ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

STATUTORY RECEIVABLES

(GRAP 108)

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Contents

Standard of Generally Recognised Accounting Practice

Statutory Receivables

Introduction

This pronouncement is set out in paragraphs .01 to .43. 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 prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

Scope

.02** **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for statutory receivables.

.03** **This Standard does not apply to the following receivables, except if indicated otherwise:

(a) Receivables and any other financial assets that arise from contractual arrangements to which the Standard of GRAP on Financial Instruments (GRAP 104) applies.

(b) Receivables to which the Standard of GRAP on Leases applies.

(c) Insurance contracts as defined in the IFRS Accounting Standard(s) on insurance.

.04** **Statutory receivables can arise from both exchange and non-exchange transactions. Where these receivables arise from exchange and non-exchange revenue transactions, an entity shall apply the recognition and initial measurement requirements of the Standards of GRAP on Revenue from Exchange Transactions (GRAP 9) and Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23), as well as the requirements of this Standard.

Definitions (see Appendix A paragraphs AG2. to AG7.)

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

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

The <u>cost method</u> (for purposes of this Standard) is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

<u>Nominal interest rate</u> is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

<u>Statutory receivables</u> 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.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

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

Recognition (see Appendix A paragraph AG8.)

.06 An entity shall recognise statutory receivables as follows:

(a) if the transaction is an exchange transaction, using GRAP 9;

(b) if the transaction is a non-exchange transaction, using GRAP 23; or

(c) if the transaction is not within the scope of the Standards of GRAP listed in (a) or (b) or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Derecognition

.07 An entity shall derecognise a statutory receivable, or a part thereof, when:

(a) the rights to the cash flows from the receivable are settled, expire or are waived;

(b) the entity transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

(c) the entity, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity shall:

(i) derecognise the receivable; and

(ii) recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. An entity shall consider whether any newly created rights and obligations are within the scope of GRAP 104 or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts

recognised, in accordance with this paragraph shall be recognised in surplus or deficit in the period of the transfer.

.08 Most often, statutory receivables are derecognised when the amounts owing are paid by the debtor. An entity may have the ability to waive its rights to receive cash flows from a statutory receivable in accordance with legislation, regulation or a specific policy. For example, an entity might agree to waive the collection of certain amounts owing due to the introduction of a new policy. The expiration of rights related to statutory receivables would typically be governed by legislation, regulation or an equivalent.

.09 An entity may have the ability to sell or transfer all or part of its statutory receivables to a third party, for example, the securitisation of debtors in a financing transaction. Where such transactions arise, an entity considers whether it has transferred or retained substantially all the risks and rewards associated with its receivables. If it is not clear from an assessment of only the risks and rewards, an entity considers whether or not it retains control over the receivable.

Measurement

Initial measurement (see Appendix A paragraphs AG9. to AG13.)

.10 An entity shall initially measure statutory receivables at their transaction amount. The statutory receivables in paragraph .06 shall be measured initially in accordance with the applicable Standard of GRAP. The amount determined on initial measurement in accordance with another Standard of GRAP is the same as the transaction amount described in this Standard.

Subsequent measurement

.11 An entity shall measure statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

(a) interest or other charges that may have accrued on the receivable (where applicable);

(b) impairment losses; and

(c) amounts derecognised.

Accrued interest (see Appendix A paragraphs AG14. to AG15.)

.12 An entity may be required or entitled to levy interest on any overdue or unpaid amounts in terms of legislation, supporting regulations, by-laws or similar means. In most instances, the interest rate, as well as the basis for levying such interest, e.g. simple or compound interest and, the events that give rise to the levying of interest, is often specified in legislation or in the supporting regulations. Where interest is levied, this affects the subsequent measurement of statutory receivables.

.13 ***Where an entity levies interest on the outstanding balance of statutory receivables, it shall adjust the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.***

.14 ***Interest on statutory receivables shall be recognised as revenue in accordance with GRAP 9 or GRAP 23, whichever is applicable.***

Other charges

.15 An entity may be required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts. Common examples include penalties and fines. Where such charges are levied, an entity applies the principles in paragraphs .13 and .14, as well as GRAP 9 or GRAP 23.

Impairment losses (see Appendix A paragraphs AG16. to AG21.)

.16 Although statutory receivables arise through legislation or similar means and may allow entities certain remedies in the event of non-payment, the likelihood of collecting the amounts owing may diminish over time. An entity shall therefore assess the appropriateness of the carrying amount of statutory receivables recognised at every reporting date.

.17 ***An entity shall assess at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired. If any such indication exists, the entity shall apply paragraphs .22 to .29.***

.18 In assessing whether statutory receivables are impaired, an entity assesses whether there are any indications that:

(a) individually significant receivables are impaired; and/or

(b) groups of similar, individually insignificant, receivables are impaired.

If there is no indication that an individually significant statutory receivable is impaired, it is included in a group of similar receivables and collectively assessed for impairment. If an impairment loss is, or continues to be, recognised for an individually significant receivable, then those receivables are not included in a collective assessment.

.19 Statutory receivables shall be grouped together and assessed collectively for impairment when they exhibit similar characteristics which provide information about the possible collectability of the amounts owing to the entity. For example, it may be appropriate to group statutory receivables based on the transaction type, e.g. taxes, fines or grants as there may be specific remedies for non-payment available in legislation for these types of transactions. Similarly, it might also be appropriate to group statutory receivables together based on the type of debtor, e.g. commercial entities and individuals as this might provide information about management's intention and ability to collect amounts due.

.20 Impairment losses assessed and/or recognised on a group basis represent an interim step pending the identification of impairment losses on individual statutory receivables. As soon as information is available that specifically identifies losses on individually impaired statutory receivables in a group, those assets are removed from the group.

.21 In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, an entity shall consider, as a minimum, the following indicators:

(a) Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.

(b) It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.

(c) A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).

(d) Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

.22 If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, an entity shall measure the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, shall be reduced, either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.

.23 In estimating the future cash flows, an entity considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, an entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

.24 In determining whether a statutory receivable, or group of statutory receivables, is impaired, management estimates the cash flows that it expects to collect based on facts and circumstances at the reporting date. These estimates include any cash flows that may be received from any collateral or encumbrances held over property, less any costs incurred to obtain, seize, sell or otherwise liquidate the underlying assets. The cash flows from collateral or encumbrances held are not included in the estimated cash flows when management does not intend to call up the collateral held. For example, an entity may have the ability to seize and sell fixed property to recover any amounts owing, but may choose not to take such action if it is likely to cause economic hardship.

.25 The future cash flows of a group of statutory receivables that are collectively evaluated for impairment can be estimated using historical experience for receivables with similar characteristics. Entities that have no entity-specific historical experience or insufficient experience, can use peer group experience (when available) for comparable groups of statutory receivables. Historical experience may need to be adjusted to reflect the effects of current conditions that did not affect the period on which the historical experience is based and, to remove the effects of conditions in the historical period that do not exist currently. Where historical experience is used, the methodology and assumptions used to estimate future cash flows shall be reviewed regularly to reduce any differences between estimated and actual impairment losses.

.26 The process for estimating the amount of an impairment loss may result either in a single amount or in a range of possible amounts. In the latter case, the entity recognises an impairment loss equal to the best estimate within the range (the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19) discusses principles in relation to a “range of outcomes”), taking into account all relevant information available before the financial statements are issued about conditions existing at the end of the reporting period.

.27 An impairment loss recognised in prior periods for a statutory receivable shall be revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows in accordance with paragraph .23.

.28 When the estimates used to determine an impairment loss in a prior period change, either because of changes in the amount that is collectible (such as an improvement in a debtor’s financial position) or when it will be collected (such as an improvement in the expected settlement period), the amount of the impairment loss previously recognised is adjusted. Any amount previously recognised is also revised to reflect the passage of time where the estimated cash flows are discounted.

.29 Any previously recognised impairment loss shall be adjusted either directly or by adjusting the allowance account. The adjustment shall not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment shall be recognised in surplus or deficit.

Presentation and disclosure

General

.30 An entity shall apply the requirements of this Standard, as well as those in other Standards of GRAP, that are applicable to the presentation and disclosure of statutory receivables.

.31 An entity applies the presentation and disclosure requirements of this Standard, as well as those in other Standards of GRAP, including the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1), GRAP 9, and GRAP 23 in presenting and disclosing information about statutory receivables.

Disclosure

.32 An entity shall disclose information that enables users of its financial statements to evaluate the significance of statutory receivables on its financial position and performance. An entity shall provide sufficient information to permit reconciliation of information presented in the notes to the line items presented in the financial statements.

.33 The disclosures in paragraphs .34 to .41 outline the minimum disclosures that are likely to satisfy users' needs. Additional information may however be needed. In providing the disclosures in paragraphs .34 to .41, the entity shall consider whether it is appropriate to provide the disclosures based on the nature or type of transaction. For example, when an entity has taxes, fines and appropriations, it may be appropriate to separately disclose information about these types of transactions.

.34 An entity shall disclose a description of:

(a) how the transaction arises, with specific reference to applicable legislation, supporting regulations, or similar means;

(b) how the transaction amount is determined;

(c) interest or other charges levied charged (where applicable), including the basis and rate used;

(d) the basis used to assess and test whether a statutory receivable is impaired, including how receivables are grouped and assessed for collective impairment; and

(e) the discount rate applied to the estimated future cash flows, where applicable, and how it was determined.

.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.

.36 An entity shall disclose the amount of any significant impairment losses separately from any revisions to those impairment losses recognised on

statutory receivables in the period, either in the statement of financial performance or in the notes to the financial statements.

.37 ***Where an entity records impairment losses in an allowance account rather than directly reducing the carrying amounts of statutory receivables, it shall disclose a reconciliation of changes in that account during the period in the notes to the financial statements.***

.38 ***For significant impairment losses recognised or reversed, an entity shall disclose the main events and circumstances that led to the recognition or reversal of the impairment loss. An entity shall provide this information in aggregate for other losses or reversals.***

.39 ***An entity shall disclose information about the key indicators and assumptions used to assess and calculate whether statutory receivables were impaired during the reporting period.***

.40 ***When an entity holds collateral, which may include financial assets, non-financial assets and other forms of collateral such as guarantees or encumbrances over assets, it shall:***

- ***(a) Recognise such assets if they meet the recognition criteria in other Standards of GRAP.***
- ***(b) Disclose the nature and amounts of collateral recognised (where the criteria in (a) have been met) or held, in the notes to the financial statements.***
- ***(c) For collateral other than cash, disclose its policies in relation to executing its rights over assets held as collateral and, its policies for disposing of or using such assets in the notes to the financial statements.***

.41 ***An entity shall disclose information about the collectability of statutory receivables recognised at the reporting date as follows:***

- ***(a) An analysis of statutory receivables that are past due at the reporting, and which have been impaired.***
- ***(b) An analysis of statutory receivables that are past due that have not been impaired.***
- ***(c) Factors the entity considered in assessing impairment losses in (a) and (b).***

Transitional provisions

.42 ***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 should be read in conjunction with each applicable directive(s).***

Effective date

.43 ***This Standard becomes effective 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).***

Appendix A - Application guidance

This appendix is an integral part of this Standard.

AG1. This application guidance explains the application of selected principles in this Standard to statutory receivables.

Definitions (see paragraph .05)

Statutory receivables

AG2. Receivables in the public sector can arise from contracts or legislative requirements. Only those receivables that arise from legislation or an equivalent means, such as regulations, by-laws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions, are considered "statutory receivables" and are within the scope of this Standard.

AG3. The public sector is a highly regulated environment with a number of overarching Acts or regulations governing the actions or behaviours of entities. For example, the PFMA and the Municipal Finance Management Act, Act No. 56 of 2003 (MFMA) provide prescripts for the management of entities' finances. Even if an entity's operations are regulated by legislation, it does not mean that all transactions it enters into arise from statute. Similarly, an entity may be required to render certain services or undertake certain activities in terms of the Constitution of the Republic of South Africa, 1996. This does not mean that the rendering these services or undertaking these activities are statutory transactions. Transactions are only considered statutory where they are undertaken because of specific legislative requirements requiring or permitting an entity to enter into those transactions.

AG4. The following example illustrates the application of paragraph AG3. The financial affairs of municipalities are governed by the MFMA. This legislation requires or allows them to undertake certain activities to fulfil their mandates. This in turn requires them to undertake certain transactions, such as the procurement of goods and services. Even though the procurement of goods and services is governed by prescripts in legislation, the individual transactions with suppliers are most likely to be contractual in nature as the municipality can determine who to contract with, and on what terms and conditions. On the other hand, specific legislation may require municipalities to undertake certain transactions, such as to levy property taxes in accordance with the Municipal Property Rates Act, Act No. 6 of 2004 and their by-laws. As these transactions are undertaken specifically in terms of legislation which outlines who should be taxed and, at what rates and amounts, these transactions are statutory in nature.

AG5. Receivables that arise from contractual arrangements differ from statutory receivables because they are entered into voluntarily by entities and are not entered into as a result of specific legislative requirements (refer to GRAP 104 Appendix A paragraphs AG28. to AG32.). Contractual receivables, to the extent that they otherwise meet the definition of a financial asset, are within the scope of GRAP 104. In assessing whether an arrangement is statutory or contractual in nature, an entity considers only the legal form of the arrangement. If the arrangement is governed by specific legislation rather than a contract concluded between the relevant parties, then it is statutory in nature.

AG6. The definition of "statutory receivables" in paragraph .05 refers to receivables that "(b) require settlement by another entity in cash or another financial asset". "Entity" in this context includes an individual, trust, juristic person or other legal entity.

Transaction amount

AG7. Transaction amount is defined in this Standard specifically for statutory receivables. The transaction amount of a statutory receivable is determined by reference to the specific tariffs, fees, scales or calculation basis specified in legislation or similar means. For example, the transaction amount of fees due to the Companies and Intellectual Property Commission for registered companies is calculated by applying the rates specified in legislation to the turnover of the company. Additional examples are discussed in paragraph AG11. As an entity only considers the requirements of the applicable legislative framework in determining the transaction amount, any time value of money or financing elements are excluded from the initial measurement of statutory receivables.

Recognition of statutory receivables (see paragraph .06)

AG8. With the exception of paragraph .06(c), the timing of when a statutory receivable is recognised, is not specified in this Standard. An entity applies either GRAP 9 or GRAP 23. When neither of these Standards are applicable, an entity considers whether the receivable meets the definition of an asset and whether the recognition criteria in paragraph .06(c) are met.

Measurement of statutory receivables (see paragraphs .10 to .29)

General

AG9. Statutory receivables are measured initially at their transaction amount, using the prescripts of legislation, regulations or an equivalent. The transaction amount is adjusted in subsequent reporting periods to accrue for any interest or other charges that an entity levies (if required or permitted to do so in legislation or similar means) and, to account for any impairment losses or any amounts derecognised, for example, the settlement of amounts owing by a debtor. When the initial measurement of a statutory receivable is outlined in another Standard of GRAP, the requirements of that Standard, as well as the requirements of this Standard, are applied in determining the transaction amount.

Statutory receivables in the scope of the Standards of GRAP on exchange and non-exchange revenue

AG10. The most common examples of statutory receivables include taxes, fines, penalties, appropriations, grants and fees charged in terms of legislation. These transactions can be either exchange or non-exchange in nature. Entities should evaluate the terms and conditions of the transaction and apply either GRAP 9 or GRAP 23 for the initial recognition and initial measurement of these transactions. The requirements of this Standard are however also considered for the initial measurement of statutory receivables.

AG11. Both GRAP 9 and GRAP 23 require initial measurement at fair value. In determining the fair value of a statutory receivable, an entity applies the requirements of that Standard, including any estimation or measurement methods identified for specific transactions. The fair value determined in accordance with those Standards of GRAP is the transaction amount for purposes of this Standard. An entity also applies the requirements in this Standard insofar as they relate to determining the transaction amount which is based on legislation, supporting regulations or similar means. As the measurement of statutory receivables is based on the applicable legislative framework, initial measurement of the transaction does not include any other elements such as the consideration of the time value of money or financing.

Initial measurement (see paragraph .10)

Initial measurement of taxes, fines, penalties, appropriations and grants

AG12. Taxes, fines, penalties, appropriations and grants arise from non-exchange revenue transactions. As a result, both GRAP 23 and this Standard are applied in initially measuring these transactions. The fair value or transaction amount of taxes, fines, penalties, appropriations and grants is determined using the amount specified in, or calculated or charged in accordance with, legislation or similar means, and applying any estimation or measurement methods specific to these types of transactions. The following examples illustrate how transaction amount may be determined for the transactions outlined above using the relevant legislation or equivalent:

- Tax receivables: Identify the income, activity or goods and services subject to tax, and apply the applicable tax rates.
- Fines and penalties: Identify the offences and breaches for which fines and penalties can be levied, and apply the amounts specified in legislation. Depending on the nature of the fine or penalty, a value or scale of values may be stipulated in legislation, which may or may not allow for an appeal or dispute process. Alternatively, where no fine or penalty values are specified in legislation, a regulator, court, commission or other body may be responsible for imposing the fine or penalty.
- Appropriations and grants: Identify the values stipulated in the Division of Revenue Act (DORA) or published budgets (where they have a status similar to that of the DORA).

Initial measurement of fees charged in terms of legislation

AG13. Fees charged in terms of legislation can result from either exchange or non-exchange transactions. When the receivable arises from a non-exchange revenue transaction, paragraph AG11. applies. Where the receivable arises from an exchange revenue transaction, an entity applies GRAP 9 to the initial recognition and initial measurement, as well as the requirements of this Standard. Therefore, an entity would determine the fair value or transaction amount of fees charged in terms of legislation by reference to the fees stipulated in legislation, regulation or an equivalent (such as a policy approved by a governing body), along with any estimation methods specific to these types of transactions.

Subsequent measurement (see paragraphs .11 to .29)

Nature of interest levied

AG14. In terms of the cost method, an entity recognises interest and any other charges as part of the subsequent measurement of a statutory receivable when it is required or entitled to do so in terms of legislation, supporting regulations, by-laws or similar means. Any interest levied by an entity on statutory receivables is classified as either exchange or non-exchange revenue in accordance with GRAP 9 or GRAP 23.

AG15. Interest is classified as either exchange or non-exchange based on the nature of the underlying transactions. This means that if interest is levied on a receivable which is recognised and initially measured in accordance with GRAP 9, then any interest is exchange in nature. Likewise, if a receivable is recognised and initially measured in accordance with GRAP 23, then any interest levied on that receivable is non-exchange in nature. As an example, if interest is levied on taxes, which is non-exchange revenue and within the scope of GRAP 23, then any interest levied is also classified as non-exchange revenue.

Impairment

AG16. An entity should assess at every reporting date whether there is any indication that a receivable or group of receivables is impaired. Certain types of statutory receivables may be less likely to be impaired than others. For example, it may be unlikely that receivables for appropriations are impaired as the counter-party to the transaction is a national or provincial department. Consequently an entity should develop an appropriate methodology for categorising statutory receivables and, accumulating information about the collectability of those categories, so that they can be assessed for impairment in a meaningful way.

AG17. The list of indicators in paragraph .21 is not exhaustive. There may be other indications that an asset may be impaired. Where other indicators are more appropriate, an entity applies these in assessing whether a statutory receivable is impaired. An entity should also consider applicable legislation, supporting regulations or similar means when assessing whether there is any indication that a receivable or group of receivables is impaired or should be derecognised.

AG18. When an entity estimates the future cash flows of a receivable, it considers both the amount of cash flows that it will receive in future, as well as their expected timing. If the cash flows are only likely to be received some time in the future, then the effect of the time value of money may need to be considered. Where the effect of the time value of money is material, an entity discounts the estimated future cash flows using a risk-free rate of interest and, if applicable, adjusts this rate for any risk specific to the receivable.

AG19. Where it is necessary for an entity to discount the expected cash flows of a receivable or group of receivables in determining whether it is impaired, the initial effect of that discounting, as well as the unwinding of that interest over time, is included in the amount of the impairment loss recognised or as an adjustment to the impairment loss respectively.

AG20. Where a receivable or group of receivables is impaired, an entity continues to accrue for any nominal interest or other charges due to the entity, where this is in accordance with the applicable legislation, regulation or similar.

AG21. After the recognition of an impairment loss, it may be necessary to revise the amount of that impairment loss in subsequent periods. In particular, an entity revises any previously recognised impairment losses when the expected timing or amount of the cash flows to be collected changes.

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 statutory receivables. This basis for conclusions accompanies, but is not part of, this Standard.

Background and history

BC1. When the Board developed GRAP 104, it considered whether the internationally accepted definition of a financial instrument, which is described as a contract that gives rise to a financial asset in one entity and a financial liability or equity interest in another entity, was appropriate for the public sector. The Board noted that the reference to "contractual" arrangements limited the types of arrangements that would be considered financial instruments in the public sector. In particular, the Board was concerned that receivables and payables that arise from legislation or similar means, such as tax receivables, would be excluded from the definition of financial instruments.

BC2. During the initial consultation on the financial instruments project, the Board proposed amending the definition of a financial instrument to include contractual arrangements as well as those that arise from legislation or similar means. The Board's constituents did not support this proposed change. As a consequence, the Board agreed to undertake a separate project to assess the appropriate accounting treatment of receivables and payables that arise from legislation or similar means.

BC3. The first step in this separate project was the issuance of the Discussion Paper on *Assets and Liabilities Arising from Non-contractual Arrangements that have the Features of Financial Instruments* (Discussion Paper 7). The comments received on the proposals in Discussion Paper 7 have been used to formulate the scope, definitions and measurement bases proposed in this Standard. These areas, along with key issues raised by respondents and the Board's conclusions thereon, are outlined in the paragraphs that follow.

Scope

BC4. In developing Discussion Paper 7, the Board considered whether the scope should include both receivables and payables that do not arise from contracts. In forming a decision, the Board considered whether, or the extent to which, guidance already existed for both receivables and payables. The extent of existing guidance included in the Standards of GRAP is outlined in paragraphs BC5. and BC6.

BC5. GRAP 9 and GRAP 23 prescribe requirements for the initial measurement of receivables when they arise from exchange and non-exchange revenue transactions. As these Standards deal with the timing and measurement of revenue to be recognised, they do not prescribe principles for subsequent measurement. Where the arrangements are contractual, the subsequent measurement requirements in GRAP 104 are applied. No equivalent guidance exists for receivables that do not arise from contracts. As a result, the Board concluded that its primary focus should be to assess what the appropriate accounting requirements would be for such receivables, particularly after initial recognition.

BC6. By contrast, two Standards of GRAP exist for payables: GRAP 19 outlines accounting principles (recognition, both initial and subsequent measurement and derecognition) for payables that arise from legislation or equivalent means. GRAP 104 outlines accounting principles (recognition, both initial and subsequent measurement and derecognition) for payables that arise from contracts.

BC7. While there is no lack of accounting guidance for payables, the Board was of the view that there may be merit in considering whether symmetry is necessary between the accounting approaches and measurement bases applied to receivables and payables. The Board considered that symmetry may be particularly important if the counterparties to receivables and payables are within the same economic entity. As a result, the Board agreed that Discussion Paper 7 should include both receivables and payables.

BC8. In Discussion Paper 7, the Board proposed using an amortised cost model for non-contractual receivables and, as a consequence, proposed amortised cost for non-contractual payables where their timing and amount is certain. Respondents to Discussion Paper 7 rejected this view, and instead proposed that a cost based measurement basis should be used for non-contractual receivables. The Board agreed with respondents' rationale for rejecting an amortised cost approach in favour of a cost based measurement basis and decided that this Standard should be developed on that basis (this is discussed in further detail in paragraphs BC16. to BC23.). As the approach in GRAP 19 most closely resembles a cost based model for payables, the Board agreed that the scope of this Standard should be limited to non-contractual receivables. The remainder of the basis for conclusions focuses on the Board's decisions on non-contractual receivables.

Definitions

Distinguishing contractual and statutory receivables

BC9. As noted in paragraph BC1., financial instruments arise from contractual arrangements. There is no specific definition of a "contract" included in the Standards of GRAP. In developing GRAP 104 however, the Board outlined the essential features of a contractual arrangement, which are as follows:

(a) The parties to the arrangement should be willing.

(b) The arrangement should give rise to rights and obligations to the parties to the arrangement.

(c) Performance and the remedy for non-performance are enforceable.

BC10. In assessing what the boundary should be between financial instruments and this Standard, the Board considered whether or not the characteristics of a contract outlined above could be used in assessing the nature of an arrangement. Discussion Paper 7 therefore proposed that, in assessing whether an arrangement is contractual or not, an entity should consider substance over form and assess whether or not the characteristics of a contract are demonstrated, even if the transaction is undertaken in accordance with specific legislation.

BC11. Respondents to Discussion Paper 7 rejected this view and indicated that substance over form cannot be applied because of the legal frameworks governing contracts and transactions that arise from legislation. In particular, it was noted that, if an arrangement arises from legislation, then it cannot be contractual for the following reasons:

(a) Contracts are governed by common law and, therefore, if specific legislation exists, that legislation has a higher authority than common law.

(b) The parties to contractual arrangements are willing, whereas for transactions and arrangements governed by legislation, they are most often compulsory transactions, e.g. taxes, fines, appropriations and fees charged in accordance with legislation.

BC12. Respondents were also of the view that applying the characteristics of a contract by analogy to transactions that are undertaken because of specific legislative requirements, may become overly complex and subjective. As an illustration, an individual may conclude that he/she chooses to live in a particular area and therefore the payment of property taxes is, by analogy, a contractual arrangement.

BC13. Based on the responses, the Board agreed that there should be two categories of receivables and, that these categories should be distinguished based on the legal framework which governs them, i.e. contractual arrangements governed by common law and, statutory arrangements governed by specific legislation, regulations, documents issued in accordance with legislation such as ministerial orders, cabinet and council decisions, or similar means.

Recognition of statutory receivables

BC14. Statutory receivables arise primarily from exchange and non-exchange revenue transactions. The Board concluded that where receivables arise from these transactions, GRAP 9 and GRAP 23 should be applied to the recognition of statutory receivables.

BC15. The Board considered that there may be statutory receivables that arise from other transactions. An example of such a transaction might be the recognition of receivables related to construction contracts which are dealt with in a separate Standard of GRAP. In such circumstances, the Board agreed that, for initial recognition, an entity should assess whether any other Standards of GRAP apply to the initial recognition of the receivable or, alternatively, apply the requirements of the *Framework for the Preparation and Presentation of Financial Statements*[2].

Measurement of statutory receivables

Determining an appropriate measurement approach

BC16. In Discussion Paper 7, the Board outlined two approaches which may be feasible for the measurement of statutory receivables: amortised cost less impairment (as described in GRAP 104) or cost less impairment. The implications of the proposed approaches are as follows:

(a) Under the amortised cost approach, entities would be required to recognise receivables at fair value (as required by GRAP 9 and GRAP 23). Fair value would include the transaction amount (e.g. the amount charged in accordance with legislation), but would include an assessment of the fair value of any other elements in the transaction, including any financing elements ("credit") in the arrangement. Applying this approach meant that entities would need to have determined a market related rate of interest for a similar instrument, on similar terms and with the same risk characteristics, at initial recognition and, if material, discount the receivable. This rate would be then be used as the effective interest rate in applying the amortised cost approach.

(b) Under the cost less impairment approach, the receivable would be recognised initially at fair value, except that the fair value on initial recognition would be the transaction amount and would ignore the effects of any financing elements. The transaction amount would therefore be calculated based on the amounts described in legislation or an equivalent.

BC17. The Board indicated in Discussion Paper 7 that its preferred approach was amortised cost less impairment as statutory receivables are similar in nature to financial receivables as the counterparties are known, and the terms and conditions specified. As most entities apply the amortised cost approach for contractual receivables, the Board was also of the view that it might be easier in practice to apply the same accounting requirements for both contractual and statutory receivables, particularly for entities that have both types of receivables, e.g. municipalities.

BC18. During the consultation, respondents indicated that, where they have both contractual and statutory receivables, they already account for those receivables using different measurement bases. Respondents generally indicated that statutory receivables are accounted for initially at cost, which equals the transaction amount, and then subsequently tested for impairment.

BC19. Respondents noted that the reason for using cost rather than amortised cost is

[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*.

because of the complexity associated with the initial recognition and measurement of statutory receivables. As statutory receivables are most often non-exchange in nature, a considerable amount of reliance is placed on the use of estimates, both to identify when a transaction can be recognised as well as the amount at which it should be measured. Where estimates are used to measure receivables under the amortised cost, whenever the estimates are revised the receivable would need to be revised to reflect not only the change in estimate, but also the discounting of those revised estimates. This means that any revisions to the estimates would give rise to a profit or loss as the new estimates would need to be discounted using the effective interest rate.

BC20. The Board agreed with respondents that the extent to which estimates are used to recognise and measure certain types of non-exchange transactions, particularly taxes and fines, may result in undue complexity under the amortised cost approach. The Board also noted that presenting profits or losses (or gains and losses) on any revisions to estimates of taxes and fines receivables may not provide users with the most appropriate information for accountability and decision-making purposes.

BC21. Respondents also noted that the amortised cost approach is, at least on initial recognition and initial measurement, premised on the fact that similar transactions exist in the market. They indicated that, because of the nature of the transactions, there is no market for such transactions. For example, there is no equivalent market for taxes, fines, appropriations and fees charged to regulate certain activities. The absence of a market makes determining a market related rate of interest for initial measurement onerous and arbitrary. In most instances, the entity which is responsible for levying and collecting these revenues has no discretion over whom it transacts with, or the terms and conditions of the transaction, as these are specified in legislation or equivalent.

BC22. Some respondents contested the notion that there are “financing” elements in transactions such as taxes, fines and appropriations. For taxes and fines, they contested that the period of time allowed to settle any outstanding amounts should be seen as an administrative measure rather than extending credit. This is particularly important because in the time period allowed to settle these transactions, parties may be allowed to appeal the amount due or lodge disputes. Respondents also noted that, for certain transactions, there may be no settlement period, for example, appropriations which are paid based on the overall cash available at national and provincial government.

BC23. The Board agreed with respondents’ views that applying a measurement basis which considers the effect of any financing elements and assumes that a market rate can be determined for the financing elements in those transactions, is inappropriate because the information produced may not be relevant for users in assessing accountability or making decisions. The Board agreed that applying a cost-based approach may provide more relevant information about statutory receivables due to an entity, their collectability and, through appropriate disclosure, the effect of such receivables on an entity's financial performance, financial position and cash flows.

Applying a cost-based measurement approach

BC24. The Board considered that applying a cost-based measurement approach meant that the transaction should be measured initially at cost. The Board agreed that "cost" for statutory arrangements would reflect the prescripts of legislation or an equivalent and should ignore the effects of discounting or the time value of money. The Board agreed that this cost, called the "transaction amount" should remain unchanged until it is either wholly or partly derecognised.

BC25. The Board however concluded that transaction amount may need to be amended after initial recognition to provide useful information to users of the financial statements. In particular, the Board concluded that adjustments may be necessary to reflect (a) any interest or other charges that the entity is required or permitted to levy and (b) any amounts that are, or may be, uncollectable by assessing whether the receivables are impaired.

BC26. The Board noted that, where the receivables arose from revenue transactions, there are existing requirements regarding the initial measurement of these transactions. GRAP 9 and GRAP 23 require the use of fair value for initial measurement.

BC27. In considering whether "fair value" in those other Standards is the same as "transaction amount" in this Standard, the Board examined the guidance in other Standards of GRAP. GRAP 104 notes that the fair value of a financial instrument on initial recognition is normally the same as the transaction price, except if part of the consideration exchanged is for something other than the financial instrument. For statutory receivables, consideration is only given to compensate for amounts owing in terms of legislation or similar means. No other elements exist because the transactions are not comparable to other receivables in the market. As a result, no financing or market-related interest elements exist. The Board therefore concluded that the "fair value" of a statutory receivable determined using the Standards of GRAP dealing with revenue is the same as the transaction amount envisaged in this Standard.

Interest levied on statutory receivables

BC28. Respondents to the Exposure Draft questioned the nature of interest levied on statutory receivables, in particular, whether interest is exchange or non-exchange in nature. The Board considered two arguments:

(a) As interest is levied as a result of delayed payment, interest can be seen as compensation for the use of money and is therefore always exchange in nature.

(b) The nature of any interest levied is dependent on the nature of the underlying transaction, i.e. if a transaction is non-exchange in nature, then any interest levied is also non-exchange. Similarly if a transaction is exchange in nature, then any interest is also exchange.

BC29. The Board noted that, while there is merit in both arguments, it favoured the view that the nature of the underlying transaction should be used to determine the nature of any interest levied on those transactions. In particular, the Board noted that it would be seemingly inappropriate, and impractical, to classify interest on transactions differently to the underlying transaction itself. Based on its conclusions, the Board agreed to amend GRAP 9 and GRAP 23 to make it clear that interest levied by an entity can be either exchange or non-exchange in nature.

Assessing whether statutory receivables are impaired

BC30. So as to provide information to users about the collectability of amounts owing to the entity, the Board agreed that it is necessary to assess whether statutory receivables are impaired at every reporting date.

BC31. The Board agreed that an initial assessment should be undertaken to determine if there is any indication that a statutory receivable is impaired. Given the volume of receivables, the Board agreed that this assessment should be made firstly for any individually significant statutory receivables and, then by grouping together groups of individually insignificant statutory receivables which exhibit similar characteristics. Any individually significant receivables which are not considered impaired on their own should be grouped with other receivables and assessed for impairment. Given the diversity of the types of non-exchange receivables that exist, the Board agreed that it is not feasible to define these specific characteristics. It did however agree that the characteristics should demonstrate information about the collectability of the amounts, which may include how collection might be enforced and the likelihood of instituting enforcement actions.

BC32. The Board considered what the most appropriate approach would be to measure impairment losses on statutory receivables. The Board agreed that, because the receivable will result in cash or another financial asset being received by the entity, impairment losses should be calculated by comparing the carrying amount of the receivable to the estimated future cash flows. In formulating the impairment approach for statutory receivables, the Board concluded that the approach adopted should be similar to the value-in-use approach in the Standard of GRAP on *Impairment of Non Cash-generating Assets.*

BC33. The estimated cash flows would be based on the amounts that management expects to receive based on facts and circumstances at the reporting date. The Board agreed, on balance that, although statutory receivables are generally short-term in nature and the effect of discounting is likely to be immaterial, entities should discount the estimated future cash flows in circumstances where this is material. Any changes to the expected timing and amount of the cash flows should be accounted for as a revision to the impairment loss previously recognised and could result in both a positive or negative change. Where discounting is applied, the

Board agreed that the unwinding of such interest should adjust the impairment loss recognised and not the initial transaction amount.

Derecognition of statutory receivables

BC34. When the Board considered what appropriate derecognition requirements would be for statutory receivables, it considered the nature of the underlying transactions and how they might be settled:

- As the statutory receivable requires settlement in cash or another financial asset, any amounts transferred in settlement would give rise to the receivable being recognised.
- The entity may waive its right to receive any future cash flows, for example, through a specific policy decision such as a tax amnesty programme.
- Although considered rare, entities may enter into securitisations or factoring of their receivables.

BC35. Based on the ways in which rights and obligations associated with statutory receivables are settled, the Board concluded that the derecognition requirements in GRAP 104 are appropriate. The derecognition requirements in this Standard have therefore been developed using GRAP 104.

Presentation and disclosure

BC36. In formulating the presentation and disclosure requirements of this Standard, the Board considered what information users of the financial statements would find relevant for accountability and decision-making. The Board concluded that the following information would be useful to users:

(a) All statutory receivables are appropriately reflected on the statement of financial position and the accompanying notes.

(b) Any revenues (interest) and expenses (impairment loss or reversals) are reflected either in the statement of financial performance or the accompanying notes.

(c) Sufficient information is provided in the notes to the financial statements about:

- The nature and type of statutory receivables. This information is provided by the disclosures in GRAP 9 and GRAP 23 which require information about the revenue types. GRAP 1 requires that receivables from exchange and non-exchange transactions should be separated.
- Information about the collectability of carrying amounts reflected on the statement of financial position.
- The distinction between receivables that are financial assets and statutory receivables.

- The basis used to account for statutory receivables, in particular the arrangements regarding the circumstances when interest is levied, on what basis, and at what rate. The policy should also describe information about the impairment methodology adopted. In particular how receivables were grouped together and, if discounted, how the rate is determined.