and are not attributable to the contributed capital of the entity; and
- relate to the acquisition and disposal of long-term assets and other investments.

Instead, consumer deposits are associated with the provision of goods and services, and therefore relate to an entity's revenue-producing activities. As a result, cash movements in consumer deposits are reflected as a change in working capital, as part of operating activities when preparing the cash flow statement.

4.18 What do entities consider to determine whether certain persons are management in GRAP 20?

Some preparers of financial statements have indicated that they are unsure how to apply the definition of related parties; specifically, to determine which persons are members of management of an entity. For example, can persons such as key advisors, traditional leaders, members of audit and risk committees and councillors (ward and proportional representatives) be considered part of management.

In accordance with GRAP 20.10:

> *A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.*

A related party can be a person (discussed in paragraph .10(a)(i) to (iii)), or an entity (discussed in paragraph 10(b)(i) to (viiA)).

This FAQ discusses related party persons that are "management" in terms of the definition of related parties in GRAP 20.10(a)(iii) and clarifies what entities consider when applying the guidance on **management** in GRAP 20.12, which states:

> *Management includes all persons having the authority and responsibility for planning, directing, and controlling the activities of the entity, including:*
>
> *(a) all members of the governing body of the reporting entity;*
>
> *(b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the entity;*
>
> *(c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the entity; and*
>
> *(d) the senior management team of the entity, including the chief executive officer or permanent head of the entity, unless already included in (a).*

When applying this guidance, an entity considers whether persons (such as key advisors, traditional leaders, members of audit and risk committees and councillors (ward and proportional representatives) are part of its management. The key consideration is whether these persons have the authority and responsibility for planning, directing, and controlling the activities of the entity. Entities refer to GRAP 20.13 to .17 for more guidance on the assessment.

As part of the assessment, it may be helpful to evaluate:

- The entity's governance structure.
- The persons' legislated authority and responsibility, where applicable.

Applying substance over form means the assessment focuses on the key consideration above rather than solely considering titles or positions. For example, consider whether traditional leaders have decision-making authority within the entity, or if members of audit and risk committees are involved in planning, directing and controlling activities of the entity.

Professional judgement is required to assess if these persons meet the definition of related parties.

4.19 What related party transactions are exempt from disclosure?

This FAQ provides guidance on the principles in GRAP 20.32 which exempts a reporting entity from disclosing related party transactions in certain circumstances. Questions were asked about the circumstances when the exemption may be applied, e.g. whether the exemption can be applied to related party transactions when there are concerns about confidentiality and sensitivity of transactions.

GRAP 20.32 exempts entities from the disclosure requirements in paragraph .27 for related party transactions that occur within:

(a) normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and

(b) terms and conditions within the normal operating parameters established by that reporting entity's legal mandate.

GRAP 20.27 requires entities to disclose the nature of the related party relationship, as well as information about related party transactions and outstanding balances, including commitments. This includes the amount of the transactions, the amount of outstanding balances, their terms and conditions, details of any guarantees given or received, provisions for doubtful debts and expenses recognised during the period in respect of bad or doubtful debts due from related parties.

Entities consider the following when determining the transactions to disclose:

- Whether a contract with a related party to supply goods or services to the entity was concluded on terms and conditions that are consistent with the pricing, delivery terms, payment terms and other contractual elements of normal supplier and/or client/recipient relationships.
- Whether the terms and conditions are within the normal operating parameters of the entity's legal mandate, e.g. the type of activities and transactions that the entity undertakes.

Entities exercise professional judgement to determine whether a transaction meets the criteria in GRAP 20.32. Additionally, entities consider qualitative and quantitative materiality in determining the transactions to disclose to ensure that only useful information is disclosed. While entities may have concerns about confidentiality or sensitivity, these factors alone do not exempt entities from disclosure requirements. The principles in GRAP 20.32 are applied in the decision-making process.

When an entity is exempt from the disclosures in accordance with paragraph .32, it is still required to provide narrative information about the nature of the transactions and the related outstanding balances referred to in paragraph .27. This helps users of the entity's financial statements to understand the effect of related party transactions on its financial statements. For further guidance, entities can refer to illustrative disclosures provided in example 2 of the Standard.

4.20 When is an entity an agent in a principal-agent arrangement?

Entities apply GRAP 109 to determine if an arrangement meets the definition of a principal-agent arrangement (see FAQ 4.11 on *When should GRAP 109 be applied?*). When an entity concludes that it is party to a principal-agent arrangement, it applies the criteria in GRAP 109.25 to assess whether it is the agent.

For the transaction[10] between the principal and third party, an agent generally does not have discretion to determine the types of goods or services to be rendered, the price at which these goods or services are to be rendered and to whom. The principal determines who the third party is and establishes the particulars of the transaction that is undertaken with the third party. The agent only facilitates the transaction between the principal and third party. This means the rights and obligations between the principal and the third party are likely substantive and relate to the direct fulfilment of the transaction that is the subject of the arrangement. In the principal-agent arrangement, the agent likely has substantive rights and obligations for fulfilling its function as an agent, but only has administrative or protective rights and obligations regarding the transaction between the principal and third party.

The criteria in GRAP 109.25 identify which party does *not* have the substantive rights and obligations in relation to the transaction with the third party. The criteria therefore identify the agent. If the criteria are not met, by default the entity is the principal.

When assessing the criteria in GRAP 109.25, an entity:

(a) considers the criteria in the context of the specific transaction or group of similar transactions between the principal and third parties;

(b) applies judgement; and

(c) only concludes that it is the agent if all three criteria are met (unless, in exceptional circumstances, paragraph .26 applies).

The criteria are:

> *.25 An entity is an agent when, in relation to transactions with third parties (own emphasis added), all three of the following criteria are present,* except *as outlined in paragraph .26:*
>
> *(a) It does not have the power to determine the significant terms and conditions of the transaction.*
>
> *(b) It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.*
>
> *(c) It is not exposed to variability in the results of the transaction.*

GRAP 109 provides detailed guidance on the application of each of these criteria (see paragraphs .30 to .41). Illustrative examples are provided in Appendix A of GRAP 109.

Exposure to variability in the results of the transaction

[10] As explained in GRAP 109.10 "Transactions with third parties" in the context of GRAP 109 includes the execution of a specific transaction with a third party, e.g. a sale or purchase transaction, but it also includes interactions with third parties, e.g. when an agent is able to negotiate with third parties on the principal's behalf.

To meet the third criterion in paragraph .25(c), an agent is not exposed to variability in the results of the transaction between the principal and third party.

Questions have been asked about how to assess this criterion, particularly when an agent receives a fee or commission that is linked to the transaction between the principal and third party as it could be argued that the agent is exposed to variability in the results of the transaction because of this dependency.

GRAP 109.40 explains that an entity's exposure to the results of a transaction does not only refer to the receipt or sacrifice of economic benefits or service potential. It also refers to the end result achieved by undertaking a particular transaction. Although results include the specific outputs of a transaction, they may also include exposure to broader consequences arising from a transaction. An entity is exposed to variability in the results of the transaction when it has exposure to both the positive and negative results associated with that transaction, and these exposures are not limited or fixed. Paragraph .40 includes a list of indicators that an entity's exposure to the variability in the results of a transaction are limited (i.e. the entity meets this criterion), which includes the entity receiving a fixed fee or a fixed margin, for example a commission, for carrying out the transactions.

4.21 What is a binding arrangement in the context of a principal-agent arrangement?

GRAP 109 explains that a principal-agent arrangement is governed by a binding arrangement. The binding arrangement establishes the rights and obligations of the parties to the arrangement. The binding arrangement therefore requires the agent to facilitate the transaction of the principal and third party on behalf of and for the benefit of the principal. Because it is highly unlikely that an entity undertakes transactions with a third party on behalf of and for the benefit of another without a binding arrangement, GRAP 109 asserts that there can be no principal-agent arrangement without a binding arrangement.

Some entities questioned what constitutes a binding arrangement in the context of GRAP 109.

GRAP 109 defines a binding arrangement as:

> *… an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.*

GRAP 109 explains that a binding arrangement may arise from any of the following:

- a contract concluded between the parties;
- legislation or similar means, including but not limited to laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or
- through the operation of law, including common law.

A binding arrangement does not need to be in writing. In the absence of a written binding arrangement, the binding arrangement can be verbal or established through past practice. GRAP 109 explains a binding arrangement could arise through past actions which, over time, results in either party to the arrangement having no realistic alternative but to act in a certain way in relation to the arrangement.

The key assessment needed (from the definition) is whether the arrangement confers enforceable rights and obligations on the parties to the arrangement.

A contract is a type of binding arrangement. GRAP 104 describes a contract as follows:

> *AG2.12 "Contracts, for the purpose of this Standard, are evidenced by the following three criteria:*
>
> - *involve willing parties entering into an arrangement;*
> - *the terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party; and*
> - *performance and remedy for non-performance are enforceable by law*."

Enforceable rights and obligations for a particular transaction may also be established by a combination of legislation or similar means and/or one or more contract(s). In this case, the binding arrangement would consist of the terms and conditions of the contract, along with the related legislation or similar means, which should be read together.

4.22 How should an agent present cash in- and outflows arising from a principal-agent arrangement in its cash flow statement?

GRAP 2 requires an entity to present information in its cash flow statement on cash in- and outflows on a gross basis. GRAP 2.23 to .25 permits, in limited circumstances, that an entity may present the cash in- and outflows arising from operating, investing or financing activities on a net basis.

> *.23 Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:*
>
> *(a) cash receipts collected and payments made on behalf of customers, taxpayers or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity; and*
>
> *(b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short."*
>
> *.24 Paragraph .23(a) refers only to transactions where the resulting cash balances are controlled by the reporting entity. Examples of such cash receipts and payments include:*
>
> *(a) the collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax sharing arrangement; …*

Some entities questioned how these principles may apply to the cash in- and outflows of an agent in a principal-agent arrangement. For example, a principal pays cash to an agent to pay to a third party in a principal-agent and the agent temporarily controls the cash balance, albeit on behalf of the principal.

When an agent controls the cash balance in a principal-agent arrangement, it is permitted, in terms of GRAP 2.23, to present the cash in- and outflows from a principal-agent arrangement on either a gross or net basis. The agent applies judgement in deciding which basis of presentation provides the most relevant and useful information to its users.

An entity explains the basis used as well as management's judgement in the decision on the basis in the accounting policies. To ensure comparability, the basis is applied consistently from one period to the next.

Classification of cash in- and outflows by the agent

Cash flow items are classified as operating activities in the cash flow statement when they relate primarily to the entity's revenue-producing activities. Investing activities are activities that involve investment-related activities such as the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Financing activities comprise activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

The cash in- and outflows from a principal-agent arrangement do not:

(a) result in changes in the size and composition of contributed capital or borrowings of the agent; or

(b) comprise an acquisition and disposal of long-term assets and other investments.

The cash in- and outflows are therefore likely to be classified as operating activities in the agent's cash flow statement.

4.23 What disclosures should be presented by an agent and principal?

A review of the application of GRAP 109 identified that entities that are party to a principal-agent arrangement do not disclose all the information required by GRAP 109 in their financial statements.

GRAP 109.61 to .67 set out the disclosure requirements for an agent and a principal. These disclosures are provided in the financial statements from the date that the principal and agent enter into an arrangement, irrespective of whether any transactions were undertaken during a specific reporting period. If there were no transactions during a specific reporting period, parts of the disclosure requirements may not apply.

Assets and liabilities recognised by an agent

GRAP 109 explains where there are assets held by an agent for the principal which are indistinguishable from the agent's own assets, it may be appropriate for the agent to recognise such items as assets under its control. An agent may also in certain instances recognise receivables and payables based on the rights and obligations established in the binding arrangement. When an asset is recognised, a related liability is recognised, and vice versa. Therefore, there is no impact on the agent's statement of financial performance when these assets and liabilities are recognised.

GRAP 109 requires the disclosure of a description of any resources that are held on behalf of a principal, but recognised in the agent's own financial statements, as well as a description of any liabilities incurred on behalf of a principal that have been recognised by the entity. GRAP 109 further requires a reconciliation of the carrying amount of the receivable or the payable at the beginning and end of the period, but only when this information is useful to users in assessing the accountability of the agent in relation to the transactions undertaken with third parties in a principal-agent arrangement.

There may be disclosure requirements in other Standards of GRAP that are relevant to consider. For example, where an agent controls a cash balance from the principal-agent arrangement that it holds on behalf of the principal, the information required by GRAP 2 on restricted cash balances may be relevant.

The application of judgement

Management applies judgement to assess if an arrangement is a principal-agent arrangement (see FAQ 4.11 on *When should GRAP 109 be applied?*), and if so, whether the entity is the agent or the principal (see FAQ 4.20 on *When is an entity an agent in a principal-agent arrangement?*).

GRAP 109.62(b) requires an entity to disclose whether it is the principal or agent, and any significant judgement applied in making this assessment. In addition, an entity considers the requirements in GRAP 1.132 and discloses its judgement applied to conclude if the arrangement meets the definition of a principal-agent arrangement.

Entities that are party to a principal-agent arrangement should ensure that all information required by the Standard is provided. This is necessary to ensure that users are able to hold entities accountable for their spending of public funds through principal-agent arrangements to deliver services.

Section 5 – Accounting for Non-exchange Revenue

5.1 How should entities account for non-exchange revenue, such as transfer payments received?

Public entities that applied Statements of GAAP may as an outcome of making the assessment in accordance with Directive 12 apply Standards of GRAP for the first time from 1 April 2018.

A few key differences between IAS 20 on *Accounting for Government Grants and Disclosure of Government Assistance* and GRAP 23 regarding the recognition of government grants and transfer payments are as follows:

- IAS 20 prescribes different accounting treatment for grants related to operational and capital expenditure. GRAP 23 makes no such distinction.
- IAS 20 requires that revenue related to operational expenditure is recognised when expenditure is incurred. This generally resulted in deferred revenue being recognised initially as a liability until the expenditure is incurred. Subsequently, the liability is reduced, and revenue recognised as operational expenditure is incurred. Under GRAP 23, revenue is recognised unless an obligation exists to use the transferred resources (in this instance, the grant or transfer payment) in a certain way or return the resources to the transferor (i.e. the transfer of resources is subject to a "condition"). If an entity is only required to use the resources received in a certain way with no corresponding requirement to return those resources to the transferor, then no obligation exists, and revenue is recognised.
- IAS 20 requires that revenue related to the acquisition or construction of an asset is recognised either as a reduction of the asset acquired/constructed (resulting in a reduced depreciation charge) or deferred revenue being recognised as a liability on initial recognition. Subsequently, the liability would be reduced, and revenue recognised based on the depreciation of the asset. Under GRAP 23, revenue is recognised unless an obligation exists to use transferred resources in a certain way or return the resources received to the transferor (i.e. the transfer of resources is subject to a "condition"). If an entity is only required to use the resources received in a certain way with no corresponding requirement to return those resources to the transferor, then no obligation exists, and revenue is recognised.

For example: Entity A receives an annual transfer payment from Department X. Part of the transfer payment for the 20X9/20X0 reporting period is specifically allocated to the acquisition of infrastructure. The stipulations of the transfer payment do not require repayment of the whole or part thereof if it is not utilised to acquire the specified infrastructure. Based on the fact that no condition exists, Entity A would recognise the transfer payment as revenue when it is probable that the transfer payment will be received, and the amount can be estimated reliably (which may be at the start of the financial year).

The recognition of an asset and the related liability and/or revenue should be based on the specific stipulations of each grant, transfer payment, donated funds/assets and using the recognition, measurement and presentation requirements of GRAP 23.

Entities should treat the change in accounting for non-exchange revenue using GRAP 3. GRAP 3.21(b) requires that: *"…when an entity changes an accounting policy upon initial application of a Standard that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively."*

Therefore, where an entity changes its accounting policy from IAS 20 to one based on GRAP 23, it should apply that change retrospectively using GRAP 3.24 to .29.

In applying a policy retrospectively, an entity would examine the terms of its non-exchange revenue arrangements and assess whether conditions or restrictions exist. In particular, an entity would assess whether:

- Any deferred revenue recognised as a liability using IAS 20 would qualify for recognition as a liability using the principles in GRAP 23 (i.e. are there any conditions imposed on the use of the transferred resources received that are yet to be fulfilled). If any deferred revenue recognised using IAS 20 does not meet the requirements to be recognised as a liability using GRAP 23, the deferred revenue (liability) should be derecognised and recognised as revenue (by restating the prior year statement of financial performance and position or by adjusting the opening balance of accumulated surplus or deficit for the earliest period presented). [See GRAP 3.24]
- Any revenue recognised using IAS 20 would qualify for recognition as a liability using the principles in GRAP 23 (i.e. where revenue was recognised in prior periods using IAS 20, but unfulfilled conditions exist if the principles in GRAP 23 are applied). Where unfulfilled conditions exist, a liability should be recognised and revenue/accumulated surplus or deficit adjusted (by restating the prior year statement of financial performance and financial position, or by adjusting the opening balance of accumulated surplus or deficit for the earliest period presented). [See GRAP 3.24]

An entity would also assess whether any changes in presentation result in a change in accounting policy. For example: An entity may have used IAS 20.27 and deducted grants from the carrying amount of assets. This presentation is not allowed under GRAP 23 and would result in a change in accounting policy, requiring the restatement of the statements of financial performance, financial position, and net assets.

5.2 Should revenue received from licence fees and similar transactions[11] be accounted for as exchange or non-exchange revenue by the issuer?

Public sector entities frequently issue licences to undertake certain activities or operate certain assets, e.g. motor vehicle, drivers', fishing, gambling and similar licences.

For purposes of the discussion that follows, the entity issuing the licence is the issuer and the entity receiving the licence is the licence holder.

For the issuer of licences, the consideration received can either be treated as exchange or non-exchange revenue. Whether the revenue is exchange or non-exchange depends on the nature and circumstances of the transaction.

[11] This FAQ could be extended to other transactions that might not be called "licences" but have the same characteristics. As an example, certain industries require the payment of "subscription fees" when in fact these fees are similar to "licences" (and vice versa).

In formulating an appropriate accounting treatment, the following steps should be considered:

- Whether the entity entered into a principal–agent arrangement, and acts as an agent or a principal.
- The definitions of exchange and non-exchange transactions.

Step 1: Agent or principal

An entity should firstly assess whether it has entered into a principal–agent arrangement. In making this assessment, it uses the principles in GRAP 109 (See FAQ 4.11).

If an entity has entered into a principal–agent arrangement, it considers whether it acts as an agent or a principal in such arrangements. When an entity acts as the principal and is the issuer of the licence, it considers step 2 below.

If a principal–agent arrangement does not exist, an entity considers step 2 below.

Step 2: Exchange or non-exchange revenue

An issuer considers the definitions of both exchange and non-exchange transactions in the Standards of GRAP:

> *Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.*
>
> *Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange (i.e. non-exchange revenue), or gives value to another entity without directly receiving approximately equal value in exchange (i.e. non-exchange transactions such as social benefit transactions).*

In determining whether the revenue is exchange or non-exchange revenue, the following is important:

- Whether the issuer provides goods and services directly (or through an agent) to the licence holder in return for the consideration received.
- The value of the goods and services provided in relation to the consideration received.

Goods and services provided by the issuer

The goods and services provided in an arrangement may vary. Sometimes the goods and services provided may be significant in relation to the arrangement as a whole, e.g. the issuer performs regulatory services such as checking competence, compliance, the safe and effective functioning of particular assets and other forms of control, and other times they are not, e.g. an issuer merely registers a particular asset on a database or performs a similar administration function.

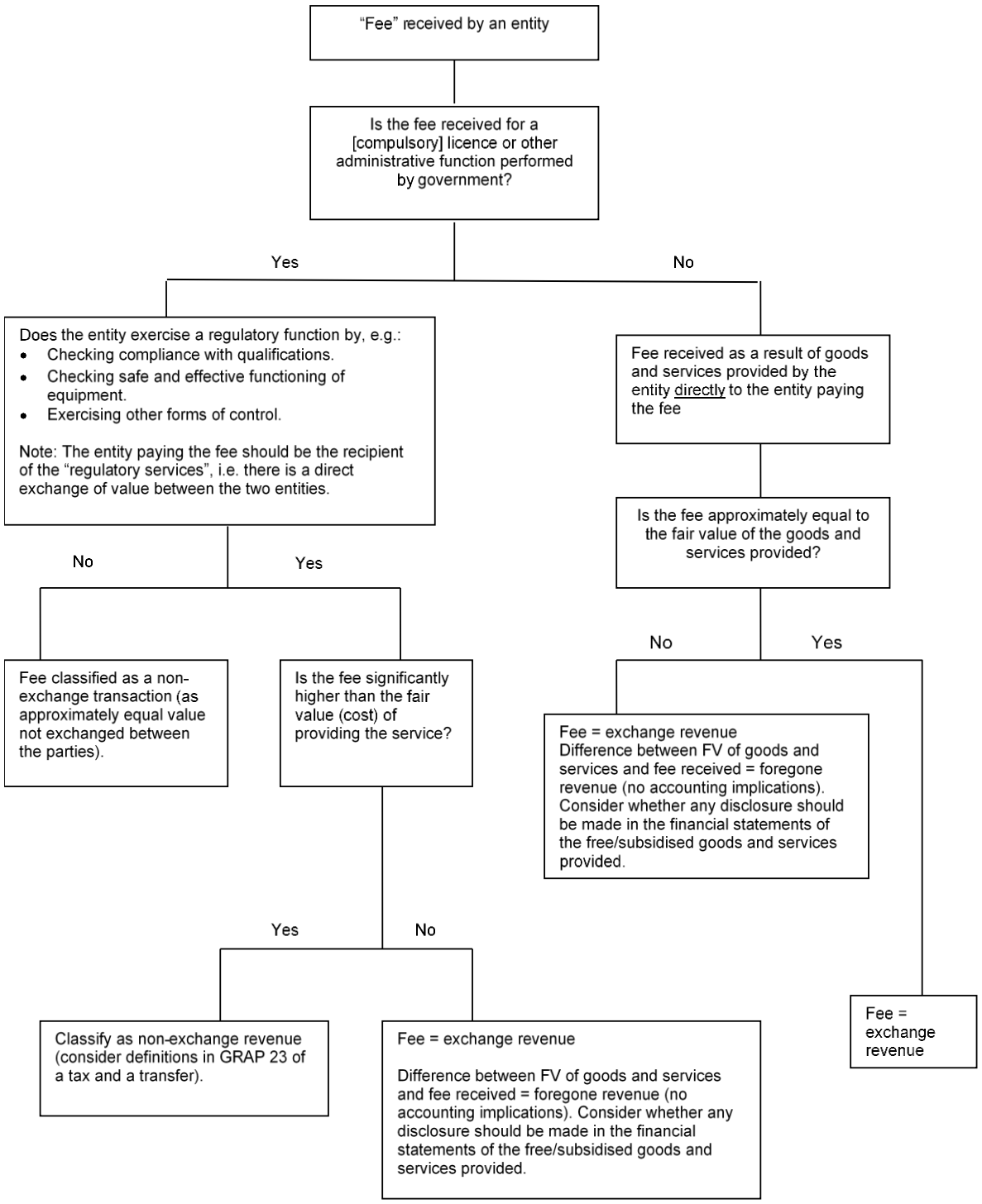
Consideration received by the issuer

The extent of the consideration received by the issuer for the goods and services provided may also vary from arrangement to arrangement. The issuer should therefore consider the value of the goods and services provided in relation to the consideration received in assessing whether the transaction results in exchange or non-exchange revenue, using the following basic principle (based on the definition of exchange and non-exchange transactions):

- Where the consideration received by the issuer is significantly greater than the fair value of the goods and services provided, the revenue could be non-exchange revenue as it may be tax or similar revenue (the issuer has received consideration and not provided approximately equal value in return)[12].
- Where the consideration received by the issuer is less than the goods and services provided, the revenue could be exchange revenue. Any foregone revenue may be indicative of the provisions of a social benefit (the issuer has provided goods and/or services and has not received approximately equal value in return).

The following decision tree may be useful in classifying revenue received by issuers of licences, particularly in relation to revenue from compulsory or legislated receipts:

[12] An entity should apply judgement in these circumstances as it may be that an entity provides goods and services at a profit. These arrangements would not necessarily result in non-exchange revenue.


"Fee" received by an entity
Is the fee received for a [compulsory] licence or other administrative function performed by government?
Yes
No
Does the entity exercise a regulatory function by, e.g.:
Checking compliance with qualifications.
Checking safe and effective functioning of equipment.
Exercising other forms of control.
Note: The entity paying the fee should be the recipient of the "regulatory services", i.e. there is a direct exchange of value between the two entities.
Fee received as a result of goods and services provided by the entity directly to the entity paying the fee
Is the fee approximately equal to the fair value of the goods and services provided?
No
Yes
Fee classified as a non-exchange transaction (as approximately equal value not exchanged between the parties).
Is the fee significantly higher than the fair value (cost) of providing the service?
Fee = exchange revenue
Difference between FV of goods and services and fee received = foregone revenue (no accounting implications). Consider whether any disclosure should be made in the financial statements of the free/subsidised goods and services provided.
Yes
No
Classify as non-exchange revenue (consider definitions in GRAP 23 of a tax and a transfer).
Fee = exchange revenue
Difference between FV of goods and services and fee received = foregone revenue (no accounting implications). Consider whether any disclosure should be made in the financial statements of the free/subsidised goods and services provided.
Fee = exchange revenue

5.3 Do in-kind benefits only involve goods and services provided by individuals and how should in-kind benefits be accounted for?

GRAP 23 states that gifts and donations are voluntary transfers of assets including cash and other monetary assets, goods in-kind and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual.

Goods in-kind are described as tangible assets transferred to an entity in a non-exchange transaction, without charge. GRAP 23 requires that goods in-kind be recognised as assets when the definition and recognition criteria are met. On initial recognition, goods in-kind are measured at their fair value as at the date of acquisition.

GRAP 23.100 provides the following examples of services in-kind that can be received by entities under voluntary or non-voluntary schemes:

(a) technical assistance from other governments or international organisations;

(b) persons convicted of offences may be required to perform community service for an entity;

(c) public hospitals may receive the services of volunteers;

(d) schools may receive voluntary services from parents as teachers' aides or as board members;

(e) local governments may receive the services of volunteer fire fighters;

(f) office rent may be paid on behalf of an entity by another entity; and

(g) an entity may make use of fully furnished accommodation paid on its behalf by another entity.

GRAP 23 requires the recognition of services in-kind that are significant to an entity's operations and/or service delivery objectives as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. As these services are immediately consumed, an entity will recognise an asset and revenue, as well as a decrease in the asset and an expense.

GRAP 23.116(d) and (e) require disclosure of the nature and type of major classes of goods and services received in-kind, including services in-kind that are not significant to the entity's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, i.e. services in-kind not recognised.

For example, services in-kind that are significant to an entity's operations could be an entity's employees being paid by another entity, office rent being paid on an entity's behalf or concessionary leases where lease payments are charged at below market terms to an entity. These services in-kind should be recognised when they meet the definition of an asset and satisfy the criteria for recognition, and the nature and type should be disclosed. Some entities in the public sector share certain services, such as internal audit, audit committee and enterprise risk management services, e.g. a department and its entities, a municipality and its municipal entities, or a district municipality and its local municipalities. These services are often paid by the department or municipality on behalf of all entities that make use of it. An entity that received these services for free may determine that they are not significant to its operations and therefore

not recognise those services. Information about the nature and type of these services received in-kind should still be disclosed even though the services in-kind have not been recognised.

Significant services in-kind from a concessionary lease

Where services in-kind from a concessionary lease that are significant to an entity's operations meet the definition of an asset and satisfy the criteria for recognition, a service in-kind asset is recognised. GRAP 13 is applied to the lease payments (if any), and GRAP 23 is applied to the concessionary component of the lease payment. The service in-kind asset is measured at fair value which can be determined with reference to a market-related lease payment of a comparable asset, less any lease payments due by the entity per the agreement. An asset and related non-exchange revenue are recognised. The asset is consumed or used in line with the service received. For most lease agreements, this is usually one month. A transaction of equal value is recognised to reflect the consumption or usage of the service in-kind asset, i.e. a decrease in the asset and an expense. This accounting treatment is applied in addition to the requirements of GRAP 13, i.e. it does not affect the accounting for the lease payments in terms of the agreement in accordance with GRAP 13.

5.4 What is the effect of IGRAP 1 on traffic fines?

GRAP 23, requires that revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured.

IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it. Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate.

Although IGRAP 1 requires an entity to recognise the full amount of revenue at the transaction date, an entity may need to use estimates to determine the amount of revenue that it is entitled to collect. For example, an entity may offer early settlement discounts, or may offer reductions in the amount payable by the debtor in certain circumstances. Where these exist, an entity considers past history in assessing the likelihood of these discounts or reductions being taken up by debtors.

For example, motorists qualify for a discount of 50% on a fine imposed if payment is made within a period of 32 days. Based on past history, 10% of motorists take advantage of this reduction. The entity will therefore recognise 90% of the fines at their full value and 10% of the fines at half their value.

5.5 What is the interaction between GRAP 20 and GRAP 23 for services in-kind?

GRAP 23 prescribes the requirements for recognising and measuring revenue from non-exchange transactions.

Paragraph .99 deals with the accounting treatment of services in-kind:

> *Except for financial guarantee contracts as described in paragraphs .108 and .109, an entity shall recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the entity's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the entity shall disclose the nature and type of services in-kind received during the reporting period."*

In accordance with GRAP 23.116I, entities are required to disclose the nature and type of services received in-kind during the reporting period, including where an entity does not meet the recognition and measurement requirements outlined in GRAP 23.99.

GRAP 20 is applied to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties, and by transactions and outstanding balances with such parties. GRAP 20 requires the disclosure of related party relationships, transactions and outstanding balances, including commitments.

The disclosure requirements for related party transactions are prescribed in GRAP 20.27 as follows:

> *Subject to the exemptions in paragraph .32, if a reporting entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph .35 to disclose remuneration of management. At a minimum, disclosures shall include:*
>
> *(a) the amount of the transactions;*
>
> *(b) the amount of outstanding balances, including commitments; and*
>
> *(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and*
>
> *(ii) details of any guarantees given or received;*
>
> *(c) provisions for doubtful debts related to the amount of outstanding balances; and*
>
> *(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.*

Entities that receive services in-kind from related parties should first apply GRAP 23 when recognising and measuring revenue from non-exchange transactions. It is possible that in applying GRAP 23, an entity may conclude that it will not be able to recognise and measure certain services received in-kind as it does not meet the requirements prescribed in GRAP 23.99. In such cases, an entity should disclose the nature and type of services received in-kind in accordance with GRAP 23.99 and GRAP 23.116I in its financial statements. When the services

in-kind are received from a related party, an entity should also consider the disclosure requirements in GRAP 20.

The disclosures provided by the entity for purposes of GRAP 20 will be guided by information that is available to the entity after applying GRAP 23. This is because GRAP 23 is applied to determine how an entity recognises and measures the services received in-kind during the reporting period. Therefore, an entity cannot satisfy the disclosure requirement in GRAP 20, to disclose an amount of the transaction, if it could not provide a reliable measure of the services in-kind under GRAP 23.

While this question was raised in the context of services in-kind in GRAP 23, it could apply equally to GRAP 20 and other Standards of GRAP that outline the accounting treatment of transactions.

5.6 How should entities account for revenue related to donated assets, e.g. land and buildings?

Where entities acquire assets through donation and pay no or nominal consideration, they are acquired in a "non-exchange transaction". Entities account for assets acquired in a non-exchange transaction by formulating an accounting policy using the recognition, measurement and presentation requirements of GRAP 23.

An entity would recognise assets acquired in a non-exchange transaction when it can demonstrate that it controls the asset, it is probable that economic benefits or service potential will flow to the entity, and the asset can be measured reliably (see GRAP 23.29 to .35). Assets acquired in non-exchange transactions are measured at fair value in accordance with GRAP 23 and other Standards of GRAP.

In recognising the "credit" side of the transaction, an entity would assess whether the receipt of the asset is a result of a contribution from owners (see GRAP 23.36 to .37), or results in a liability (see GRAP 23.50 to .59) or revenue (see GRAP 23.44 to .49).

Where no condition exists (i.e. there is no requirement to use the asset in a certain way or return it to the transferor) on the assets acquired through the donation, revenue is recognised when the asset is recognised. Where a condition(s) exists, a liability is recognised when the asset is recognised. As and when the condition(s) is satisfied, the liability is reduced, and revenue recognised.

If an entity receives an asset, e.g. investment property, that meets the definition of a "function" in GRAP 105 or GRAP 106, an entity initially measures the asset in accordance with GRAP 105 or GRAP 106, whichever is applicable, instead of GRAP 23.

Section 6 – Accounting for Employee Benefits

6.1 How should vacation leave be accounted for?

Note: Examples have been used to illustrate the explanations below. They are illustrative only and should not be applied to situations without careful consideration of the facts and circumstances as they may differ.

A. Recognising and measuring liabilities

Vacation or annual leave is a short-term employee benefit. Vacation leave can either be vested or non-vested[13]. "Vested" vacation leave means that the employee is entitled to a cash payment for unused leave, e.g. after a certain period of time has elapsed or on resignation. "Non-vested" leave means that if employees do not use their leave, it is forfeited. The effect of vested and non-vested leave is illustrated below through the use of examples.

Example 1

Entity X grants its employees 20 days leave a year (assume that the leave cycle and the financial year are the same). At the end of the leave cycle, employees can either elect to have any unused leave paid out, or they can elect to carry the leave days forward to the next leave cycle. If employees resign, they are entitled to a cash payment for any leave due. At the end of the year, a total of 500 leave days have not been used.

In terms of the policy, the entity has an obligation to either pay out unused leave or allow employees to carry over unused leave to future cycles. As a result it has a present obligation for the full 500 unused days at year end.

Example 2

Entity A provides its employees 20 days leave a year (assume that the leave cycle and the financial year are the same). Any unused leave at year end must be used within a 6-month period, otherwise it is forfeited. Based on past history, employees forfeit 10% of their unused leave. At year end, the entity has 300 unused leave days.

At year end, the entity has an obligation of 300 leave days. However, it knows that based on history, 10% is forfeited. Therefore, in measuring the obligation, it considers the percentage leave that is not utilised. A liability of 270 days is recognised [300 – (300X10%)].

B. Classification of leave as current or non-current

Consider the following example:

Entity X grants its employees 30 days leave a year (assume that the leave cycle and the financial year are the same). Employees can elect to have leave paid out or carried over to future leave cycles. There is no restriction on the number of leave days that can be accumulated.

Policies such as this may result in leave being utilised or paid out in the future, often more than 12 months after the reporting date.

[13] For purposes of this discussion, it is assumed that vacation leave is vested.

Short term benefits are those benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Unless as entity has an enforceable right to defer the encashment or utilisation of leave, the liability is treated as a current liability. E.g. An entity does not have an unconditional right to defer settlement if employees can utilise their leave due at any time or demand that their unused leave be paid.

If an entity has an unconditional right to defer the encashment or utilisation of leave, it may be appropriate to treat the liability, or a portion thereof, as a non-current liability. It is important to note that in these instances, entities should consider the guidance in GRAP 25 on "long term benefits" in measuring such liabilities.

Example 3

An entity may have allowed employees historically to accumulate unused leave. At a point in time it amends the conditions of service to state that:

- going forward, employees will forfeit leave not utilised within a specified time frame; and
- the balance of any unused leave at the date of changing the conditions of service can either be (a) paid out or used immediately or (b) paid out on retirement. The choice made by employees is irrevocable.

Where employees choose to use or have the leave paid out immediately, this portion of the leave liability is treated as a current liability. Where employees elect to have the leave paid out on retirement, this portion of the leave liability should be treated as a non-current liability (assuming that retirement will not occur within 12 months after the reporting date).

C. Classification of leave as an accrual or a provision

Per GRAP 19, provisions are liabilities of uncertain timing or amount. Although there is no formal definition of an accrual, GRAP 19 explains the following: *"accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions."*

The following two examples illustrate when classification of a leave liability as an accrual and/or provision may be appropriate (a combination of both may also be appropriate):

- An entity does not have an unconditional right to defer settlement of its leave liabilities and its policies allow leave to be carried forward or paid out without any restrictions. In this case, the timing is certain (i.e. used or due on demand), and the amount is certain (i.e. the value of all leave outstanding). In this instance, classification as an accrual may be appropriate.
- An entity does not have an unconditional right to defer settlement of its leave liabilities and its policies stipulate that leave is forfeited if not used within 6 months after the reporting date. In this case, the timing is certain (i.e. used on demand) but the amount may be uncertain (i.e. an estimate of the leave that will be forfeited should be made in measuring

the liability). If uncertainty arises in the measurement, classification as a provision may be appropriate. Note: Where leave is classified as a provision, the disclosure requirements in GRAP 19.98 and .99 must be adhered to.

6.2 *Must an entity appoint an actuary at every reporting date to measure its defined benefit obligations?*

GRAP 25.67 states the following:

> *This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the reporting date. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.*

GRAP 25 does not require the use of an actuary; it is merely encouraged. Given the complexity of these calculations, management needs to ensure the person who performs the valuation of the defined benefit obligations has the necessary skills and expertise.

Entities frequently implement internal policies that involve the use of external actuaries and internal staff. As an example, an entity may appoint an actuary to carry out valuations periodically, e.g. every five years, and then use internal staff to "roll forward" the valuations in the years that an external valuation is not performed.

These types of techniques are acceptable if they comply with the requirements of GRAP 25.67 (above) and .66 which states that:

> *An entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.*

Plan amendments, curtailments and settlements

Entities do not always calculate the effect of plan amendments, curtailments and settlements that occur during a reporting period, nor do they involve actuaries to perform such a calculation. Actuaries are often informed of these events at a subsequent reporting date when they are involved. Based on observed practice this may be years after the plan amendment, curtailment or settlement occurred. This has led to retrospective adjustments to financial statements in the reporting period in which the actuaries are involved.

The requirements of paragraphs .66 and .67 apply to plan amendments, curtailments and settlements as these events impact the present value of defined benefit obligations. Entities would therefore need to make sure that where plan amendments, curtailments and settlements occur, the defined benefit obligations, plan assets, etc. are measured in accordance with the requirements of GRAP 25, irrespective of whether an actuary or internal staff is used to calculate the effect of these events.

Entities need to ensure the following when internal staff is used to calculate the effect of these events on the obligation:

1. Plan amendments, curtailments and settlements are identified in a timely manner and the impact thereof is understood by staff.
2. Calculations are performed to determine the effect of plan amendments, curtailments and settlements on the present value of defined benefit obligations when these events occur.
3. Where material, adjustments are made to reflect the effect calculated in 2. in the financial statements, together with any applicable disclosure.

Ideally the entity develops an internal policy that enables staff to carry out these actions and ensures that its staff has the necessary skills and expertise to do so. The entity's ability to implement these actions may impact on its decision to appoint an actuary and when to involve the actuary.

Change in accounting estimate or error?

Where external actuarial valuations in the current reporting period reflect adjustments are needed to previously recognised amounts in the financial statements, entities have asked whether these adjustments are changes in accounting estimates (adjusted prospectively) or errors (adjusted retrospectively).

GRAP 3 defines changes in estimates and errors as follows:

> *A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.*
>
> *Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:*
>
> *a) was available when financial statements for those periods were authorised for issue; and*
>
> *b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.*
>
> *Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.*

Entities assess whether the adjustments are a change in accounting estimate or an error based on their facts and circumstances. Entities would consider whether they have used all reliable information available when the financial statements for those previous periods were authorised for issue that the entity could reasonably have been expected to obtain and use, and whether the information was used correctly.

6.3 *Are informal arrangements to provide post-employment benefits within the scope of GRAP 25?*

Entities have asked whether the requirements of GRAP 25 on post-employment benefits only apply to formal arrangements. They noted that, in practice, there are informal arrangements that may give effect to employer obligations to provide post-employment benefits similar to formal arrangements.

GRAP 25 defines post-employment benefit plans as *"formal or informal arrangements under which an entity provides post-employment benefits for one or more employees"*.

The scope of the Standard further explains in paragraph .04 that the employee benefits to which the Standard applies include those provided:

> *(a) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;*
>
> *(b) under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, provincial, local, or other multi-employer plans or where entities are required to contribute to the composite social security programmes; or*
>
> *(c) by those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.*

Therefore, GRAP 25 applies to formal and informal arrangements or practices that give rise to legal or constructive obligations to provide employee benefits.

6.4 *Are liabilities for employee benefits in the scope of GRAP 104?*

Employees provide services to their employers in return for specified benefits. The benefits are mostly paid in cash (salaries, bonuses, etc.). Liabilities for employee benefits can be either short-term or long-term. Benefits may be paid in the month services are rendered, or over a longer period of time. Liabilities for employee benefits settled in cash meet the definition of financial liabilities in GRAP 104.

Questions arose about whether such liabilities are only accounted for in GRAP 25 or if GRAP 104 should also be considered.

GRAP 104 paragraph 1.2(b) states the following:

> *An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for financial instruments except: … (b) employers' rights and obligations under employee benefit plans, to which the Standard of GRAP on Employee Benefits applies.*

Employers' rights and obligations relating to employee benefits are outside the scope of GRAP 104 and are accounted for using GRAP 25.

An employer's contract with an employee usually specifies payments the employee makes to third parties, which the employer may be required to pay on the employee's behalf. For example, the payment of PAYE, the employee's UIF contribution, medical aid contribution, etc. The employer deducts these payments from the employee's salary and pays them on behalf of the employee to SARS, the medical aid provider or another party. These liabilities represent the amount the employer deducted from the employee's salary that must still be paid to third parties. These are not liabilities for payments to an employee in exchange for an employee's service, but are payments that the employer makes on behalf of an employee, and are therefore *not* in the scope of GRAP 25. These liabilities are in the scope of GRAP 104 or another applicable Standard of GRAP.

Section 7 – Sundry Accounting Issues

7.1 How should a municipality account for free or subsidised goods and services, as well as rebates provided to its consumers and other foregone revenue?

Note: This question arose in the context of free basic services provided to consumers by municipalities. It may however be appropriate for other entities that undertake similar transactions to consider this FAQ.

In the public sector, entities frequently provide goods and services to consumers for free or at subsidised amounts, while rebates or similar reductions may be granted on taxes or other fees due.

Municipalities often provide free or subsidised goods and services to consumers and households in terms of a specified policy. While each municipality develops and implements its own policy regarding consumers and households, there are commonalities between the types of assistance provided by the various municipalities. Most often, policies provide for the following assistance:

- Free or subsidised basic services such as water and electricity (the amounts vary from municipality to municipality).
- Metered water and electricity in excess of the free or subsidised basic amounts (these are often limited to a specific amount so as to ensure that the consumer can afford the services provided).
- An additional rebate for property rates (the rebate may amount to 100% of the property rates in certain municipalities).

Questions have been raised about whether these subsidies, rebates or similar reductions should be recognised as revenue. IGRAP 1 states the following:

> *.06 This Interpretation of the Standards of GRAP does not deal with:*
>
> *…*
>
> *(c) exchange or non-exchange transactions where there is no intention to charge for all or some services. Examples include goods and services provided to indigent consumers or households or rebates deducted on the provision or acquisition of certain goods or services.*

IGRAP 1 clearly only applies to those amounts that the entity intends to charge and/or collect. As entities do not intend to collect the revenue related to the free or subsidised goods and services or other rebates, these amounts should not be recognised as revenue. This principle is illustrated below:

A. Free or subsidised basic services

Municipalities could provide free or subsidised basic services by either not billing those consumers for those services or where consumers have been billed, providing for an immediate subsidy during the billing cycle. However, since there is no intention to charge or collect any revenue, GRAP 9 should not be applied.

Municipalities should therefore:

- not recognise the revenue in the statement of financial performance as there is no intention to collect the revenue related to the free or subsidised goods and services (i.e. foregone revenue);
- still recognise an expense for the services provided (i.e. the cost of providing the free or subsidised goods and services) in the statement of financial performance. For example the cost of bulk purchases of water and electricity. These expenses should not be reclassified to expense line items such as "revenue forgone" or "free basic services" and should continue to be presented by their nature, or function, depending on an entity's choice of presentation; and
- consider the requirements of GRAP 1 and the *Framework for the Preparation and Presentation of Financial Statements*[14] in determining whether any disclosures about such transactions are necessary in the notes to the financial statements.

B. Metered water and electricity in excess of free basic services

Where municipalities provide water and electricity in excess of the free basic services provided, the intention is (usually) to collect such amounts from the consumer. As the intention is to collect revenue from such transactions, GRAP 9, IGRAP 1 and GRAP 104 should be applied in accounting for such transactions.

C. Rebates for property rates

GRAP 23 defines taxes as *"economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law"*.

As property rates are paid in terms of legislation on the value of property owned within a specific municipality and, the payment of such taxes does not result in any direct benefits in return for the owners of such property, they are considered to be taxes.

Rebates or reductions in the amount of taxes payable are classified as "tax expenditures" in GRAP 23. Tax expenditures are defined in GRAP 23 as *"preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others"*.

In the case of rebates for property rates, they are reductions in the amounts of property rates payable by property owners within a specific jurisdiction. The rebates provided by municipalities therefore meet the definition of tax expenditures per GRAP 23. GRAP 23.74 and .75 provide the following guidance for tax expenditures:

> *.74 Taxation revenue shall not be grossed up for the amount of tax expenditures.*

[14] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting.*

> .75 *Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources – that is, they do not give rise to assets, liabilities, revenue or expenses of the taxing government.*

The effect is that no revenue is recognised in the statement of financial performance for any rebates or reductions granted.

D. Transfers from other levels of government to fund activities

Any transfers received from another level of government to fund the activities of the municipality are accounted for using the principles in GRAP 23.

7.2 Are there any accounting considerations relating to World Cup Stadiums after the World Cup?

Classification and re-classification of World Cup Stadiums (Stadiums) subsequent to the World Cup

During the construction of new Stadiums, and/or the upgrading of existing Stadiums to host the World Cup, entities would have recognised the Stadiums under their control in accordance with the applicable Standards of GRAP, either as property, plant and equipment, or investment property. Entities also may have applied the principles in the *Guideline on Accounting for Public-private Partnership Agreements* (PPP Guideline)[15] to the initial accounting of the Stadiums as either property, plant and equipment or investment property. Subsequent to the World Cup entities need to consider whether this classification is still appropriate. Examples of factors that an entity may need to consider in classifying these Stadiums after the World Cup include, amongst others:

- The FIFA requirements in hosting the World Cup.
- Agreements that may have been concluded with other parties after the World Cup which change the classification as these Stadiums may now also have a service potential.
- Whether the Stadium should continue to be classified as an asset.

Stadiums should be classified as investment property when they meet the criteria in GRAP 16. This means they are used by entities to earn rentals, for capital appreciation, or both, and not held to provide services. If neither of these criteria is met, or if the Stadium is held for service delivery, the Stadium is likely to be classified as property, plant and equipment. GRAP 17 defines property, plant and equipment as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one reporting period. If the Stadium is partly used as investment property, and is partly owner-occupied property, the entity needs to account separately for these portions if a portion of the Stadium could be sold separately (or leased out separately under a finance lease). If the portions could not be sold or leased separately, the Stadium should be accounted for as investment property only if an insignificant portion is held for use as owner-occupied property. Entities need to consider any agreements entered into with other parties that may have

[15] The PPP Guideline is replaced by GRAP 32, which became effective for reporting periods commencing on or after 1 April 2019. The replacement of the PPP Guideline has no impact on the initial accounting of World Cup Stadiums before 1 April 2019.

an impact on the classification of the Stadium. The principles in GRAP 103 may also need to be considered in reconsidering the classification of the Stadium subsequent to the World Cup.

If the entity is of the view that the Stadium should be reclassified from property, plant and equipment to investment property, the principles in GRAP 16 should be applied. GRAP 16 requires that transfers to or from investment property shall be made when there is a change in use. This may be evidenced, for example, by:

- Commencement of owner-occupation, in which case there will be a transfer from investment property to property, plant and equipment.
- There is evidence of the termination of owner-occupation when a municipality enters into a lease agreement with another party (lessee) that allows the lessee to use the Stadium for its own commercial purposes, in which case the Stadium is transferred from property, plant and equipment to investment property.

When the entity applies the cost model, the carrying amount of the Stadium transferred between property, plant and equipment and investment property, or vice versa, will remain unchanged for measurement and disclosure purposes. If the Stadium is reclassified from property, plant and equipment to investment property carried at fair value, the entity should apply the principles in GRAP 17 up to the date of change in use. Thus, an entity should depreciate the Stadium and recognise any impairment losses occurred up to the date of change in use. Any difference between the carrying amount of the Stadium accounted for in accordance with GRAP 17 and its fair value on the date of change in use, should be accounted for in the same way as a revaluation under GRAP 17.

For a transfer from investment property carried at fair value to property, plant and equipment, the Stadium's deemed cost for subsequent accounting in accordance with GRAP 17 is its fair value at the date of change in use.

Impairment of World Cup Stadiums

At each reporting date, entities are required in terms of GRAP 21 or GRAP 26 to assess whether there is any indication that the Stadium may be impaired. The classification of the Stadium at the reporting date as either a cash-generating or a non-cash-generating asset will determine whether GRAP 21 or GRAP 26 should be applied. If the Stadium is primarily held for a commercial return in a manner consistent with a profit-orientated entity, the principles in GRAP 26 should be applied. If, however the Stadium is operated with the objective of not generating a commercial return, the principles in GRAP 21 should be applied in assessing whether an impairment indicator has been triggered.

Indications that the Stadium may be impaired include, amongst others:

- Cessation of the demand or need for the Stadium.
- A significant decline in the Stadium's market value because of the passage of time or normal use (only if the Stadium is classified as a cash-generating asset).
- Significant change with an adverse effect on the entity is expected to take place in the near future, such as the Stadium becoming idle.

- Cash flows needed to operate or maintain the Stadium is significantly higher than originally budgeted.
- Actual net cash flows or the net surplus or deficit flowing from the Stadium is worse than those budgeted.
- A significant decline in budgeted net cash flows flowing from the Stadium.

After an impairment loss has been recognised, the entity may need to review and adjust the Stadium's remaining useful life, depreciation method and residual value in accordance with the applicable Standard of GRAP, i.e. GRAP 16 or GRAP 17.

Recognition and measurement of other movable and immovable assets

For guidance on the recognition and measurement of other movable and immovable assets, reference should be made to the applicable Standards of GRAP, for example GRAP 17 and GRAP 31. For example, liquor licences acquired should be accounted for in terms of the GRAP 31 to the extent that the entity has met the recognition criteria in the Standard.

Agreements with other parties

During the construction of new Stadiums, or the upgrading of existing Stadiums to host the World Cup, some entities may have entered into agreements with other parties concerning the construction or upgrade of the Stadium, and/or the maintenance and the operation of the Stadium during and/or after the World Cup. These agreements should be analysed to determine their nature and identify the different components, if any, in order to account for them in accordance with their substance.

Service concession arrangements

Prior to the World cup, entities may have entered into arrangements with other parties to upgrade existing Stadiums or to construct new Stadiums. Where the arrangement was a public-private partnership (PPP) arrangement and the control approach criteria in the PPP Guideline were met, the Stadium would have been accounted for in terms of the PPP Guideline.

GRAP 32 is applicable for reporting periods commencing on or after 1 April 2019 and replaces the PPP Guideline. The definition of a service concession arrangement in GRAP 32 includes, but is not limited to, arrangements regulated in legislation. The definition is:

> *A contractual arrangement between a grantor and an operator in which:*
>
> *(a) the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time; and*
>
> *(b) the operator is compensated for its services over the period of the service concession arrangement.*

Entities should assess amendments to existing arrangements and new arrangements subsequent to the World Cup. Where the above definition, and the recognition criteria of a service concession asset are met, an entity accounts for the arrangement as a service concession arrangement in GRAP 32.

The asset recognition criteria are:

- The entity controls or regulates what services the operator must provide with the associated asset (the Stadium), to whom it must provide them and at what price.
- The entity controls - through ownership, beneficial entitlement or otherwise - any significant residual interest in the asset (the Stadium) at the end of the term of the arrangement.

If the recognition criteria are met, any payments to the operator should be distinguished between the portion that relates to the asset element, i.e. where the operator was required to construct and/or upgrade the Stadium, and the portion that relates to the service element, i.e. where the operator performs operational and/or maintenance functions on behalf of the entity.

If payments to the operator involve an asset element, the entity would have recognised a financial liability for its future obligation to compensate the operator for the construction or upgrading done to the Stadium on its behalf (i.e. financial liability model). The scheduled payments to the operator relating to the construction or upgrade of the Stadium (the asset element) should be allocated between the amount that reduces the financial liability, and the associated finance charges. Any payments relating to the operational and/or maintenance function (service element) should be recognised when the service is rendered by the operator based on the provisions of the arrangement.

Where the entity grants the operator the right to receive compensation from users, rather than from the entity, for any construction or upgrade activities undertaken, the entity would have recognised an unearned portion of revenue arising from exchange of assets between grantor and operator (grant of right to operator model). As the entity is granting the operator access to the Stadium over an agreed term, the unearned portion of revenue should be reduced and revenue should be recognised in the statement of financial performance in accordance with GRAP 9.

If the operator was not involved in any construction or upgrade activities for the Stadium (e.g. an existing asset of the entity is used as the service concession asset in an arrangement), it is likely that any payments to the operator relate to the service element of the agreement involving operational and/or maintenance services. The entity should recognise payments that relate to these services when the service is rendered by the operator based on the provisions of the arrangement, irrespective of when payment is made.

An arrangement may require the entity to transfer its right to use the Stadium to another party for an agreed period of time. During the term of the agreement, the other party may then use the Stadium for its own commercial purpose. Under these types of agreements, the entity will usually share a percentage of the revenue generated by the other party under the agreement, for example where the entity shares in a percentage of ticket sales. To determine the appropriate method of recognising the revenue received by the entity under revenue sharing provisions, reference should be made to the principles in GRAP 9 and IGRAP 1. GRAP 9 requires that revenue received should be measured at the fair value of the consideration received or receivable. Revenue is recognised when the amount of revenue can be measured reliably and when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. IGRAP 1 states that in assessing the amount of revenue to recognise, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will

impact the probable inflow of future economic benefits or service potential based on past experience and current facts and circumstances that exist on initial recognition.

For more guidance on the accounting of service concession arrangements, reference should be made to GRAP 32.

Lease agreements

If the entity concludes that the arrangement does not meet the requirements for recognition as a service concession arrangement because the definition or one, or both, of the asset recognition criteria are not met, the entity needs to consider whether the arrangement involves a lease arrangement. A lease is an agreement whereby the lessor (the entity) conveys to the lessee (the party that leases the asset), in return for a payment or series of payments, the right to use an asset (the Stadium) for an agreed period of time.

If the entity concludes that the agreement meets the criteria for recognition as a lease, the entity should then determine whether the lease should be classified as a finance or operating lease. If the agreement will substantially transfer all the risks and rewards incidental to ownership of the Stadium to the lessee, the agreement constitutes a finance lease. If the risks and rewards incidental to ownership remain with the entity, the lease constitutes an operating lease.

If the agreement is classified as a finance lease, the entity should recognise the lease payments as a receivable in the statement of financial position, at an amount equal to the net investment in the lease. The recognition of finance revenue should then be based on a pattern reflecting a constant periodic rate of return on the entity's net investment in the finance lease.

If the agreement is classified as an operating lease, the entity should recognise the lease revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset, is diminished.

Other agreements

If the entity concludes that the agreement does not meet the requirements for recognition as a lease, the entity should then consider whether the other party in the arrangement acts in another capacity, e.g. as a service provider or as an agent.

The entity assesses whether the arrangement is a principal-agent arrangement with reference to GRAP 109. See FAQ 4.11 for the considerations relating to principal-agent arrangements.

If the entity has ceded its rights of the ticket sales to another party, the entity will not recognise any revenue from ticket sales, unless it has entered into a profit-sharing arrangement, in which case revenue will be recognised as and when it becomes due in terms of the agreement.

The principles in this question could, by analogy, also be applied to other assets.

7.3 How should an entity account for expenses it incurs, but which are settled by another entity?

In the public sector, entities frequently incur expenses as part of their operations, but which will be settled either in full or in part by a third party. In these types of arrangements, the entity typically engages with the service provider or supplier and receives the goods or services. A secondary transaction occurs where the entity engages the relevant third party to settle its

outstanding debts, usually directly with the service provider or supplier. A typical example is where the National Treasury pays some or all of the audit fees incurred by qualifying entities for the statutory audits undertaken.

These arrangements give rise to two accounting issues that require consideration in the entity's financial statements:

- Should the expense be recognised in the statement of financial performance, and if yes, at what amount?
- How should the payment by the third party be accounted for in the financial statements?

Should the expense be recognised in the statement of financial performance by the entity?

The *Framework for the Preparation and Presentation of Financial Statements*[16] describes expenses as follows:

> *Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.*

When the entity receives the goods or services from the relevant service provider or supplier, it has an obligation to the service provider or supplier to pay for the goods or services received. The fact that the entity has received the goods or services means that the definition of an expense has been met.

As a result, the entity receiving the goods or services should recognise the full cost in its statement of financial performance, along with a corresponding liability.

How should the payment by the third party be recognised in the statement of financial performance by the entity?

Non-exchange transactions are defined in Standards of GRAP as follows:

> *In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.*

When a third party settles the debts of the entity, this meets the definition of a non-exchange transaction because the entity does not directly give any value to the third party settling the transaction on its behalf. The settlement of the entity's debts by the third party results in non-exchange revenue for the entity and should be accounted for in the same way as "Debt forgiveness and assumption of liabilities" in GRAP 23.

When the third party settles the entity's debts with the service provider or supplier, it should reduce the amount of the liability recognised by the amount paid by the third party and recognise non-exchange revenue.

[16] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting.*

7.4 What is the interaction between GRAP 32, GRAP 36 and GRAP 37 and GRAP 109?

Guidance was requested on the interaction between different Standards of GRAP in considering whether an arrangement is a:

- Service concession arrangement in GRAP 32,
- Joint Arrangement in GRAP 36 and GRAP 37, or
- Principal-agent arrangement in GRAP 109.

Refer to table 1 for the requirements of each of the three Standards.

Each of the Standards applies to specific types of arrangements. It is, however, possible for certain types of arrangements to be in the scope of more than one Standard.

GRAP 32 applies to arrangements where an operator uses a service concession asset to provide a mandated function on behalf of the grantor for a specified period of time and is compensated for its services. The service concession asset could remain under the control of the grantor, or it could be controlled by the operator. The entity that controls the asset will account for it, together with the related obligations. The grantor and operator each recognise revenue and expenses according to what they are entitled to in terms of the service concession arrangement.

GRAP 36 and GRAP 37 apply to joint arrangements, which are binding arrangements where two or more parties have joint control. An entity that is party to a joint arrangement determines how to account for its share in the joint arrangement based on the type of joint arrangement and the entity's role in terms of the binding arrangement.

Type of joint arrangement

Joint arrangements could be:

(a) joint operations - where the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities in the arrangement; or

(b) joint ventures - where the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Entity's role in joint arrangements

An entity that has joint control in a joint operation is a joint operator and applies GRAP 37. An entity that participates in a joint operation but has no rights to the assets or obligations for the liabilities, accounts for its interest in accordance with the Standards of GRAP applicable to the particular assets, liabilities, revenue and expenses.

An entity that has joint control or significant influence in a joint venture applies GRAP 36. An entity that participates in but does not have joint control or significant influence of a joint venture accounts for its interest in the joint venture by applying GRAP 104.

Joint arrangements are therefore distinctly different from service concession arrangements where only one party to the arrangement controls the service concession asset and incurs the related obligations.

GRAP 109 applies to arrangements where one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal). The principal recognises revenue and expenses that arise from transactions with third parties. The agent recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal. The principal and the agent each recognise assets and liabilities arising from the arrangement in accordance with the requirements of other Standards of GRAP, i.e. they will each recognise assets and liabilities that meet the definition and recognition criteria in the applicable Standards of GRAP.

GRAP 109.08 states that service concession arrangements may be an example of a principal-agent arrangement as one party (the operator, which is usually a private sector entity) carries out certain activities on behalf of the other entity (the grantor, which is usually a public sector entity) in relation to third parties (the public). This is assessed on an arrangement basis, based on the roles and responsibilities in the arrangement. If a service concession arrangement is also a principal-agent arrangement, an entity assesses whether it is a principal or an agent in such an arrangement using GRAP 109 and accounts for the arrangement accordingly.

Principal-agent arrangements are, however, distinctly different from joint arrangements where joint control exists.

Conclusion

An entity first applies the principles in GRAP 109 to assess if a service concession arrangement meets the definition of a principal-agent arrangement. If the service concession arrangement is a principal-agent arrangement, the principles in GRAP 109 are applied to assess which party is the agent and principal in the arrangement. GRAP 32 is then applied to account for the service-concession arrangement. Joint arrangements are distinctly different from both service concession arrangements and principal-agent arrangements and are accounted for in terms of GRAP 36 and GRAP 37.

Where two or more Standards of GRAP apply to an arrangement or transaction, FAQ 4.15 provides guidance on *What is the interaction of Standards of GRAP where two or more Standards have similar requirements?*

Table 1: Requirements of GRAP 32, GRAP 36 and GRAP 37, and GRAP 109

	GRAP 32	GRAP 36 and GRAP 37	GRAP 109
Objective	Prescribes accounting for service concession arrangements by the grantor, a public sector entity.	Establishes principles for financial reporting by entities that have an interest in binding arrangements that establish joint control (i.e. joint arrangements).	Outlines principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.
Definition	*Service concession arrangement* Contractual arrangement between a grantor and an operator in which: a. the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time; and b. the operator is compensated for its services over the period of the service concession arrangement.	*Joint arrangement* An arrangement of which two or more parties have joint control. Broadly two types: - Joint operations - Joint ventures	*Principal-agent arrangement* Results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).
Further definitions	A *grantor* is defined as the entity that grants the right to use the service concession asset to the operator. An *operator* is the entity that uses the service concession asset to provide a mandated function subject to the grantor's control of the asset.	*Joint control* is the agreed sharing of control by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A *joint operation* is a joint arrangement whereby the parties that have joint control of the arrangement have	An *agent* is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal. A *principal* is an entity that directs another entity (an agent), through a binding arrangement, to

	GRAP 32	GRAP 36 and GRAP 37	GRAP 109
		rights to the assets, and obligations for the liabilities, relating to the arrangement. A *joint venture* is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.	undertake transactions with third parties on its behalf and for its own benefit.
Characteristics	a. The operator is responsible for at least some of the management of the service concession asset and related services and does not merely act as an agent on behalf of the grantor; b. The arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement; c. The operator is obliged to hand over the service concession asset to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it; and d. The arrangement is governed by a contractual arrangement entered into, that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.	a. The parties are bound by a binding arrangement. b. The binding arrangement gives two or more of those parties joint control of the arrangement.	An entity directs another entity to undertake an activity on its behalf, in relation to transactions with third parties. The following must be present: - Binding arrangement between principal and agent. - Three parties: agent, principal, third parties - Agent acts on behalf of, and for benefit of, principal with third parties - Agent does not usually undertake activity with third parties in its own name “Transactions with third parties” includes the execution of a specific transaction with a third party, e.g. a sale or purchase transaction, but it also includes interactions with third parties, e.g. when an agent is able to negotiate with third parties on the principal’s behalf. The nature of the transactions with third parties is linked to the type of activities

	GRAP 32	GRAP 36 and GRAP 37	GRAP 109
			carried out by the agent in accordance with the binding arrangement. These activities could include the agent transacting with third parties for the procurement or disposal of resources, or the receipt of resources from a third party on behalf of the principal.
Accounting implications	A grantor recognises a service concession asset if (a) it controls or regulates what services the operator must provide with the asset, to whom it must provide them and at what price and (b) it controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement. When the grantor recognises a service concession asset, it also recognises a liability. The nature of the liability recognised is based on the nature of the consideration exchanged between the grantor and the operator.	For consolidation purposes, an investment in an associate or joint venture is accounted for using the equity method. Under the equity method, the investment is initially recognised at cost. The carrying amount of the investment is increased or decreased to recognise the investor's share of the surplus or deficit of the investee after the acquisition date.	Accounting by principal: Recognise all revenue and expenses that arise from transactions with third parties. Apply the principles in the Standards of GRAP to recognise assets and liabilities arising from the principal-agent arrangement. Accounting by the agent: Recognise only the portion of the revenue and expenses received or incurred in executing transactions on behalf of the principal. Apply the principles in the Standards of GRAP to recognise assets and liabilities arising from the principal-agent arrangement.
Examples	Examples of service concession assets are: Roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, and other non-current tangible or intangible assets used	Joint operation: • Two or more venturers combine their operations, resources and expertise to manufacture, market and distribute jointly a particular product, such as an aircraft. Different parts of the manufacturing process are carried out by each of the parties.	• The collection of revenue, including taxes, fees and other charges from specific parties, e.g. motor vehicle licence fees collected by municipalities for the provincial government, and taxes collected by the Revenue Authority for the national government.

	GRAP 32	GRAP 36 and GRAP 37	GRAP 109
	for administrative purposes in delivering a mandated function.	Each party bears its own costs and takes a share of the revenue from the sale of the aircraft, such share being determined in accordance with the arrangement. • Two entities jointly control an asset, for example a property, each taking a share of the rents received and bearing a share of the expenses. Joint venture: Two entities combine their activities in a particular line of service delivery by transferring the relevant assets and liabilities into a jointly controlled entity.	• The construction of assets, e.g. houses built for beneficiaries of the reconstruction and development programme, for national and/or provincial housing departments and organisations. • The provision of goods and services to recipients, e.g. the provision of water to specific communities by municipalities on behalf of water service authorities. • Property management services, which may include the maintenance of properties and collection of revenue, for the Department of Public Works and/or municipalities.

7.5 What should be considered when determining the discount rate for calculating provisions in accordance with GRAP 19?

Note: This question arose in the context of provisions for rehabilitation of landfill sites, but it has been developed to apply to all provisions in general.

GRAP 19 requires that a provision be measured at the best estimate of the expenditure required to settle the present obligation at the reporting date. In reaching the best estimate of the provision, any risks and uncertainties specific to the provision should be taken into account.

Where the effect of time value of money is material, this best estimate should reflect the present value of the expenditure required to settle that obligation. The discount rate applied to determine the present value is a pre-tax rate that should reflect the a) current market assessment of the time value of money; and b) risks specific to the provision. The discount rate is the rate associated with a liability of a similar risk and maturity as the provision. Therefore, the Standards cannot prescribe a uniform or standardised discount rate that can be applied by entities when calculating provisions. The discount rate should not reflect risks for which future cash flow estimates have been adjusted, i.e. the discount rate and future cash flows should not be adjusted for the same risks.

In determining the best estimate of the expenditure required to settle the obligation, the expenditure can be expressed in either current prices (excluding inflation) or expected future prices (including inflation). When the expenditure is expressed as a future price, it is discounted at a discount rate that includes inflation. When the expenditure is expressed as a current price, the discount rate applied will not include the effects of inflation.

Therefore, the principle in GRAP 19 is that if the expenditure is based on a current price then the discount rate is not adjusted for inflation; but if the future price is used then the discount rate is adjusted for inflation. If this principle is correctly applied, the results of a calculation based on current prices and future prices will yield the same results (i.e. net present value) if the correct discount rate is applied.

7.6 How should an entity account for renegotiated payment arrangements?

Entities in the public sector often have short term payables with a supplier that they are unable to service. Entities sometimes renegotiate the payment of their short-term payables to a longer term loan. For example, an entity has a short-term payable with a supplier with a 30-day credit period that it is unable to service. The entity renegotiates the payable with the supplier and agrees on a payment arrangement with a term of five years.

Some preparers asked how they should account for a renegotiated payment arrangement when they are the holder of a loan. They specifically asked the following:

(a) Does a renegotiated payment arrangement represent a new financial liability, or an amendment of the original financial liability?

(b) How should an entity measure a renegotiated payment arrangement initially when it is a new financial liability?

(a) Does a renegotiated payment arrangement represent a new financial liability, or an amendment of the original financial liability?

GRAP 104 states in paragraph 6.17:

> *An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as having extinguished the original financial liability, and a new financial liability recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as having extinguished the original financial liability and having recognised a new financial liability.*

When an entity considers in terms of GRAP 104 paragraph 6.17 whether a substantial modification was made to the terms of the original financial liability, an entity considers GRAP 104.AG6.20:

> *For the purpose of paragraph 6.17, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability……*

(b) How should an entity measure a renegotiated payment arrangement initially when it is a new financial liability?

In accordance with GRAP 104 paragraph 5.1, an entity initially measures financial liabilities at fair value.

GRAP 104.AG5.2 provides the following guidance:

> *The fair value of a financial instrument on initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received, see also paragraph AG5.52). However, if part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated, using a valuation technique (see paragraphs AG5.40 to AG5.46). For example, the fair value of a long-term loan or similar receivable that carries no interest can be estimated as the present value of all future cash receipts discounted at the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating...*

GRAP 104.AG5.40 provides valuation techniques that an entity can use to determine fair value where the market for a financial instrument is not active. GRAP 104.AG5.41 and AG5.42 state that the objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. A valuation technique (a) incorporates all factors that market participants would consider in setting a price, and (b) is consistent with accepted economic methodologies for pricing financial instruments.

Therefore, an entity that determines fair value of a loan using a valuation technique establishes an appropriate discount rate with reference to a loan that is similar, for example, a loan that is in a similar currency, for a similar period of time, has a similar type of interest rate, and with a similar credit rating. A government bond rate may be appropriate to use as a discount rate, but an entity should adjust it for specific circumstances of the financial liability.

Entities should also consider whether a renegotiated payment arrangement meets the definition of a concessionary loan. GRAP 104 paragraph 5.4 requires an entity to initially analyse a concessionary loan into its component parts and account for each component separately.

7.7 When should revenue be recognised for the sale of pre-paid electricity?

The sale of electricity constitutes a sale of goods. GRAP 9.29 states that revenue from the sale of goods should be recognised when:

(a) the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

In the case of prepaid electricity, the significant risks and rewards of ownership only transfer to the consumer at the time of consumption of the electricity. Consequently, the revenue received from prepaid electricity sales should be deferred and recognised as revenue on the consumption basis, commencing on the date of purchase. The consumption of pre-paid electricity is determined by using actual consumption information (if available), or consumption is measured using a trend analysis and other historical data about electricity usage, including how often an electricity card is purchased or additional units of electricity loaded onto a pre-paid card.

Revenue from pre-paid electricity can only be recognised on a cash basis if a municipality can demonstrate that it is unable to make a reliable estimate of revenue using the methods described in the preceding paragraph or using other accrual-based measures. Municipalities should however be able to demonstrate that they have made every reasonable effort to gather appropriate information to enable the recognition of revenue from pre-paid electricity based on consumption by users.

7.8 How should conditional grants be accounted for by the transferor when conditions have not yet been fulfilled, or have been partially fulfilled by the recipient?

No Standard of GRAP is available that deals specifically with transferors in considering how to account for conditional grants paid.

GRAP 3 states that when formulating an accounting policy, management should consider the applicability of the requirements in existing Standards of GRAP or Interpretations of the Standards of GRAP dealing with similar and related issues.

For instance, GRAP 23 is applied by the recipient of a grant. GRAP 23 outlines, among other things, specific accounting requirements for conditional grants where all the conditions have not yet been fulfilled, or partially fulfilled by the recipient.

Management may consider the principles in GRAP 23 to formulate an accounting policy for the transferor's perspective of the transaction.

The transferor should also consider whether other Standards of GRAP would be applicable, such as GRAP 19.

Where no existing Standards of GRAP or Interpretations deal with similar and related issues, the principles in the *Conceptual Framework for General Purpose Financial Reporting*[17] should be used to formulate an appropriate accounting policy.

7.9 What accounting should a transferor apply in a transfer of functions between entities not under common control?

GRAP 106 does not prescribe the accounting treatment for the transferor in the arrangement. As a result, the transferor should apply the existing Standards of GRAP.

Where the transferor disposes of assets, or groups of assets and liabilities, it assesses whether the disposal meets the requirements of a discontinued operation in GRAP 100.

- The disposal meets the requirements of a discontinued operation: the transferor applies the requirements in GRAP 100 to account for the assets or disposal groups and provides the disclosures required by GRAP 1.91.
- The disposal does not meet the requirements of a discontinued operation: the transferor formulates an appropriate accounting policy and appropriate disclosures using other Standards of GRAP. For example, an entity would apply the requirements of GRAP 17 and the impairment requirements of GRAP 21 and/or GRAP 26 in accounting for the assets until they are transferred. If a disposal does not meet the requirements of a discontinued operation because it has not yet occurred although management has made the decision to dispose of the operation, an entity shall disclose the information required by GRAP 1.91.

7.10 When should a transfer of functions be accounted for in accordance with GRAP 105 and when should GRAP 106 be applied?

GRAP 105 establishes accounting principles for an acquirer and transferor in a transfer of functions between entities under common control whereas GRAP 106 provides guidance to an acquirer where a transfer of functions is undertaken between entities not under common control.

In determining whether GRAP 105 or GRAP 106 should be applied in accounting for the transaction or event, entities should consider whether the transaction or event was undertaken

[17] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting.*

between entities in the same sphere of government; and/or between entities that are part of the same economic entity.

The government of the Republic of South Africa is divided into three distinct spheres, i.e. national, provincial (with each province being separate) and local (with each local government being separate), and each is independent from the decision-making of another sphere. Even if the transaction or event occurred between entities within the same sphere of government, entities should ultimately be controlled by the same party (economic entity) before and after the transfer of functions for it to be within the same economic entity (i.e. a group of entities as described in GRAP 35). Where transactions or events occurred between entities within different spheres of government, the relationship between the entities need to be assessed to determine whether the entities are ultimately controlled by the same economic entity before and after the transfer of functions for it to be under common control.

If two departments within the same province enters into a transaction or event where it is concluded that such a transaction or event is a transfer of functions, the entity should consider applying the principles in GRAP 105, because (a) the transaction or event occurred between two departments that are within the same sphere of government (i.e. the same province), and (b) the departments are ultimately controlled by the same economic entity before and after the transfer of functions.

Even though all municipalities are within the same sphere of government, each municipality is independent from every other municipality and each municipality is responsible for the establishment and election of its own municipal council. If a transaction or event occurs between two municipalities, the transaction or event will not be a transfer of functions between entities under common control because the transaction or event did not occur between entities that are ultimately controlled by the same party before and after the transaction or event. Thus, even though the municipalities are within the same sphere of government, the entities are not part of the same economic entity (i.e. the same municipal council) before and after the transaction or event. Municipalities should also consider whether GRAP 106 or GRAP 107 is more applicable in accounting for the transaction or event, depending on whether one municipality gained control over another municipality.

7.11 What should be considered in deciding whether a transaction or event should be accounted for as a merger?

In a merger, two or more entities are combined into a new reporting entity, whereas a transfer of functions involves the reorganisation and re-allocation of an integrated set of activities.

GRAP 107 lists criteria that should be considered in deciding whether a transaction or event that involves the reorganisation or re-allocation of functions between entities should be accounted for as a merger. These criteria are merely examples of situations which could indicate that the transaction or event is a merger – not all the criteria need to be met for the transaction or event to be accounted for as a merger.

(a) Identify whether there is an acquirer – in a merger, no acquirer can be identified as a new combined entity is established from former entities.

(b) Identify whether one party obtains control – in a merger, no entity is seen to be dominant. All parties to the transaction or event combine their relative risks and benefits and have equal decision-making powers in the new combined entity.

(c) Management representation in the new combined entity – in a merger, all the parties to the transaction or event, as represented by management, participate in establishing the management structure of the combined entity, and in selecting the management personnel. Thus, if the management structure in the new combined entity is represented by a majority of members from one combining entity, the transaction is most likely not a merger, but rather a transfer of functions.

(d) Consider the size of entities involved – in a merger, the relative sizes of the combining entities should be alike, prior to the transaction or event. If the size of one of the entities involved in the transaction or event are relatively bigger compared to that of the other entities, the transaction is most likely not a merger.

7.12 What is the interaction between GRAP 11 and the Housing Guideline?

Municipalities raised uncertainties regarding the classification and presentation of conditional grants received for housing development in terms of the National Housing Programme.

The Housing Guideline explains the different roles and responsibilities of municipalities for housing development based on whether the municipality is a project manager or project developer. The assigned roles and responsibilities depend on the municipality's level of accreditation, and the specific agreements with the relevant provincial department of human settlements. The Housing Guideline can also be applied by non-accredited municipalities.

Accredited and non-accredited municipalities should assess the terms and conditions of each individual arrangement with the relevant provincial department of human settlements to conclude if it assumes the responsibility of a project manager or project developer. This is to ensure that the individual arrangement is accounted for based on the substance of the enforceable rights and obligations in the arrangement, irrespective of the level of accreditation assigned to the municipality outside the specific arrangement.

This FAQ deals with a municipality that concludes that it is a project developer based on the terms and conditions of an arrangement that involves the construction of houses.

A project developer's role includes being responsible for constructing houses, either themselves or using a subcontractor. These municipalities receive funding from the relevant provincial department of human settlements to construct the houses. As explained in the Housing Guideline, a municipality that is a project developer accounts for the construction of houses as a contractor in accordance with GRAP 11. This means the following:

- Funding received to construct houses, which may be called a "conditional grant", is accounted for as contract revenue. Contract revenue is recognised with reference to the stage of completion at reporting date.
- Expenditure incurred to construct houses is accounted for as contract expenses.

- The houses are constructed for the provincial department of human settlements and are not accounted for by the municipality. Work-in-progress and completed houses are accounted for by the provincial department of human settlements[18].

Municipalities may have previously applied GRAP 23 to account for conditional grants received for housing development. In accordance with GRAP 23, revenue is recognised when the municipality controls the resources, with any unspent funds recognised as a liability where conditions have not yet been met. As noted above, the revenue received is contract revenue and should be accounted for using GRAP 11.Municipalities that have not accounted for their housing arrangements as outlined in the Guideline should apply the principles in GRAP 3. Entities may also need to change the information presented and disclosed if this was based on GRAP 23 as a “conditional grant” instead of as contract revenue per GRAP 11.

Note: Municipalities should consider any legislative disclosure requirements for conditional grants in addition to the requirements of Standards of GRAP, e.g. the relevant Division of Revenue Act or the Municipal Finance Management Act.

[18] In accordance with the Modified Cash Standard.

Section 8 – Heritage Assets

8.1 Should all assets that are designated as a heritage asset by legislation or similar means be classified as a heritage asset in the entity's financial statements?

In terms of Section 39 of the National Heritage Resources Act, 1999 (Act No. 25 of 1999) (NHRA), the South African Heritage Resource Agency (SAHRA) is required to compile and maintain an inventory of the national estate, defined as heritage resources of cultural and other significance. This information is contained in the South African Heritage Resources Information System (SAHRIS) and is available on SAHRA's website.

Not all assets that are designated as a heritage asset in terms of the NHRA are classified as a heritage asset in terms of GRAP 103. An entity should assess the items included in the SAHRIS using the criteria below before classifying the asset as a heritage asset in terms of GRAP 103:

(a) The item meets the definition of a heritage asset in GRAP 103.

GRAP 103 defines heritage assets as those assets *"…that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations."*

(b) The item is not excluded from the scope of GRAP 103.02, and if it has more than one purpose, is not recognised in terms of another Standard of GRAP.

GRAP 103.02 indicates the following regarding the scope of the Standard:

> *An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the recognition, measurement and disclosure of all assets that meet the definition of a heritage asset, except:*
>
> *(a) the initial recognition and initial measurement of heritage assets acquired in a transfer of functions between entities under common control (see GRAP 105) or merger (see GRAP 107);*
>
> *(b) bearer plants and biological assets related to agricultural activity (see GRAP 17 and GRAP 27); and*
>
> *...*

For example, the SAHRIS includes a number of heritage items that are designated as natural heritage and consists of items such as trees, botanical gardens, rock formations, waterfalls, etc. Rock formations and waterfalls may already be part of an entity's existing immovable assets (i.e. part of the land). As these assets may not be separately managed and preserved by the entity for future generations, they may not meet the definition of heritage assets, and are therefore not separately recognised as heritage assets. Furthermore, biological assets such as trees and plants are excluded from the scope of GRAP 103 and are recognised in terms of GRAP 17, GRAP 27, GRAP 110, or another applicable Standard of GRAP.

GRAP 103.09 further excludes certain heritage assets when they have more than one purpose:

> *Some heritage assets have more than one purpose, e.g. an historic building which, in addition to meeting the definition of a heritage asset, is also used as office*

accommodation. The entity needs to determine whether the significant portion of the asset meets the definition of a heritage asset. The entity must use its judgement to make such an assessment. The asset should be accounted for as a heritage asset if, and only if, the definition of a heritage asset is met, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. If, however, the definition of a heritage asset is not met, or a significant portion is held for use in the production or supply of goods or services or for administrative purposes, the asset should not be accounted for as a heritage asset. Instead, the entity should account for the asset in accordance with the applicable Standard of GRAP.

For example, at year-end 50% of the building is used for administrative purposes, 20% is rented out and the remaining 30% is open to public visitors. As management determines that a significant portion of the building is used for administrative purposes, the building is classified as property, plant and equipment and not as a heritage asset or an investment property.

Similarly, a bridge that is designated as heritage on SAHRIS that is used as part of the road network should be classified as an infrastructure asset in terms of GRAP 17 and not as a heritage asset.

8.2 *Should an entity only classify an asset as a heritage asset if it is designated as such in terms of legislation or similar means?*

An entity may have assets that meet the definition and recognition provisions of a heritage asset in GRAP 103, without them being designated as such by legislation or similar means. These assets are therefore not included in the South African Heritage Resources Information System (SAHRIS). This can be due to reasons such as:

- An entity has not yet lodged an application with the South African Heritage Resource Agency (SAHRA) for the item to be included in SAHRIS.
- SAHRA has not yet finalised the process of including the item in SAHRIS.
- The item does not meet the criteria in the National Heritage Resources Act, 1999 (Act No. 25 of 1999) to be classified as heritage.

GRAP 103 requires that, once an asset meets the definition of a heritage asset as defined in the Standard, the recognition, measurement and disclosure requirements of GRAP 103 should be applied to that asset, irrespective of whether that asset has been designated as a heritage asset through legislation or similar means.

8.3 *How should an asset be classified if it does not meet the definition of a heritage asset?*

If an asset does not meet the definition of a heritage asset in GRAP 103, the entity needs to classify the asset based on its intended use of that asset by applying the principles in the Standards of GRAP, if the item meets the definition of an asset. The asset decision tree can be used as a reference to decide on the classification of an asset, which can be accessed on the ASB website.

Account for an asset that does not meet the definition of a heritage asset as either:				
An item of **property, plant and equipment** when the entity intends to: • use the asset over more than one reporting period; and • the asset, or a significant portion thereof, is used: (a) in the production or supply of goods or services; (b) for rental to others; or (c) for administrative purposes. Refer to GRAP 17.	An **investment property** when the entity intends to: • earn rentals from the asset; • hold the asset, or a significant portion thereof, for capital appreciation; or • both rather than to use the asset in (a) the production or supply of goods or services, or (b) for administrative purposes. Refer to GRAP 16.	**Inventory** when the entity intends to: • hold the asset for sale or distribution in the ordinary course of operations, or • use or consume the asset in the production process or in the rendering of services. Refer to GRAP 12.	An **intangible asset** when the asset is: • capable of being separated or divided from the entity and sold, transferred, licenced, rented or exchanged; or • arises from a binding arrangement regardless of whether rights are transferable or separable from the entity. Refer to GRAP 31.	A **living resource** when the resource undergoes biological transformation, or a **non-living resource** when the resource occurs naturally and have not been extracted. Refer to GRAP 110. When living resources relate to agricultural activity, refer to GRAP 27.

FAQ 8.5 provides guidance on when the heritage asset comprises a biological asset related to agricultural activity and the accounting for living animals and plants.

8.4 How should specimens held for research be classified in an entity's financial statements?

Some entities collect specimens in order to undertake research to determine whether the specimens are heritage assets. The definition of a heritage asset in GRAP 103 refers to assets being held indefinitely for the benefit of present and future generations.

Collected specimens can only be recognised as an asset in the financial statements if:

a) the definition of an asset is met, i.e. a resource controlled by the entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity; and
b) its cost or fair value can be measured reliably.

The asset decision tree can be used as a reference to decide on the classification of an asset.

While evaluating these specimens, and prior to completing the research, the entity cannot conclude that these specimens meet the definition of a heritage asset, i.e. that the specimen (a) has a cultural, environmental, historical, natural, scientific, technological or artistic significance; and (b) is to be held indefinitely for the benefit of present and future generations.

As a result, the specimens are not within the scope of GRAP 103 as the definition of a heritage asset is not met. The entity should account for these specimens using the applicable Standard of GRAP.

8.5 Can a living animal or plant be classified as a heritage asset?

Entities in the public sector may control living animals and plants as part of their mandate, for example, living animals and plants held in national parks and botanical gardens managed by entities.

The definition of heritage assets in GRAP 103 refers to assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance. It could be argued that living animals and plants are held for their environmental or natural significance and therefore meet the definition of heritage assets.

The definition, however, also refers to these assets being held *indefinitely* for the benefit of present and future generations. As living animals and plants have distinct lifecycles, they cannot be held indefinitely by an entity. As a result, living animals and plants are not within the scope of GRAP 103.

An entity should apply the principles in other Standards of GRAP if it controls living animals or plants, for example GRAP 110. GRAP 103 also requires an entity to consider the principles in GRAP 17 and GRAP 27 when it manages bearer plants and biological assets related to agricultural activity respectively.

8.6 Are statues, sculptures, monuments, similar structures and replicas classified as heritage assets?

GRAP 103 defines heritage assets as follows:

> *…assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.*

An entity would need to assess each asset within its control to determine whether it meets the definition of a heritage asset. Statues, sculptures, monuments or similar structures are often erected to commemorate particular people or events. Similarly, replicas are created as a duplicate of the original statue, sculpture, monument or similar structure. While the person, or event being commemorated, or the object that is duplicated, may have significance, the statue, sculpture, monument, similar structure or replica may not. An entity would need to assess whether a statue, sculpture, monument, similar structure or replica is itself being held for its significance and for the benefit of present and future generations. If the statue, sculpture, monument, similar structure or replica does not qualify as a heritage asset, the entity should assess whether it qualifies for recognition under another Standard of GRAP.

Similar considerations should be made to determine whether graves, cemeteries or burial grounds meet the definition of a heritage asset in GRAP 103.

8.7 How does an entity distinguish heritage assets from "old assets"?

Entities frequently own items of property, plant and equipment, intangible assets, inventories and other types of assets that are old but are still being used functionally. For example, an entity may own old furniture such as desks and chairs that are being used for administrative purposes and meet the definition of property, plant and equipment. An entity may also hold e.g. posters, maps or flags which are accounted for as inventory.

"Old assets" are not the same as "heritage assets". "Heritage assets", as defined in GRAP 103 are assets that have cultural, historical, environmental, natural, scientific or technological significance that are held indefinitely for the benefit of present and future generations.

One of the key features of heritage assets is that they are held indefinitely for the purpose of preserving such assets for the benefit of present and future generations. This means that entities often incur expenditure to preserve and extend the life of an asset so that it can be enjoyed by future generations. As a result of the preservation of heritage assets, their value often increases over time, making the effect of depreciation negligible.

The purpose of holding items of property, plant and equipment and other assets is for them to be used in executing an entity's activities. As a result, these assets are "consumed" over time or as they are used.

Entities should therefore ascertain what the purpose is of holding various assets in determining whether they should be treated as "heritage assets" or as other assets in accordance with the relevant Standards of GRAP.

8.8 What should be considered when determining a reliable value for a heritage asset?

GRAP 103.46 explains that a fair value may be ascertained by reference to quoted prices in an active and liquid market, such as quoted prices from recent auctions. Entities questioned what they need to consider to determine a reliable value for a heritage asset with reference to observable prices in an active market, or recent market transactions on arm's length terms.

GRAP 103 explains that the fair value of a heritage asset is the price at which the heritage asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The concepts in the fair value definition are:

Concept	Meaning of the concept
willing buyer	A buyer that is motivated, but not compelled to buy, and is neither over-eager nor determined to buy at any price. The buyer will not pay a higher price than a market comprising knowledgeable, willing buyers and sellers.
willing seller	A seller that is neither an over-eager nor a forced seller, and is not prepared to sell at any price, nor prepared to hold out for a price not considered reasonable in current market conditions.

	A seller is motivated to sell the heritage asset at market terms for the best price obtainable.
knowledgeable	Both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the heritage asset, its uses, and market conditions at the date at which a value is determined.
arm's length transaction	A transaction between parties that do not have a particular or special relationship that will make the price of the transaction uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently.

For a value to represent an observable price in an active market, the entity may be required to adjust the value of a comparable heritage asset based on the nature and characteristics of the heritage asset being valued. When adjusting the value of a comparable heritage asset, the entity should also review the methodology and assumptions used in determining the value for the comparable heritage asset.

When a published quoted price is used as the fair value of a heritage asset, the price needs to be reasonable based on current market conditions. If the variability in the range of reasonable prices is significant, and the probabilities of the various estimates cannot be reasonably assessed, the quoted price will not be the best evidence of the heritage asset's fair value and another valuation technique may need be used to determine its fair value.

This FAQ may be applied to other types of assets if the principles in the Standards are the same.

8.9 How should items collected by an entity be classified in its financial statements?

Some entities collect objects, items or specimens (hereafter referred to as "items") through acquisitions, donations, transfers or other means. These items need to be evaluated to conclude if they should be classified as a heritage asset. For example, an entity receives a box of objects that the donor claims dates from the second World War. As the evaluation of these items may take some time, entities are uncertain if, and how these items should be classified in their financial statements, and how they should be measured prior to the evaluation being completed.

When an item is received, the entity should commence with the evaluation and recognise the item as an asset in its financial statements if:

a) the definition of an asset is met, i.e. a resource controlled by the entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity; and

b) its cost or fair value can be measured reliably.

If these criteria are met, the item should be recognised as an asset in the financial statements and classified based on the reason for holding the asset. Reference can be made to the asset classification decision tree for guidance on the classification of assets.

An item should only be classified as a heritage asset using GRAP 103 if the entity concludes that it:

a) has cultural, environmental, historical, natural, scientific, technological, or artistic significance; and

b) is to be held indefinitely for the benefit of present and future generations.

If further research needs to be undertaken to determine if the asset meets the definition of a heritage asset, GRAP 103 explains that a transfer should be made to heritage assets when, and only when the asset meets the definition of a heritage asset.

Prior to completing the evaluation of an asset, some entities recognise these items at R1 values in their financial statements. Recognising assets at R1 does not provide useful information to users to inform accountability and decision-making. If a reliable value cannot be determined for the item, it should not be recognised and/or measured in the financial statements as the recognition criteria are not met.

Section 9 - Financial Instruments

This section deals with questions asked about GRAP 104 issued in 2019.

9.1 When (and/or how) should receivables and payables be discounted in accordance with GRAP 104?

Part A

How should entities determine when an initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation for purposes of applying the discounting exemption in GRAP 104?

A number of queries have been raised regarding the application of GRAP 104 paragraph AG5.9, which states the following:

> *Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation. For example, it is common practice for municipalities to allow consumers a period of time, after issuing an invoice, to settle their water and electricity accounts. Specific legislation may also prescribe credit terms for specific types of transactions or entities, which provide an indication of what appropriate credit terms are for certain transactions and events. Where the initial credit period granted is not in line with practices or legislation in the public sector, the effect of discounting is considered if it is material.*

In determining whether an entity can apply the exemption granted in GRAP 104, it would determine whether the credit received or granted is consistent with terms used in the public sector by assessing the following:

For credit granted (debtors)

1. An entity would assess firstly whether any legislation exists prescribing a credit period for debts owing to the entity. “Legislation” may comprise an Act, or it may comprise secondary legislation such as practice notes, regulations, or by-laws issued by municipal councils.

Legislation prescribes credit period – Entity has no discretion over the period

2. Where legislation prescribes a credit period, the credit period prescribed in legislation should be used to determine whether the credit granted by an entity is consistent with terms used in the public sector.

Secondary legislation prescribes credit period – Entity has discretion over the period

3. Where credit periods are established in secondary legislation such as a by-law, the entity has discretion over the period within which debtors are required to settle their accounts. As a result, in order to determine whether its policy is consistent with terms used in the public sector, an entity should compare its policy with the by-laws of similar entities to establish a norm.

Conclusion

4. In all instances, an entity should use the shortest period, either prescribed in legislation or determined through practice, as the period that is "consistent with terms used in the public sector" as this is most likely to result in the effect of discounting being immaterial.

Illustration

A brief illustration of the process outlined above is included below. NB: This is merely an illustrative example and is in no way authoritative. The facts and circumstances of each scenario require careful consideration in formulating a judgement on the most appropriate accounting treatment.

Assessing the principle

Municipality A's by-laws prescribes a credit period of 60 days. A number of similar municipalities prescribe a 30-day credit period. As the established practice amongst municipalities is 30 days, then this period is deemed to be the "term that is consistent with those used in the public sector". Thus, in this instance, the municipality would not be able to take advantage of the discounting exemption in GRAP 104 because its credit period is not consistent with the terms used in the public sector.

[Note: In determining whether a municipality is "similar", an entity may consider whether the other entities are district or local municipalities, perform similar functions, have similar customer bases (e.g. consumer, industrial, corporate, rural etc.)].

Illustrating the entries

Assume the value of the transaction is R100. Calculating the effect of discounting using a market related rate of interest, the effect of the 60-days interest free credit is R10. The entries are as follows on initial recognition:

Day 1

Dr Receivable	R90	
Cr Revenue from sales…		R90

After initial recognition

Dr Receivable	R10	
Cr Interest revenue		R10

For credit received (creditors)

Specific legislation governs the period within which certain entities are required to pay creditors. Entities do however often settle their accounts after the prescribed period for a variety of reasons.

In assessing whether the discounting exemption can be applied in GRAP 104, an entity compares:

- the period outlined in legislation; and

- the period determined using its practice or, the practices of similar entities in settling creditors, and

uses the shortest of those two periods to determine whether the period is "consistent with terms used in the public sector". This period should be used as it is most likely to result in the effect of discounting being immaterial.

Where no legislation exists, an entity assesses its practices to those of similar entities to establish a norm. This norm will be used to determine whether the period is "consistent with terms used in the public sector".

Part B

Can the exemption in GRAP 104.AG5.9 be applied to receivables if the interest rate is not market-related?

GRAP 104 paragraph 5.1 requires a financial asset to be recognised initially at fair value. GRAP 104.AG5.2 provides further guidance on the determination of fair value as follows "the fair value of a financial instrument on initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). However, if part of the consideration given or received is for something other than the financial instrument, the fair value of the financial instrument is estimated, using a valuation technique. For example, the fair value of a long-term loan or similar receivable that carries no interest can be estimated as the present value of all future cash receipts discounted at the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating".

GRAP 104.AG5.9 however provides that "short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation" (own emphasis added). GRAP 104.AG88 goes on to state that: "Once the due date for short-term receivables has elapsed and payment is not received, an entity shall consider whether there is any indication that the receivable may be impaired, either because interest is not levied on outstanding amounts (using a market related rate of interest), or because the principal amount may not be collected (see paragraphs 5.17 to 5.35 and AG5.40 to AG5.115)."

The effect of these two paragraphs is as follows:

(a) If the initial credit period granted by an entity is consistent with "terms used in the public sector" (see FAQ 9.1 Part A) for further guidance on this issue), then an entity will not apply discounting on initial recognition, even if the interest rate charged is not market related.

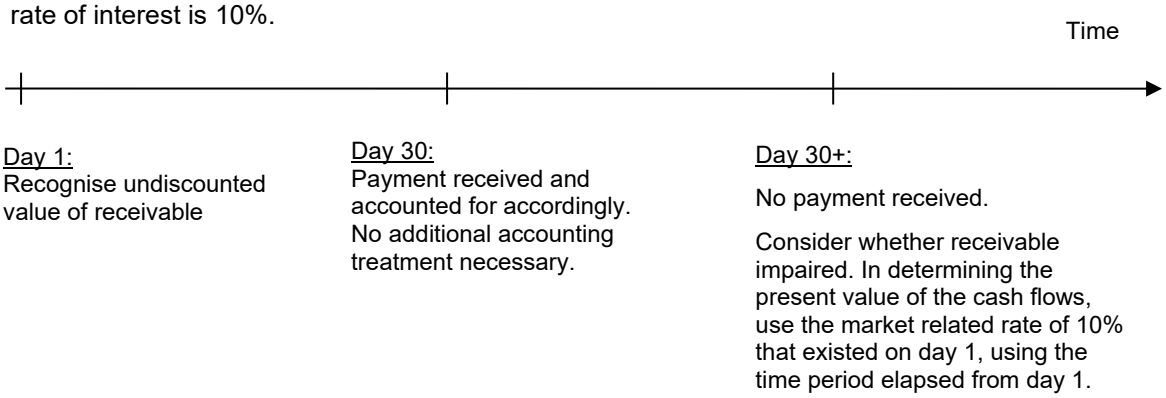
(b) If the entity does not charge a market related rate of interest, there are two possible scenarios:

  (i) The entity receives payment on the due date for payment, which means that the effect of the financing transaction is immaterial.

  (ii) The entity does not receive payment on the due date for payment, which means that the effect of providing below market-interest may be material. Consequently, this will be considered in determining whether the receivable is impaired. In determining the

present value of the cash flows, the entity uses the period from the date the transaction was entered into.

As an illustration: a municipality grants 30 days interest free credit to all consumers of water and electricity. If payment is not received within 30 days, then interest is levied at 8%. A market related rate of interest is 10%.



Part C

What are some common misconceptions about the discounting requirements?

Discounting versus impairment

Entities often confuse discounting and impairment.

The purpose of discounting debtors is to determine if the presentation of revenue in the statement of financial performance is correct, i.e. should the transaction be separated between the revenue for the value of the goods or services provided, and interest.

The purpose of impairment is to present a loss in the value of the financial asset as a result of credit losses and/or delayed receipt of the contractually agreed cash flows.

Entities often (erroneously) calculate interest revenue by taking the outstanding debtors' balance at year end and multiplying it by the (effective) interest rate, and apportioning revenue between sales and interest.

The discounting of debtors is done at initial recognition based on the contractually agreed credit terms. The fact that payments may be subsequently delayed is an issue that affects impairment and not the recognition of interest (see GRAP 104.AG5.10).

Discounting and IGRAP 1

Questions have been raised about whether the separate recognition of revenue from the sale/provision of goods or services and interest revenue is consistent with the principles in IGRAP 1.

IGRAP 1 indicates the following:

Paragraph .09: *"At the time of initial recognition of exchange and non-exchange revenue it is not appropriate to assume that revenue will not be collected as the entity has an obligation to collect all revenue and this would be contrary to normal business principles. Accordingly, the Board*

concluded that the full amount of exchange and non-exchange revenue should be recognised at the initial transaction date."

Paragraph .10: "*Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. An entity assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment should not be made at the time of initial recognition."*

IGRAP 1 deals with the potential non-recognition of revenue as a result of an entity's past history of not collecting or receiving amounts due to the entity as a result of exposure to credit risk (i.e. impairment).

When discounting applies, the transaction is still recognised in full and reflected as revenue – it is merely reflected in different line items in the statement of financial performance. There may also be a delay between the initial recognition of the revenue from the sales or goods or services and interest revenue as interest would only accrue subsequently.

9.2 What is the effective interest rate and how do you calculate it?

Questions have been raised about the use of effective interest rates and how they should be determined in applying GRAP 104 issued in 2019. This FAQ explains the following:

- What is the effective interest rate?
- What is the effective interest rate used for?
- How is the effective interest rate determined?

What is the effective interest rate?

The effective interest rate is used in determining the amortised cost of a financial asset or a financial liability.

The effective interest rate is described as the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating the effective interest rate, an entity estimates the expected cash flows considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options). This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts (hereafter referred to as "transaction costs").

The calculation of the effective interest rate does not include future credit losses (i.e. impairment losses).

What is the effective interest rate used for?

The effective interest rate is used:

1. To determine interest revenue or interest expense recognised on the balance of financial instruments measured at amortised cost. The contractual interest rate is still used to determine the interest either received or paid in cash.

2. To calculate gains or losses when the contractual terms and conditions of instruments are changed (called modifications), and/or to determine whether the change results in a modification of an existing instrument or the derecognition of an existing instrument and recognition of a new instrument.
3. To determine impairment losses, by discounting the cash flows that the entity expects to receive using the original effective interest rate.

How is the effective interest rate determined?

There are a number of aspects to consider in determining the effective interest rate.

Initial measurement

The purpose of the effective interest rate is to allocate the transaction costs over the life of the instrument. Because of the effect of the allocation of the transaction costs over the life of the instrument, there will be a difference between the effective interest rate and the interest rate received or paid in cash in terms of the contract (hereafter referred to as the "contractual rate"). Where transaction costs are immaterial, there is no expected difference between the effective interest rate and the contractual rate. This may however not be the case if the transaction price of the instrument is not market related on initial recognition.

All financial instruments are initially measured at fair value, including those that will subsequently be measured subsequently at amortised cost. The transaction price is usually the fair value, however there may be exceptions. For example, loans granted or received where the interest received or paid is not market related.

Where the transaction price does not equal fair value, fair value can be determined by observing prices for instruments in the market, or alternatively by applying a valuation technique that uses market inputs. Typically, this means using market related interest rates for a similar instrument, with the same term, in the same market, and with the same credit risk profile.

If the contractual rate is not market related, an entity will need to determine what a market related rate of interest would be for a similar instrument.

The effective interest rate is then calculated using the market related rate of interest.

The difference between the cash flows discounted using the (non-market) contractual rate and the (market) effective interest rate is then recognised in surplus or deficit as a gain or loss. However, for concessionary loans, the difference is recognised as non-exchange revenue or a social benefit.

Subsequent measurement

For instruments with a fixed contractual rate, i.e. the interest rate does not change over the period of the instrument. For example, interest is charged at X% over the life of the instrument.

The effective interest rate, i.e. the rate determined on initial recognition, will remain unchanged over the life of the instrument.

When calculating interest, assessing modifications, or discounting the cash flows in determining impairment losses, the original effective interest rate is used.

If an entity changes the effective interest rate at each reporting date, it would be measuring the instrument at fair value and not at amortised cost.

For instruments with a variable (floating) contractual rate, i.e. the interest rate changes over the life of the instrument based on an underlying rate at specific intervals. As an example, the interest rate is based on the prime lending rate + X% and is changed on a monthly basis.

For variable rate instruments, the effective interest rate will need to be amended when the contractual rate changes. A new effective interest rate will need to be calculated based on the revised cash flows of the financial instrument. The effective interest rate is determined by applying the definition of the effective interest method as described above. The following paragraphs from GRAP 104 are also relevant to the calculation of the revised effective interest rate:

- For calculating interest, GRAP 104.AG5.54 states the following:

  For floating rate financial assets and floating rate financial liabilities, periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. If a floating rate financial asset or floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

- For calculating modifications (of financial liabilities) GRAP 104.AG6.20states the following:

  For the purpose of paragraph 6.17, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

  [Note: there is no equivalent discussion for financial assets, but the same principles would be applied for modifications to financial assets, except the 10% threshold does not apply].

- For calculating impairment losses, GRAP 104.AG5.104 states the following:

  Expected credit losses shall be discounted to the reporting date, not to the expected default or some other date, using the effective interest rate determined at initial recognition or an approximation thereof. If a financial instrument has a variable interest rate, expected credit losses shall be discounted using the current effective interest rate determined in accordance with paragraph AG5.54.

9.3 How should interest be treated on credit-impaired instruments that are subsequently 'cured' (i.e. paid or no longer impaired)?

This FAQ explains how an entity presents amounts recognised in surplus or deficit when a credit-impaired financial asset is subsequently cured (i.e. paid in full or no longer credit-impaired).

When a financial asset becomes credit-impaired, paragraph 5.13(b) of GRAP 104 requires an entity to calculate interest revenue by applying the 'effective interest rate to the amortised cost of the financial asset', i.e. the amount that includes the loss allowance. This results in a difference between:

(a) the interest that would be calculated by applying the effective interest rate to the gross carrying amount of the credit-impaired financial asset (i.e. excluding the loss allowance); and

(b) the interest revenue recognised for that asset.

If the financial asset is subsequently no longer credit impaired or the interest revenue is received, it was questioned whether this difference should be recognised as interest revenue or, instead, is required to present it as a reversal of impairment losses.

GRAP 104 defines the following:

- A credit loss is 'the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate…'.
- The gross carrying amount is 'the amortised cost of a financial asset, before adjusting for any loss allowance.' The gross carrying amount, amortised cost and loss allowance are discounted amounts, and changes in these amounts during a reporting period include the effect of the unwinding of the discount. GRAP 104 paragraph 5.23 requires an entity to 'recognise in surplus or deficit, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this Standard.' In applying GRAP 104 paragraph 5.23, an entity recognises in surplus or deficit as a reversal of expected credit losses the adjustment required to bring the loss allowance to the amount that is required to be recognised in accordance with GRAP 104 (zero if the asset is paid in full). The amount of this adjustment includes the effect of the unwinding of the discount on the loss allowance during the period that the financial asset was credit-impaired, which means the reversal of impairment losses may exceed the impairment losses recognised in surplus or deficit over the life of the asset. Paragraph 5.13 also specifies how an entity calculates interest revenue using the effective interest method, i.e. an entity calculates interest revenue on a credit impaired financial asset by applying the effective interest rate to the amortised cost of the financial asset, and thus interest revenue on such a financial asset does not include the difference outlined above. Accordingly, an entity is required to present the difference described above as a reversal of impairment losses in the surplus or deficit following the curing of a credit-impaired financial asset.

Adapted from IASB Interpretations Committee (IFRIC) agenda decision March 2019 on 'Curing of a credit-impaired financial asset'.

Section 10 – Interests in Other Entities

10.1 How should the definition of investment entities be applied?

Questions have been raised about the application of the definition of an investment entity, particularly by entities that have large portfolios of investments and are in the business of providing social benefits. While the question was raised in relation to these types of entities, the same considerations outlined in this FAQ could be applied by other entities. Social benefits for purposes of this FAQ are cash payments made to beneficiaries.

Background

The entities in question typically receive contributions and invest these contributions to sustain or maximise the benefits required to be paid in terms of legislation. Some of the investments made include acquiring controlling interests in other entities. To understand whether these investments should be consolidated or measured at fair value, questions have been raised as to whether the entity is in fact an investment entity.

GRAP 35 indicates that investments held by an investment entity need not be consolidated and are instead measured at fair value.

Investment entities are defined in GRAP 35 as follows:

> *An investment entity is an entity that:*
>
> *(a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;*
>
> *(b) has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and*
>
> *(c) measures and evaluates the performance of substantially all of its investments on a fair value basis.*

It is important to note that an entity is required to meet all 3 the criteria listed above.

Criterion (a)

To meet criterion (a), the entity must be able to demonstrate that it has more than one investor. It is possible that there is a single investor, but where this is the case, the entity supports the interests of a wider group of investors, e.g. a pension fund.

In making the assessment in (a), an entity would need to consider whether the contributions it receives are direct contributions from a participant to the scheme, or whether the contributions received are taxes on individuals, other fees, or transfers received from the Revenue Fund. Where this is the case, it is unlikely that the entity will be able to demonstrate that it has "investors".

Criterion (b)

To meet criterion (b), the entity exists to invest solely for returns from capital appreciation, investment revenue, or both. There are a number of factors to consider:

- An entity's purpose should be evaluated based on its objectives outlined in its legislative

mandate, founding documents, etc. An entity that has additional objectives that are inconsistent with the purpose of an investment entity would not meet the definition of an investment entity. This includes an investor whose objectives require it to be aligned with the economic, social or environmental policies of another entity, e.g. owning certain operations or improving employment outcomes. For entities that are established to provide social benefits, their core mandate is the provision of benefits in accordance with the scheme (the rules of which are usually outlined in legislation). The investment of contributions or other revenue received is merely to sustain this core mandate. The purpose of these entities is not to exist solely to invest to maximise returns.

- An entity should also consider its investment plans and how these plans evidence its purpose. One such feature that evidences that an entity is an investment entity is that it does not plan to hold the investments indefinitely. An investment entity has an exit strategy documenting how the entity plans to realise capital appreciation from substantially all its equity and non-financial asset investments. There should be an exit strategy for debt instruments that could be held indefinitely (e.g. perpetual debt instruments).

Criterion (c)

An entity would need to provide investors with fair value information that substantially all its investments are measured at fair value in its financial statements whenever fair value is required or permitted. It would also need to report fair value internally to an entity's management.

In assessing this criterion, it would need to be established whether there are indeed investors (as discussed in the analysis of criterion (a), and that the management receives information about the fair value of the investments on an ongoing basis so as to make investment decisions.

Section 11 – Statutory receivables

11.1 How do statutory receivables arise?

GRAP 108 deals with statutory receivables. It indicates that statutory receivables are receivables that: (a) arise from legislation, supporting regulations, or similar means; and (b) require settlement by another entity in cash or another financial asset. Entities in the public sector operate within a highly regulated environment. This means that there is legislation governing almost all aspects of some entities' activities. As a result of the regulated environment within which entities operate, questions have been raised about when a receivable is considered statutory and in the scope of GRAP 108, or contractual and in the scope of GRAP 104.

Background

The definition of a statutory receivable indicates that it is a receivable that arises from legislation, supporting regulations or similar means. [own emphasis added] *"Supporting regulations or similar means"* includes regulations supporting legislation, by-laws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Apart from requiring settlement in cash or another financial asset, receivables that are in the scope of GRAP 104 arise from contracts.

A contract is described in GRAP 104 as those arrangements that:

- involve willing parties entering into an arrangement; [own emphasis added]
- the terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party; and
- performance and remedy for non-performance are enforceable by law.

Analysis

In analysing whether a receivable is statutory or not, it is important to:

(a) Understand whether the individual transaction between the entity and the counterparty is initiated as a result of legislation, supporting regulations or similar means, OR whether it is governed by legislation or similar means but initiated by a contract.

(b) Consider whether the transactions are compulsory or not[19]. The transaction itself, rather than some other action or surrounding circumstances, is assessed to determine whether it is compulsory or not.

The following examples illustrate these points:

- The distribution of electricity is governed by a regulator. The regulator will determine the tariff that can be charged by municipalities for electricity. Each municipal council needs to adopt this tariff by way of a council decision. Consumers who wish to be connected to the electricity grid and/or receive a supply of electricity, will apply to the municipality in their area

[19] Statutory receivables can arise from both exchange and non-exchange transactions. The assessment of whether they are exchange or non-exchange depends on whether there is a direct exchange of approximately equal value between the parties.

for the provision of these services. The terms and conditions of the transaction will either be explicitly or implicitly agreed between the parties, e.g. what tariffs will be charged, whether a deposit is needed, penalties for late payment etc. The action of applying to receive the service and agreeing to the terms and conditions is seen as a "voluntary" action on the part of the consumer and hence meets the definition of a contract. In this instance, the activity is regulated by a council decision, but the transaction that gives rise to the receivable, i.e. the transaction with the consumer for the supply of electricity is governed by a contractual arrangement.

- Certain professionals are regulated by specific legislative requirements, which include that they are registered with the relevant industry oversight body (which is a public entity). The fees payable to the industry body are published each year in a Government Gazette. In this instance, the transaction is both regulated by, and arises from, legislation or similar means and hence is a statutory arrangement. It is also important to note that although the professionals may be seen as willingly entering into the arrangement because they would be aware of the regulatory requirements when deciding to undertake their profession, the fees paid (i.e. the transaction) result from compulsory transaction initiated as a result of legislation or similar.

Entities will need to analyse the terms and conditions of the transactions that give rise to their receivables to understand whether they arise directly from legislation or similar means, or from a separate contract concluded with the party. Judgement may need to be applied in applying the principles of GRAP 104 and GRAP 108.

The classification of VAT receivable or payable as a financial instrument or another transaction is dealt with in a Fact Sheet on the *Classification of VAT* issued by the Secretariat.

APPENDIX A – TRACKING TABLE

Action	Date	Description of change
Issued	15 February 2011	Publication of combined FAQs for all entities.
Updated	15 February 2011	The following amendments were made: • Section 1 updated to reflect the 2010/11 reporting framework. • Amendment to question 1.7. • Added question 1.13 on the disclosure of information when changing from an IPSAS or IFRS to an accounting policy formulated using Standards of GRAP that are not yet effective. • Amendments to question 1.12.
Updated	16 May 2011	The following amendments were made: • A footnote reference to the Supplement to Directive 5 has been added to question 1.1. • Delete requirement in question 1.2 to submit an application to the National Treasury for early adoption of Standards of GRAP where the Minister of Finance has determined an effective date. • Editorial amendments to questions 3.1 and 4.1.
Updated	12 July 2011	Add a question in section 6 on accounting considerations relating to World Cup Stadiums.
Updated	4 October 2011	Delete questions 2.4, 2.6, 2.7, 2.10, 2.11, 6.3 and 6.4 that are included in the GRAP Manuals issued by the Office of the Accountant-General. Renumber remaining questions where appropriate.
Updated	9 February 2012	Section 1 updated to reflect the reporting framework for 2011/2012. Add Question 1.11 to reflect the application of GRAP 105, 106 and 107 in the 2011/12 reporting framework.
Updated	11 June 2012	Add questions in section 1 on disclosures to be made by trading entities and in section 7 on applying the exemption in GRAP 104 when considering the credit period granted or received.

Action	Date	Description of change
Updated	25 July 2012	Add questions in section 4 on the accounting and disclosure relating to services in-kind and in section 7 on whether the exemption in GRAP 104.AG87 can be applied to receivables if the interest rate is not market-related.
Updated	27 August 2012	Add a question in section 3 on the presentation requirements and bases of preparation to follow in preparing financial statements and budget information and add section 8 dealing with questions on transfer of functions and mergers.
Updated	19 September 2012	Add two questions in section 8 dealing with: • Distinguishing a transfer of functions under and not under common control; and • Deciding whether a transaction or event is a merger.
Updated	26 September 2012	Amend the wording in question 2.3 as follows: • The example was deleted; • Clarify that if the entity did not appropriately apply GRAP 17 then this results an error in accordance with GRAP 3 and *vice versa*; • To discuss rare instances, where an entity may hold fully depreciated assets which it still uses; and • Add reference to disclosure requirements in GRAP 3 which should be applied whether it is a change in estimate or a prior period error.
Updated	7 February 2013	Sections 1, 3, 4 and 6 have been updated to reflect the reporting framework for 2012/13.
Updated	11 February 2013	Add a question in section 3 on the disclosure relating to councillor's remuneration for purposes of GRAP 20.
Updated	25 June 2013	Add a question in section 1 on the basis of preparation for Government Business Enterprises (GBEs) when they apply Statements of GAAP.
Updated	03 July 2013	Add a question in section 2 on accounting for heritage assets that were previously accounted for in terms of GRAP 17 and where the deemed cost was determined in terms of Directive 7.
Updated	13 January 2014	Sections 1, 3, 4 and 6 have been updated to reflect the reporting framework for 2013/14.

Action	Date	Description of change
Updated	28 February 2014	Delete questions 2.1, 2.4, 2.5, 2.6, 2.8, 3.1, 3.4, 4.2, 4.4, 4.6, 5.2, 6.1, 6.2, 7.1, 7.2, 8.1, 8.2 and 8.3 that are included in the GRAP Manuals issued by the Office of the Accountant-General. Renumber remaining questions where appropriate; and delete sections 7 and 8.
Updated	22 May 2014	The following amendments were made: • Add a question in section 4 dealing with the effect of IGRAP 1 on traffic fines. • Add a new section 7 on provisions and a question dealing with determining the discount rate for calculating provisions in accordance with GRAP 19.
Updated	27 June 2014	Add a question in section 6 on accounting for expenses incurred by an entity but which are settled by another entity.
Updated	15 July 2014	The following amendments were made: • Amend question 2.2 to clarify when an adjustment is required, what information should be used to assess the useful lives of assets and when the adjustment is a change in accounting estimate or error. • Add three questions to section 2 on whether: - the valuation roll can be used to measure assets at fair value; - statues, sculptures, monuments and similar structures are always classified as heritage assets; and - living animals or plants can be classified as heritage assets. • Add a question to section 4 on whether revenue foregone is recognised in the statement of financial performance.
Updated	03 November 2014	Add a question in section 1 on what date should deemed cost be determined using Directive 7 if an entity did not complete its adoption of Standards of GRAP within the specified time frame.
Updated	16 April 2015	Sections 1 and 4 have been updated to reflect the reporting framework for 2014/15.

Action	Date	Description of change
Updated	18 May 2015	Add a question to section 2 on how an entity should apply the requirements in Directive 11 retrospectively in the absence of cost records for assets on the date of adoption of the Standards of GRAP.
Updated	28 July 2015	Add a question to section 1 on what is meant by "effective for financial periods commencing on or after 1 April 201X", when referring to the applicability of the GRAP Reporting Framework to different entities.
Updated	8 September 2015	The following amendments were made: • Combine old question 4.5 with question 6.1, and amend question 6.1 for consistency. • Delete the old question 4.5 on whether revenue foregone is recognised in the statement of financial performance. • Add a question to section 4 on the interaction between GRAP 20 and GRAP 23 for services in-kind.
Updated	29 February 2016	The following amendments were made: • Sections 1 and 4 have been updated to reflect the reporting framework for 2015/16. • Amend question 4.2 to reflect that principal-agent arrangements are assessed in accordance with GRAP 109.
Updated	21 April 2016	Question 2.2 was replaced with an updated version on how to account for fully depreciated assets that are still in use. The new version provides: • A decision tree in assessing whether adjustments are required to fully depreciated assets still in use. • Clarification on how to make prospective adjustments for a change in accounting estimate.
Updated	13 September 2016	Add a question to section 1 on when does the three year transitional period relating to the initial adoption of Standards of GRAP expire.
Updated	30 March 2017	Amend section 1 as follows:

Action	Date	Description of change
		• Add a question on the implications on compliance with the Standards of GRAP when an exemption is granted by the Minister of Finance. • Add a question on the versions of the Standards of GRAP to be applied on first time adoption. • Update section 1 to reflect the reporting framework for 2016/17. Add three questions to sections 2 and 3 on asset related matters: • The implications of non-recognition of certain assets when permitted by Standards of GRAP. • Whether all items that are listed by SAHRA as heritage items meet the definition of heritage assets in terms of GRAP 103, and vice versa. • Add a question to section 3 on where in the financial statements expenditure on repairs and maintenance should be presented.
Updated	19 December 2017	Update section 1 for the 2017/18 reporting framework. Delete question 1.7 on GRAP 105, 106 and 107. Relevant information is included in question 1.3. Amend question 3.4 to address with the analysis of expenses by nature or function more broadly and better explain what each analysis means, with examples. Add question 3.5 on the items to be included in cash and cash equivalents. Align question 4.3 to the current requirements of GRAP 23, include examples of in-kind benefits that may be significant to an entity and include the disclosure requirements of services in-kind not recognised. Clarify in question 6.1 that the expenses related to providing free basic services should not be reclassified from its nature or function to items such as “free basic services”. Add question 6.4 on the interaction between GRAP 32, GRAP 8 and GRAP 109.

Action	Date	Description of change
		Add a footnote reference throughout the document to the new Conceptual Framework approved by the Board in June 2017, which replaces the previous framework.
Updated	28 May 2018	Add question 2.7 on use of a valuer to determine fair value. Move question 7.1 on determining the discount rate for calculating provisions to section 6 as question 6.5. Remove the reference to GRAP 103 from the name of section 2. Rename section 7 to “Heritage Assets”, and amend the section as follows: • Move question 2.9 to section 7 as questions 7.1 and 7.2 on classification of assets as a heritage asset in the entity’s financial statements. • Add question 7.3 on how an asset that does not meet the definition of a heritage asset should be classified. • Add question 7.4 on how specimens held for research should be classified. • Move question 2.6 to section 7 as question 7.5 and explain when a living animal or plant can be classified as a heritage asset. • Move question 2.5 to section 7 as question 7.6 and explain when statues, sculptures, monuments, similar structures and replicas are classified as heritage assets.
Updated	1 June 2018	Amend question 1.3 to clarify status of a Standard issued but not listed in the reporting framework. Amend question 1.7 to clarify disclosure requirements. Amend question 3.4 to add examples, and clarify the reasons the examples are inappropriate. Amend question 3.5 to clarify the purpose of holding an instrument. Add question 6.6 on accounting for renegotiated payment arrangements.
Updated	13 July 2018	Add question 3.6 on the requirements for entities to classify revenue as exchange or non-exchange.

Action	Date	Description of change
		Add question 3.7 on the considerations when presenting information in addition to what is required by the Standards of GRAP.
Updated	19 November 2018	Add question 1.15 on the role of the Conceptual Framework and when it is applied. Add question 1.16 on the effective date of the Conceptual Framework.
Updated	28 March 2019	Update section 1 for the 2018/19 reporting framework. Remove FAQ 1.8 on *What should Government Business Enterprises (GBEs) describe as their basis for preparation when they apply Statements of GAAP?* as it is no longer relevant from 1 April 2018.
Updated	10 September 2019	Added the following FAQs: • 1.16 on the role of materiality in reporting information in the financial statements. • 2.8 on whether changes to useful lives, residual values and deprecation methods are changes in estimates or errors. • 3.8 on how entities should determine the value of repairs and maintenance. • 8.1 (Parts A to C) on the discounting of receivables and payables. Amended the following FAQs: • 2.2 on fully depreciated assets still in use. • 7.6 on whether graves and cemeteries are heritage assets.
Updated	4 October 2019	Added the following FAQs: • 3.9 on the presentation of revenue and receivables from exchange and non-exchange transactions. • 9.1 on the definition of an investment entity.
Updated	7 November 2019	Added the following FAQs: • 1.17 on the disclosures entities should provide on newly effective Standards of GRAP.

Action	Date	Description of change
		• 3.10 on whether all errors should be accounted for using GRAP 3. • 3.11 on adjustments related to the adoption of a new pronouncement. • 3.12 on the application of GRAP 109.
Updated	26 November 2019	Added FAQ 2.9 on the impact of land invasions on land recognition.
Updated	9 March 2020	Updated section 1 and FAQ 4.2, 6.2 and 6.4 for the 2019/20 reporting framework. Section 1 was further updated as follows: • Combined FAQ 1.8 with FAQ 1.17 regarding disclosures on not yet effective Standards of GRAP. • Refreshing FAQ (now) 1.8 on the date to determine deemed cost per Directive 7. Updated FAQ 4.1 for public entities applying Standards of GRAP from 1 April 2018. Reinstated the following FAQs: • 2.10 on accounting for servitudes. • 2.11 on accounting for library books. • 2.12 on when to start depreciating major spare parts and stand-by equipment. • 3.13 on whether VAT receivable and payable are exchange or non-exchange transactions. • 4.6 on accounting for revenue from donated assets. • 5.2 on the appointment of actuaries to measure defined benefit obligations. • 6.7 on when revenue from the sale of pre-paid electricity should be recognised. • 6.8 on accounting for conditional grants where not all conditions have been met by the transferor. • 6.9 on accounting for a transfer of functions between entities not under common control by a transferor. • 6.10 on the distinction between functions under common control and not under common control.

Action	Date	Description of change
		• 6.11 on accounting for a transaction or event as a merger. • 7.7 on distinguishing heritage assets from "old assets". Added the following FAQs from FAQs on amendments to GRAP 16 and GRAP 17: • 2.13 on presenting prior year information on cumulative work in progress where the information is unavailable. • 2.14 on disclosure related to projects that are taking significantly longer to complete than expected.
Updated	11 May 2020	Added FAQ 10.1 on statutory receivables.
Updated	8 June 2020	Added the following FAQs: • 2.15 on accounting for water and electricity meters • 6.12 on the interaction between GRAP 11 and the Housing Guideline.
Updated	8 July 2020	Added FAQ 8.2 on what is the effective interest rate and how do you calculate it.
Updated	3 February 2021	Updated section 1 and FAQs 6.2, 6.4 and 6.10 for the 2020/2021 reporting framework. Deleted FAQs 1.4 and 1.6 that were no longer relevant. Guidance in FAQ 1.6 for trading entities has been included in FAQ 1.3. Updated FAQ 2.5 on how an entity applies the requirements in Directive 11 to include a timeline. Updated FAQs 2.13 and 4.1 to remove content that is no longer relevant.
Updated	15 March 2021	Amended FAQ 3.12 on the application of GRAP 109 to add guidance. Added FAQ 3.14 on when geographical information, as required by GRAP 18, should be provided.
Updated	17 June 2021	Added FAQ 1.15 on what should be disclosed about Standards of GRAP where no effective date has been approved by the Minister of Finance.
Updated	7 July 2021	Added FAQ 3.15 on the interaction of legislated disclosure requirements and disclosure requirements in Standards of

Action	Date	Description of change
		GRAP, and FAQ 3.16 on the interaction of Standards of GRAP where two or more Standards have similar requirements. Added FAQ 3.17 on the disclosure requirements in the Standards of GRAP on commitments. Updated FAQ 5.2 on whether an entity must appoint an actuary at every reporting date to measure its defined benefit obligations. Added FAQ 5.3 on whether informal arrangements to provide post-employment benefits are within the scope of GRAP 25.
Updated	3 November 2021	Updated FAQ 7.4 on how specimens held for research should be classified in an entity's financial statements. Added the following FAQs: • 2.16 on whether the presentation of assets in financial statements will increase an asset's risk profile. • 2.17 on whether assets on land should be accounted for separately from the land. • 3.18 on how the cash movement in consumer deposits should be presented in the cash flow statement. • 7.8 on what should be considered when determining a reliable value for a heritage asset. • 7.9 on how items collected by an entity should be classified in its financial statements.
Updated	9 February 2022	Updated FAQ 7.8 on what to consider when determining a reliable value for a heritage asset.
Updated	2 March 2022	Added Section 1 on the Conceptual Framework, and relocated FAQs 1.11, 1.12 and 1.13 (renumbered as 1.1, 1.2 and 1.3) to this new section. This resulted in the renumbering of all other sections and FAQs. Updated (now) section 2 for the 2021/2022 reporting framework. Added the following FAQs: • FAQ 2.1 on the purpose and status of Directive 5. • FAQ 2.5 on the impact of recently issued IPSAS and IFRS Accounting Standards on the 2021/22 GRAP reporting framework

Action	Date	Description of change
		Updated references in (now) FAQs 3.14, 4.11, 5.1, 7.1 and 8.1. Amended (now) FAQ 8.4 to include living and non-living resources.
Updated	23 February 2023	Updated the following: • Section 2 for the 2022/2023 reporting framework • FAQs 1.3, 4.1, (now) 4.6, (now) 4.14 and 11.1 for references to related Fact Sheets Amended the following FAQs: • 2.10 to include measurement periods. • 3.13 for a change in the title of the FAQ. • 3.17 to include an example on housing projects. • 4.5 to include guidance on restricted cash and cash equivalents. • (now) 4.12 to indicate that the entity (VAT vendor) is a deemed debtor to the national government. Combined FAQ 4.6 with (now) FAQ 4.8. This resulted in the renumbering of the FAQs that followed in this section.
Updated	15 March 2023	Amended FAQ 3.3 to: • Change the title from *How does a municipality account for rainwater?* to *How does an entity account for naturally occurring non-purchased water?.* • Include guidance on the initial measurement of naturally occurring non-purchased water. Added FAQ 3.18 on *How does an entity account for "software as a service" in a cloud computing arrangement?*
Updated	08 February 2024	Updated the following: • Section 2 for the 2023/2024 reporting framework. Amended the following FAQs: • FAQ 2.4 Updated Standards of GRAP that are not yet effective. • FAQ 7.12 on What is the interaction between GRAP 11 and the Housing Guideline?

Action	Date	Description of change
		Added the following FAQs: • FAQ 3.19 on What is harvested produce in the case of living animals? • FAQ 6.4 on Are liabilities for employee benefits in the scope of GRAP 104 on Financial Instruments?
Updated	26 March 2024	Amended the following FAQs: • FAQ 1.2 on What is the effective date of the Conceptual Framework? • FAQ 2.10 on When does the three-year transitional period relating to the initial adoption of Standards of GRAP expire? • FAQ 6.4 on Are liabilities for employee benefits in the scope of GRAP 104? Added the following FAQ: • FAQ 1.4 on How should the old and new Conceptual Framework be read with the Standards of GRAP? • FAQ 2.15 on What is the difference between transitional provisions and the measurement period?
Updated	09 July 2024	Amended the following FAQs: • FAQ 2.4 on What Standards of GRAP have been issued by the Board but are not yet effective, and what effect do these Standards have on the GRAP Reporting Framework for 2023/2024? • FAQ 2.13 on What disclosures should an entity provide on newly effective Standards of GRAP?
Updated	07 March 2025	Amended the following FAQs: • FAQ 2.2 on What Reporting Framework should be used by entities for the 2024/2025 reporting period? • FAQ 2.3 on Are entities allowed to early adopt Standards of GRAP for which the Minister of Finance has determined an effective date? • FAQ 2.4 on What Standards of GRAP have been issued by the Board but are not yet effective, and what effect do these Standards have on the GRAP Reporting Framework for 2024/2025?

Action	Date	Description of change
		• FAQ 2.5 on What is the impact of recently issued IPSAS and IFRS Accounting Standards on the 2024/25 GRAP reporting framework? • FAQ 2.7 on Per Directive 5, what does it mean to formulate an accounting policy? • FAQ 2.13 on What disclosures should an entity provide on newly effective Standards of GRAP? Added the following FAQs: • FAQ 2.16 on When and how do entities develop and disclose accounting policies? • FAQ 4.18 on What do entities consider to determine whether certain persons are management in GRAP 20? • FAQ 4.19 on What related party transactions are exempt from disclosure?
Updated	31 March 2025	Revise the following FAQs: • FAQ 4.4 is amended to include agency expenses as an example of when it is inappropriate to analyse expenses by nature. • FAQ 4.14 is expanded to explain whether information needs to be presented in the financial statement if information about a transaction is required by legislation but the transaction is accounted for differently in the financial statements. • FAQ 7.4 on the interactions of GRAP 109 and other Standards of GRAP is expanded to explain the accounting implications of each of the Standards. • FAQ 7.12 is clarified to explain that a municipality's role should be assessed for each arrangement irrespective of the municipality's level of accreditation. Added the following FAQs: • FAQ 4.20 explains the assessment of which party to the arrangement is the agent.

Action	Date	Description of change
		• FAQ 4.21 explains what a binding arrangement means in the context of a principal-agent arrangement. • FAQ 4.22 clarifies how an agent can present cash in- and outflows in its cash flow statement when it controls cash balances in a principal-agent arrangement. • FAQ 4.23 explains considerations when the agent and principal provide disclosures required by GRAP 109. Deleted FAQ 2.6 on *Can entities use IAS 20 on Government Grants to account for grants, transfers and other types of non-exchange revenue?* as it is no longer relevant.
Updated	20 May 2025	Revised the following FAQs: • FAQ 3.9 clarifies that the impairment calculation in terms of GRAP 21 and GRAP 26 is not expected to result in zero or a nominal value. • FAQ 5.3 is expanded to include guidance on accounting for concessionary leases for lessees. Added the following FAQ: • FAQ 3.20 explains how entities should assess for impairment in terms of GRAP 21 and GRAP 26.
Updated	18 February 2026	Updated the following FAQs: • Section 2 for the 2025/2026 reporting framework. Revise the following FAQs with the new requirements and paragraph reference of the revised GRAP 104: • FAQ 6.4 on Are liabilities for employee benefits in the scope of GRAP 104? • FAQ 7.6 on How should an entity account for renegotiated payment arrangements? • FAQ 9.1 on When (and/or how) should receivables and payables be discounted in accordance with GRAP 104? • FAQ 9.2 on What is the effective interest rate and how do you calculate it?

Action	Date	Description of change
		Revise FAQ 2.7 on Per Directive 5, what does it mean to formulate an accounting policy? to be consistent with FAQ 2.13. Add FAQ 9.3 on How should interest be treated on credit-impaired instruments that are subsequently 'cured' (i.e. paid or no longer impaired)?

APPENDIX B – ABBREVIATIONS FOR STANDARDS OF GRAP

Pronouncement no.	Pronouncement name
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 20	Related Party Disclosures
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash-generating Assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 32	Service Concession Arrangements: Grantor
GRAP 34	Separate Financial Statements
GRAP 35	Consolidated Financial Statements
GRAP 36	Investments in Associates and Joint Ventures
GRAP 37	Joint Arrangements

Pronouncement no.	Pronouncement name
GRAP 38	Disclosure of Interests in Other Entities
GRAP 100	Discontinued Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 105	Transfer of Functions Between Entities Under Common Control
GRAP 106	Transfer of Functions Between Entities Not Under Common Control
GRAP 107	Mergers
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
GRAP 110	Living and Non-living Resources
Directive 1	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
Directive 2	Transitional Provisions for Public Entities, Trading Entities, Municipal Entities, Public Technical and Vocational Education and Training Colleges and Constitutional Institutions
Directive 3	Transitional Provisions for High Capacity Municipalities
Directive 4	Transitional Provisions for Medium and Low Capacity Municipalities and Trading Entities
Directive 5	Determining the GRAP Reporting Framework
Directive 6	Transitional Provisions for Revenue Collected by the South African Revenue Service (SARS)
Directive 7	The Application of Deemed Cost
Directive 8	Transitional Provisions for Parliament and the Provincial Legislatures
Directive 9	The Application of the Standards of GRAP by Trading Entities
Directive 10	Application of the Standards of GRAP by Public Technical and Vocational Education and Training Colleges
Directive 11	Changes in the Measurement Bases Following the Initial Adoption of the Standards of GRAP
Directive 12	The Selection of an Appropriate Reporting Framework by Public Entities
Directive 13	Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training Colleges



FAQs on the Standards of GRAP

Pronouncement no.	Pronouncement name
Directive 14	The Application of Standards of GRAP by Public Entities that Apply IFRS® Accounting Standards
IGRAP 1	Applying the Probability Test on Initial Recognition of Revenue
IGRAP 2	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IGRAP 3	Determining whether an Arrangement Contains a Lease
IGRAP 4	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5	Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6	Loyalty Programmes
IGRAP 7	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8	Agreements for the Construction of Assets from Exchange Transactions
IGRAP 9	Distributions of Non-cash Assets to Owners
IGRAP 10	Assets Received from Customers
IGRAP 13	Operating Leases – Incentives
IGRAP 14	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 15	Revenue – Barter Transactions Involving Advertising Services
IGRAP 16	Intangible Assets – Website Costs
IGRAP 17	Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset
IGRAP 18	Recognition and Derecognition of Land
IGRAP 19	Liabilities to Pay Levies
IGRAP 20	Accounting for Adjustments to Revenue
IGRAP 21	The Effect of Past Decisions on Materiality
IGRAP 22	Foreign Currency Transactions and Advance Consideration
Materiality Guideline	Guideline on *The Application of Materiality to Financial Statements*
Housing Guideline	Guideline on *Accounting for Arrangements Undertaken in terms of the National Housing Programme*

Pronouncement no.	Pronouncement name
Landfill Sites Guideline	Guideline on *Accounting for Landfill Sites*