ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL

(GRAP 105)

Issued by the
Accounting Standards Board

November 2010

Acknowledgement

In developing the Standard of Generally Recognised Accounting Practice (GRAP) on *Transfer of Functions Between Entities Under Common Control* reference was made to the IFRS Accounting Standard) on *Business Combinations* (IFRS 3) published by the International Accounting Standards Board (IASB) in March 2004. The IASB has issued a comprehensive body of IFRS® Accounting Standards and IFRIC® Interpretations. Extracts of IFRS 3 are reproduced in this Standard of GRAP with the permission of the IASB.

The approved text of IFRS Accounting Standards and IFRIC Interpretations is that published by the IASB in the English language and copies may be obtained from:

IFRS Foundation Publications Department

7 Westferry Circus

Canary Wharf

London E14 4HD

United Kingdom

Internet: http://www.ifrs.org

Contents

Standard of Generally Recognised Accounting Practice

Transfer of Functions Between Entities Under Common Control

TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL

This Standard was originally issued by the Accounting Standards Board (the Board) in November 2010. Since then, it has been amended by:

- Clarifying principles relating to the initial recognition and measurement by the acquirer.
- Consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.
- The transitional provisions for the initial adoption of GRAP 105 *Transfers of Functions Between Entities Under Common Control*, GRAP 106 *Transfers of Functions Between Entities Not Under Common Control* and GRAP 107 *Mergers* amended as a result of the amendments to the Directives made in March 2016.
- Consequential amendments when the following Standard of GRAP became effective:
  - GRAP 35 *Consolidated Financial Statements*

Introduction

This pronouncement is set out in paragraphs .01 to .67A. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] 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*.

Objective

.01 The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

Scope

.02 An acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to a transaction or event that meets the definition of a transfer of functions.

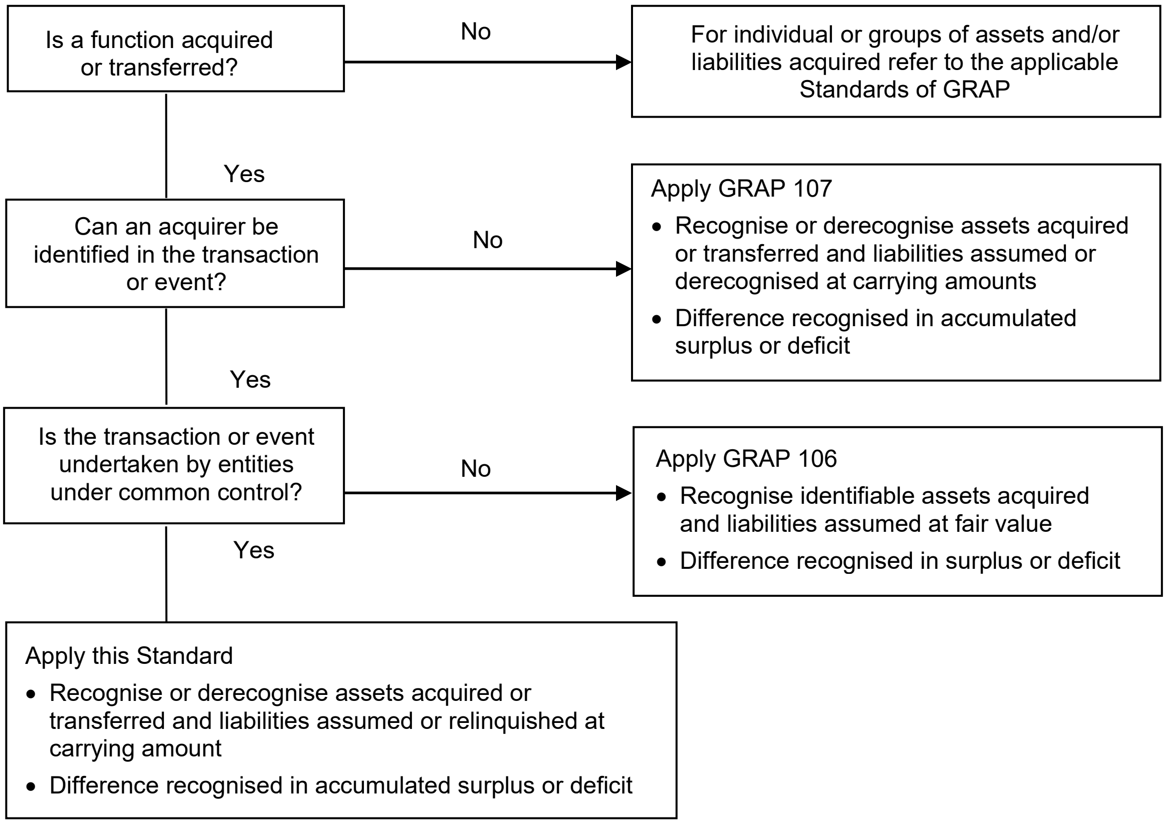
.03 This Standard does not apply to:

(a) transfers of individual or groups of assets and/or liabilities that do not meet the definition of a transfer of functions (see the applicable Standards of GRAP);

(b) a transfer of functions between entities not under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* (GRAP 106)); and

(c) a merger (see the Standard of GRAP on *Mergers* (GRAP 107)).

.04 Entities should consider the following diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger:



.05 Transfers of individual or groups of assets and/or liabilities are excluded from the scope of this Standard as these arrangements result in the acquisition or transfer of an asset or a group of assets and/or the assumption or transfer of a liability or a group of liabilities by an entity rather than the transfer of functions. For example, when a national roads agency takes control of a provincial road from various provincial departments from time to time, it is a transfer of individual assets.

.06 If no acquirer can be identified in the transaction or event, GRAP 107 should be applied. A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

.07 A transaction or event in which an acquirer can be identified, and that occurs between entities under common control falls within the scope of this Standard. A transfer of functions between entities under common control is a reorganisation and/or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions, and that control is not transitory.

.08 A transaction or event in which an acquirer can be identified and that are undertaken between entities not under common control should be accounted for in terms of GRAP 106.

Definitions

.09 ***The following terms are used in this Standard with the meanings specified:***

An <u>acquirer</u> is the entity that obtains control of the acquiree or transferor.

A <u>binding arrangement</u> is 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.

<u>Carrying amount of an asset or liability</u> is the amount at which an asset or liability is recognised in the statement of financial position.

<u>Control</u> is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

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

A <u>merger</u> is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

<u>Transfer date</u> is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

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

A <u>transferor</u> is the entity that relinquishes control of a function.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Binding arrangements

.09A Binding arrangements can be evidenced in several ways:

(a) a contract concluded between the parties;

(b) legislation, supporting regulations 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

(c) through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties.

Common control

.10 For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity. For example, a national health department is mandated through legislation to transfer its primary school nutrition programme to the education department. Because the education department is identified as the acquirer, and both departments are within the national sphere of government and within the same economic entity, the transfer of functions falls within the scope of this Standard.

.11 The extent of non-controlling interests in each of the entities that are involved in a transfer of functions before and after the transfer of functions is not relevant in determining whether the transaction or event involves entities under common control.

Function

.12 A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole entity. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:

(a) **Input:** Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, and the ability to obtain access to necessary materials or rights and employees.

(b) **Process:** Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)

(c) **Output:** The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

.13 However, to be capable of being conducted and managed for the purposes defined, a function requires two essential elements - inputs and processes applied to those inputs, which together may or will be used to create outputs. However, a function need not include all of the inputs or processes that will be used in operating that function if entities are capable of acquiring the function and continuing to produce outputs, for example, by integrating the function with their own inputs and processes.

.14 The nature of the elements of a function varies by the structure of an entity's operations (activities), including the entity's stage of development. Established functions often have many different types of inputs, processes and outputs, whereas new functions often have few inputs and processes and sometimes only a single output. Nearly all functions also have liabilities, but a function need not have liabilities.

.15 A function in the development stage might not have outputs. If not, other factors should be considered to determine whether the integrated set of activities meets the definition of a function. Those factors include, but are not limited to, whether the function:

(a) has begun planned principal activities;

(b) has employees, intellectual property and other inputs and processes that could be applied to those inputs;

(c) is pursuing a plan to produce outputs; or

(d) will be able to obtain access to economic benefits or service potential.

Not all of those factors need to be present in the development stage to meet the definition of a function.

Identifying the acquirer and transferor

.16 For each transfer of functions between entities under common control an acquirer and transferor shall be identified.

.17 The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement.

.18 In a transfer of functions, it is one of the parties to the transaction or event that should be identified as the acquirer. The binding arrangement governing the terms and conditions of a transfer of functions may identify which entity to the transaction or event is the transferor(s) and which entity is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which entity is the acquirer and which entity is the transferor. For example, if the Department of Health used to feed primary school children on a daily basis and it subsequently ceases to do so following a transfer of the programme to the Department of Education, this is a clear indication that the Department of Health is the transferor and the Department of Education is the acquirer. Additional evidence may be that an entity no longer receives funding from the fiscus to carry out certain activities.

.19 In a transfer of functions effected primarily by transferring cash or other assets (where applicable) or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets (where applicable) or incurs the liabilities.

.20 In a transfer of functions involving more than one entity, one of the entities that existed before the transaction or event may be identified as the acquirer on the basis of available evidence. For example, if the management of one of the entities involved in the transfer of functions dominates the selection of the management team in the newly establish entity, the dominant entity is usually the acquirer.

.21 Determining the acquirer shall include a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event should be accounted for in terms of GRAP 107.

Determining the transfer date

.22 The acquirer and the transferor shall identify the transfer date, which is the date on which the acquirer obtains control and the transferor loses control of that function.

.23 The binding arrangement governing the terms and conditions of a transfer of functions between entities under common control may specify that the transaction or event is effective from a specific date. The date on which the acquirer obtains control of the functions is the date on which the acquirer transfers the consideration (if any), acquires the assets and assumes the liabilities of the transferor as identified in the binding arrangement. However, the acquirer may obtain control on a date that is either earlier or later than the date on which the assets and liabilities are transferred by the transferor, or specified in the binding arrangement. For example, legislation passed in Parliament on 1 April 20X1 requires department A to take over the functions of department B. Both departments are within the same province. A directive is issued stating that the effective date of the transfer is 1 June 20X1. Department A however only obtains control of the assets and liabilities on 1 July 20X1 through a memorandum of understanding drawn up between the two departments. As department A can only use or otherwise benefit from the transfer of functions in pursuit of its objectives, or exclude or otherwise regulate the access of others to those benefits from 1 July 20X1, the transaction or event should be accounted for as from 1 July 20X1. The acquirer should consider all relevant facts and circumstances in identifying the transfer date.

.24 The fact that a binding arrangement exists creates an obligation for either one or both of the parties to act in order to fulfil the terms and conditions of the arrangement. This means that under the binding arrangement, the acquirer has an enforceable claim over the transferor either, to relinquish control of the entity, or over the assets and liabilities of the function to be transferred.

Assets acquired or transferred and liabilities assumed or relinquished

.25 ***The recognition of assets and liabilities by the acquirer, and the derecognition of assets and liabilities by the transferor is subject to the conditions specified in the paragraphs below.***

Criteria for the acquirer and transferor

.26 The assets and liabilities that qualify for recognition by the acquirer or derecognition by the transferor in a transfer of functions between entities under common control are normally governed by the terms and conditions of the binding arrangement.

.27 The assets acquired or transferred and the liabilities assumed or relinquished must be part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions. The acquirer and transferor shall apply the guidance in paragraphs .28 and .29 to determine which assets are acquired or transferred and which liabilities are assumed or relinquished as part of a transfer of functions and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable Standard of GRAP.

Determining what is part of the transfer of functions transaction

.28 ***The acquirer and the transferor may have a pre-existing relationship before or when negotiations for a transfer of functions began, or they may enter into a binding arrangement during the negotiations that is separate from a transfer of functions. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and transferor transferred in a transfer of functions. This Standard only applies to the consideration transferred, if any, and the assets acquired and liabilities assumed by the acquirer in a transfer of functions as governed by the terms and conditions of the binding arrangement. Similarly, the transferor shall apply this Standard to recognise only the consideration received (if any) and derecognise the assets transferred and liabilities relinquished in a transfer of functions as governed by the terms and conditions of the binding arrangement. Apart from those transactions identified in paragraphs .31 and .32, separate transactions shall be accounted for in accordance with the applicable Standards of GRAP.***

.29 The following are examples of separate transactions that are not part of a transfer of functions:

(a) a transaction that in effect settles pre-existing relationships between the acquirer and the transferor;

(b) a transaction that reimburses the transferor for paying the acquirer's acquisition-related costs; and

(c) contributions received from third parties as compensation for future services as a result of undertaking the transfer of functions.

.30 The acquirer and transferor should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of a transfer or function or whether the transaction is separate:

(a) **The reasons for the transaction** — Understanding the reasons for the transaction may provide insight into whether it is part of the consideration transferred, if any, and the assets acquired or transferred or liabilities assumed or relinquished. For example, amounts due by the transferor from a previous arrangement between the transferor as a service provider will not form part of the transfer of functions as the services provided were primarily for the benefit of the transferor rather for the benefit of the acquirer.

(b) **The timing of the transaction** — The timing of the transaction may also provide insight into whether it is part of the consideration, if any, for the transferor.

Effective settlement of a pre-existing relationship between the acquirer and transferor in a transfer of functions (application of paragraph .29(a))

.31 A pre-existing relationship between the acquirer and transferor may be contractual (for example, vendor and customer or supplier) or non-contractual (for example, plaintiff and defendant).

.32 If a transfer of functions in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

(a) for a pre-existing non-contractual relationship, fair value.

(b) for a pre-existing contractual relationship, the lesser of (i) and (ii):

(i) The amount by which the binding arrangement is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable contract is a contract that is unfavourable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.)

(ii) The amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the contract is unfavourable.

If (ii) is less than (i), the difference is included as part of a transfer of functions accounting. The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

Criteria for the acquirer

.33 The assets acquired and liabilities assumed that qualify for recognition as set out in the binding arrangement must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements*[2] and the recognition criteria in the applicable Standards of GRAP at the transfer date.

.34 Costs that the acquirer expects, but which the acquirer is not obliged to incur in the future to effect its plan to exit an activity of the transferor or to terminate the employment of, or relocate the transferor's employees, shall not be accounted for as part of the liabilities at the transfer date. The acquirer shall not recognise those costs as part of a transfer of functions. Instead, the acquirer recognises these costs in its financial statements after the transfer has occurred, in accordance with the applicable Standards of GRAP.

Accounting by the acquirer

Initial recognition and measurement

.35 As of the transfer date, the acquirer shall recognise the purchase consideration paid (if any) to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed shall be measured at their carrying amounts.

.36 The carrying amount of an asset acquired, or a liability assumed is the amount at which the asset or liability is recognised by the transferor in its statement of financial position as of the transfer date.

.37 If, on the transfer date, the transferor did not apply Standards of GRAP, the acquirer should adjust the basis of accounting used for the assets acquired and liabilities assumed to align it to Standards of GRAP prior to the transfer.

.38 The consideration paid by the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the acquirer shall de-recognise such assets on the transfer date at their carrying amounts, i.e. the amount at which the asset is recognised by the acquirer in its statement of financial position as of the transfer date.

.39 The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid (if any) to the transferor and adjustments required to the basis of accounting as described in paragraph .37, shall be recognised in accumulated surplus or deficit.

Measurement period

[2] 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*.

.40 ***If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the transfer date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the transfer date.***

.41 The measurement period is the period after the transfer date during which the acquirer may adjust the provisional amounts recognised for a transfer of functions. The measurement period provides the acquirer with reasonable time to obtain the information necessary to identify and measure the following as of the transfer date in accordance with the requirements of this Standard:

(a) the assets acquired and liabilities assumed;

(b) the consideration transferred, if any, for the transferor; and

(c) the resulting excess of the purchase consideration paid (if any) over the assets acquired and liabilities assumed.

.42 The acquirer shall consider all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the transfer date. Relevant factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the transfer date is more likely to reflect circumstances that existed at the transfer date than is information obtained several months later.

.43 The acquirer recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid (if any) over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the transferor's facilities, part or all of which are covered by the transferor's liability insurance policy. If the acquirer obtains new information during the measurement period about the transfer date carrying amounts of that liability, the adjustment to the excess resulting from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to the previously recognised excess in accumulated surplus of deficit resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

.44 During the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

.45 After the measurement period ends, the acquirer shall revise the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors*.

Acquisition-related costs

.46 Acquisition-related costs are costs that the acquirer incurs to affect the transfer of functions. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, and costs of registering and issuing debt and equity securities (if applicable). The acquirer shall account for acquisition-related costs as expenses in the period in which the costs are incurred and the services are received, with the exception of the costs incurred to issue debt or equity securities (if applicable). Such costs shall be recognised in accordance with the Standard of GRAP on *Financial Instruments* (GRAP 104).

Subsequent measurement

.47 The acquirer shall subsequently measure any assets acquired and any liabilities assumed in a transfer of functions in accordance with the applicable Standards of GRAP.

.48 At the transfer date, the acquirer shall classify or designate the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date.

.49 In some situations, the Standards of GRAP provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the relevant conditions as they exist at the transfer date, is the categorisation of particular financial assets and liabilities at fair value or amortised cost in accordance with GRAP 104.

.50 An exception to the requirement in paragraph .48 to the classification or designation of the assets acquired and liabilities assumed on the transfer date, is that the acquirer shall classify the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date):

(a) classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on *Leases*; and

(b) classification of a contract as an insurance contract in accordance with the IFRS Accounting Standard(s) on insurance.

Accounting by the transferor

Derecognition of assets transferred and liabilities relinquished

.51 As of the transfer date, the transferor shall derecognise from its financial statements, all the assets transferred and liabilities relinquished in a transfer of functions at their carrying amounts.

.52 Until the transfer date, the transferor shall continue to measure these assets and liabilities in accordance with applicable Standards of GRAP.

.53 The consideration received from the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration received is in the form of other assets, the transferor shall measure such assets at their fair value on the transfer date in accordance with the applicable Standard of GRAP.

.54 The difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received (if any) from the acquirer shall be recognised in accumulated surplus or deficit.

Disclosure

.55 The acquirer and transferor shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a transfer of functions that occurs either:

(a) during the current reporting period; or

(b) after the end of the reporting period but before the financial statements are authorised for issue.

.56 The acquirer and transferor shall disclose the following for a transfer of functions that occurred during the reporting period:

(a) the accounting policy adopted for a transfer of functions that occurred during the reporting period;

(b) the name of the entities involved in the transfer of functions, a brief description of the functions transferred and the reason for undertaking

the transaction or event; and

(c) the transfer date.

.57 For transactions that are recognised separately from the transfer of functions in accordance with paragraph .28:

(a) a description of each transaction;

(b) how the transaction was accounted for;

(c) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and

(d) if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

Acquirer

.58 The acquirer shall disclose the following for each transfer of functions that occurred during the reporting period:

(a) for each affected line item in the financial statements, the value of the assets acquired and liabilities assumed in a transfer of functions;

(b) the difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid (if any) to the transferor and any adjustments required to the basis of accounting as described in paragraph .37, as a separate line item in net assets;

(c) additional contingent liabilities and contingent assets disclosed attributable to a transfer of functions; and

(d) revenue and expenditure attributable to a transfer of functions subsequent to its transfer.

Financial statements of subsequent periods need not repeat these disclosures.

.59 If the specific disclosures required by this and other Standards of GRAP do not meet the objectives set out in paragraph .58, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

.60 The acquirer shall disclose the following information for each material transfer of functions or in the aggregate for individually immaterial transfer of functions that are material collectively if the initial accounting for a transfer of functions is incomplete (see paragraph .40) for particular assets, liabilities, or any consideration and the amounts recognised in the financial statements for the transfer of functions:

(a) the reasons why the initial accounting for the transfer of functions is incomplete;

(b) the assets, liabilities, or any consideration for which the initial accounting

is incomplete; and

(c) the nature and the amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph .44.

Transferor

.61 ***The transferor shall disclose the following, in addition to the disclosure requirements in the Standard of GRAP on Discontinued Operations (GRAP 100), for each transfer of functions that occurred during the reporting period:***

(a) for each affected line item in the financial statements, the carrying amount of the assets transferred and the liabilities relinquished;

(b) the difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received (if any) from the acquirer, as a separate line item in net assets.

Financial statements of subsequent periods need not repeat these disclosures.

Transitional provisions

Initial adoption of the Standards of GRAP

.62 ***The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard shall be read in conjunction with each applicable directive.***

Amendments to Standards of GRAP

.63 ***Paragraphs .37, .39 and .58 were amended to accommodate implementation requirements that were approved by the Board during February 2013. An entity shall apply these amendments prospectively to a transaction or event that involves a transfer of functions when the transfer date is on or after the initial adoption of this Standard.***

.64 ***Paragraphs .66 and .67 were amended to allow entities to continue applying the relief provided for the measurement of assets and liabilities acquired in a transfer of functions between entities under common control before the effective date of this Standard. These amendments are effective from 1 April 2015.***

Effective date

Initial adoption of the Standards of GRAP

.65 ***An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of***

the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA).

.66 An entity is not required to apply the measurement period in paragraphs .40 to .45 if it has entered into a transfer of functions between entities under common control before the effective date of this Standard.

.67 The guidance on the measurement period as included in paragraphs .40 to .45 will only become effective once the Directives on *Transitional Provisions for Public Entities, Trading Entities, Municipal Entities, Public Technical and Vocational Education and Training Colleges, and Constitutional Institutions (*Directive 2), *Transitional Provisions for High Capacity Municipalities* (Directive 3) and *Transitional Provisions for Medium and Low Capacity Municipalities and Trading Entities* (Directive 4) that prescribe the transitional provisions for entities on the initial adoption of the Standards of GRAP are withdrawn. Directives 2 to 4 permitted a three year measurement period on the initial adoption of the Standards. An entity that has entered into a transfer of functions between entities under common control prior to the effective date of this Standard, may continue to apply the three year measurement period.

Entities already applying Standards of GRAP

.67A Paragraphs .09 and .17 were amended and paragraph .09A was added by the Standard of GRAP on Consolidated Financial Statements issued March 2017. An entity shall apply these amendments retrospectively for annual financial periods beginning on or after 1 April 2020. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the accounting for transfer of functions between entities under common control. This basis for conclusions accompanies, but is not part of, this Standard.

BC1. This basis for conclusions summarises the Board's considerations in developing this Standard. In forming its views, the Board considered the views expressed and the comment received from stakeholders that responded to the Invitation to Comment (ITC) on a Discussion Paper on *Transfer of Functions* (Discussion Paper 4) issued in November 2007. The Board further considered the responses to an ITC on an Exposure Draft of this Standard (issued May 2010).

BC2. In developing this Standard, the Board considered the principles in the Standards of GRAP on *Revenue from Exchange Transactions* (GRAP 9), *Revenue from Non-exchange Transactions (Taxes and Transfers)*, GRAP 100 and the IFRS Accounting Standard on *Business Combinations* (IFRS 3) (2008) issued by the International Accounting Standards Board.

BC3. A project on the accounting for entity combinations arising from exchange transactions is included on the International Public Sector Accounting Standards Board's (IPSASB) work programme. The Board will continue to monitor this project and, at an appropriate time, consider the implications of the IPSASB project on this Standard.

Background

BC4. In Discussion Paper 4, the Board proposed that a Standard of GRAP equivalent of IFRS 3 dealing with entity combinations should be issued and that entity combinations arising from exchange transactions undertaken between entities not under common control also be included in the scope of the project. It was also proposed that a Standard should be developed to deal with transfer of functions undertaken between entities that are:

- under common control, whether by way of an exchange and a non-exchange transaction; and
- not under common control by way of a non-exchange transaction.

BC5. Following proposals from respondents to Discussion Paper 4 to include a transaction or event undertaken between entities not under common control by way of a non-exchange transaction in the scope of the IFRS 3 equivalent Standard of GRAP, the Board agreed to the development of the following Standards:

- GRAP 106 to include in its scope transactions undertaken between entities not under common control by way of an exchange and non-exchange transaction; and

- this Standard to include in its scope transactions undertaken between entities under common control by way of an exchange and non-exchange transaction.

BC6. Some respondents to the Exposure Draft requested that the same approach should be applied in accounting for all transactions or events that involve a transfer of functions within government. However, the Board concluded that in a transfer of functions undertaken between entities under common control there will be no effect on the consolidated financial statements, whereas a transfer of functions undertaken between entities not under common will have an effect on the consolidated financial statements. The Board reconfirmed its view that two separate Standards should be develop for transactions or events undertaken between entities under common control, and those undertaken between entities not under common control.

BC7. The Board also noted that the initial recognition and measurement principles of transfers of functions undertaken between entities not under common control by way of a non-exchange transaction, is similar to those for business combinations currently within the scope of IFRS 3.

BC8. Discussion Paper 4 also proposed accounting principles for transactions and events where one entity is not deemed to gain control over another entity. As these arrangements do not involve "control", respondents supported the development of a separate Standard of GRAP on mergers.

Common control

BC9. The government of the Republic of South Africa is divided into three different spheres, i.e. national, provincial and local, each given independence from the decision-making of another sphere. Control for accounting purposes is defined in the Standard of GRAP on *Consolidated and Separate Financial Statements* as: "The power to govern the financing and operating policies of an entity so as to obtain benefit from its activities". The key consideration in determining whether or not control exists for accounting purposes is that an entity must be able to demonstrate both that it has certain decision-making capabilities over another, and that it benefits from the activities of that entity.

BC10. The national government is responsible for setting the overall policies and objectives for all three spheres of government in line with the prescripts of the Constitution of the Republic of South Africa, 1996. Each sphere of government is in turn responsible for executing its assigned functions in line with the overall policies and objectives set by national government. In effect, national government benefits from the activities undertaken by the various spheres of government, as these contribute to it achieving its overall policies and objectives. The fact that national government provides funding for the operations and may regulate the operating environment does not necessarily imply control for financial reporting purposes.

BC11. In South Africa, this is supported by the requirements in section 8 and 19 of the PFMA to prepare separate consolidated financial statements on a national level and for each province. Similarly, section 122 of the Municipal Finance Management Act, Act No. 56 of 2003, requires the preparation of consolidated financial statements for each municipality.

BC12. In rare circumstances, for example, through national legislation, an entity in one sphere of government may intervene in the administration of an entity in another sphere of government, if that other entity cannot and does not fulfil its executive obligation. For example, an entity in the national sphere of government may intervene in the administration of a municipality if that municipality is unable to fulfil its constitutional or legislative mandate. These interventions mean that executive decisions are taken on behalf of the other entity until it is able to fulfil its legislative obligations. Such interventions are usually only temporary in nature. However, during this period, circumstances must be evaluated to establish whether or not the intervention meets the definition of control.

Scope

Transfer of individual assets or groups of assets and/or liabilities (paragraphs .03(a) and .05)

BC13. Arrangements that require one entity to take over an asset or a group or assets, or a liability or a group of liabilities of another entity are outside the scope of this Standard, as these arrangements are merely the acquisition of an asset or a group of assets and/or the assumption of a liability or a group of liabilities.

Mergers (paragraphs .03(c) and .06)

BC14. A merger involves the establishment of a new combined entity formed in which none of the former entities obtains control over any other and no acquirer can be identified. Determining whether an acquirer can be identified includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. In a merger, the combining entities come together for the mutual sharing of risks and benefits of the combined entity. Mergers are not included in the scope of this Standard. GRAP 107 should be applied in accounting for such arrangements.

A transaction or event undertaken between entities under common control (paragraphs .02 and .07)

BC15. A transaction or event in which an acquirer can be identified and that results in a transfer of functions between entities in the same sphere of government, and/or between entities that are part of the same economic entity, will fall within the scope of this Standard as the transaction or event is undertaken between entities under common control. The entities involved in the transfer of functions are ultimately controlled by the same entity before and after the transfer of functions. If the function is transferred to a newly established entity that did not exist prior to the transfer date, the transfer will also fall within the scope of this Standard if the newly established entity is identified as the acquirer and the acquirer and transferor forms part of the same economic entity subsequent to the transfer of functions.

A transaction or event undertaken between entities not under common control (paragraphs .03(b) and .08)

BC16. A transaction or event in which an acquirer can be identified and that results in a transfer of functions between entities in different spheres of government, and/or between entities that are not part of the same economic entity do not fall within the scope of this Standard as the transaction or event is undertaken between entities not under common control. The entities involved in the transfer of functions are not ultimately controlled by the same entity before and after the transfer of functions. Entities should apply GRAP 106 in accounting for such transfer of functions.

Initial recognition and measurement

BC17. As limited guidance exists in the public sector on the accounting for transfer of functions undertaken between entities under common control, the Board considered the appropriateness of guidance on the acquisition and disposal of assets as included in other Standards of GRAP in developing principles for the recognition and measurement of the assets acquired or transferred and liabilities assumed or relinquished in a transfer of functions.

BC18. In most instances, the guidance provided by other standard setters, either for the acquisition of an entity or part of an entity, or for the acquisition of assets acquired requires the use of fair value as a measurement basis.

BC19. Discussion Paper 4 concluded that carrying amounts should be used to account for a transaction or event undertaken between entities under common control. The proposal to use carrying amounts was supported by the following:

- If carrying amounts are used by both the acquirer and transferor, no gain or loss is recognised by either party as opposed to remeasuring those assets and liabilities to fair value.
- Gains and losses are not recognised as the entity that ultimately controls the acquirer and transferor are merely transacting with itself.
- No costs need to be incurred to revaluate any assets and liabilities.

Respondents to Discussion Paper 4 concurred with the Board's view.

BC20. Respondents to the Exposure Draft supported this proposal, and this Standard requires that the acquirer should recognise the assets acquired and the liabilities assumed, on the transfer date, at the carrying amount at which the transferor recognised such assets and liabilities in its financial statements as of the transfer date.

BC21. During the comment period, some respondents raised concerns about the fact that the transferor's carrying amounts could be incomplete on the transfer date due to the values being inaccurate or because the transferor is applying a different basis of accounting. A requirement has been included in this Standard to clarify that if the transferor is not applying the accrual basis of accounting prior to the transfer of functions, it should change its basis of accounting to that of an accrual basis of accounting prior to the transfer.

Measurement period

BC22. This Standard provides the acquirer with a reasonable period after the transfer date, a measurement period, during which to obtain the information necessary to identity and measure the assets acquired and liabilities assumed in a transfer of functions. If sufficient information is not available at the transfer date to measure the assets and liabilities, the acquirer determines and recognises provisional amounts until the necessary information becomes available.

BC23. A constraint is placed on the period for which it is deemed reasonable to seek information necessary to complete the accounting for a transfer of functions. The measurement period ends as soon as the acquirer receives the necessary information about facts and circumstances that existed as of the transfer date or learns that the information is not obtainable. The Board agreed to a measurement period of two years.

BC24. The Board also concluded that the acquirer should provide the users of financial statements with relevant information about the status of items that have been measured using provisional amounts. A disclosure requirement has been included to provide such information.

Effective settlement of a pre-existing relationship between the acquirer and transferor in a transfer of functions

BC25. The settlement of a pre-existing relationship between the acquirer and the transferor is not part of the transfer of functions as these transactions were entered into, by, or on behalf of the acquirer or primarily for the benefit of the acquirer rather than primarily for the benefit of the transferor before a transfer of functions. Such transactions should be accounted for in terms so the applicable Standards of GRAP.

BC26. As these transactions were entered into in at arm's length, the acquirer should measure the gain or loss when settling the pre-existing relationship at its fair value.

Excess of the purchase consideration paid by the acquirer over the net assets acquired

BC27. Discussion Paper 4 proposed that any excess of the purchase consideration paid by the acquirer over the net asset value of the assets acquired or transferred and liabilities assumed or relinquished should be treated as a purchase premium and recognised in surplus or deficit. Discussion Paper 4 further proposed that the transferor should recognise such excess in accordance with GRAP 9, and any excess of the carrying amounts of the assets transferred and liabilities relinquished over the purchase consideration paid by the acquirer, should be recognised by the transferor in surplus or deficit.

BC28. The Board reconsidered its initial view following comment from respondents to Discussion Paper 4. It was agreed that any excess of the purchase consideration paid by the acquirer (if any) over the net asset value of the assets acquired or transferred and the liabilities assumed or relinquished should be recognised by both the acquirer and transferor in accumulated surplus and deficit, as the transaction between the acquirer and transferor represents a transaction with owners that occurred between entities under common control. The acquirer is thus entitled to the transferor's portion of the accumulated surplus or deficit that relates to the assets transferred and liabilities relinquished.

BC29. Respondents to the Exposure Draft supported this proposal, and this Standard requires that the acquirer and transferor should recognise the difference between the assets acquired or transferred, the liabilities assumed or relinquished and the consideration paid or received (if any) in accumulated surplus or deficit.