



ACCOUNTING STANDARDS BOARD

**STANDARD OF GENERALLY RECOGNISED
ACCOUNTING PRACTICE**

**SEPARATE FINANCIAL STATEMENTS
(GRAP 34)**

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Separate Financial Statements* is based on the International Public Sector Accounting Standard (IPSAS) 34 on *Separate Financial Statements* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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The approved text of IPSAS is that published by the IFAC in the English language, and copies may be obtained directly from:

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, New York 10017 USA

Internet: <http://www.ifac.org>

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Introduction

This pronouncement is set out in paragraphs .01 to .24. 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 the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

Scope

- .02 *An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for investments in controlled entities, joint ventures and associates when it elects, or is required by legislation or similar means, to present separate financial statements.*
- .03 This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with Standards of GRAP.

Definitions

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

Consolidated financial statements are the financial statements of an economic entity in which the assets, liabilities, net assets, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

The **equity method** is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets includes its share of changes in the investee's net assets that have not been recognised in the investee's surplus or deficit.

An **investment entity** is an entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

Separate financial statements are those presented by an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with the Standard of GRAP on Financial Instruments (GRAP 104) or using the equity method as described in the Standard of GRAP

on Investments in Associates and Joint Ventures (GRAP 36).

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

- .05 Separate financial statements are those presented in addition to consolidated financial statements, or in addition to the financial statements of an investor that does not have controlled entities but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by GRAP 36 to be accounted for using the equity method, other than in the circumstances set out in paragraphs .07 to .08.
- .06 The financial statements of an entity that does not have a controlled entity, associate or joint venturer's interest in a joint venture are not separate financial statements.
- .07 An entity that is exempted in accordance with paragraph .05 of the Standard of GRAP on *Consolidated Financial Statements* (GRAP 35) from consolidation or paragraph .21 of GRAP 36, from applying the equity method may present separate financial statements as its only financial statements.
- .08 An investment entity that is required, throughout the current period and all comparative periods presented, to measure its investment in all its controlled entities at fair value in accordance with paragraph .57 of GRAP 35, presents separate financial statements as its only financial statements.

Preparation of separate financial statements

- .09 ***Separate financial statements shall be prepared in accordance with all applicable Standards of GRAP, except as provided in paragraph .10.***
- .10 ***When an entity prepares separate financial statements, it shall account for similar investments in controlled entities, joint ventures and associates either:***
 - (a) ***at cost;***
 - (b) ***in accordance with GRAP 104; or***
 - (c) ***using the equity method as described in GRAP 36.***
- .11 ***If an entity elects, in accordance with paragraph .22 of GRAP 36, to measure its investments in associates or joint ventures at fair value in accordance with GRAP 104, it shall also account for those investments in the same way in its separate financial statements.***
- .12 ***If a controlling entity is required, in accordance with paragraph .57 of GRAP 35, to measure its investment in a controlled entity at fair value in accordance with GRAP 104, it shall also account for that investment in the same way in its separate financial statements. A controlling entity that is not itself an investment entity shall measure its investment in a controlled investment entity in accordance with paragraph .10 in its separate financial statements.***

- .13 When a controlling entity ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:**
- (a) When an entity ceases to be an investment entity, the entity shall account for an investment in a controlled entity in accordance with paragraph .10. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph .10.**
 - (b) When an entity becomes an investment entity, it shall account for an investment in a controlled entity at fair value in accordance with GRAP 104. The difference between the previous carrying amount of the controlled entity and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in surplus or deficit. The cumulative amount of any gain or loss previously recognised directly in net assets in respect of those controlled entities shall be treated as if the investment entity had disposed of those controlled entities at the date of change in status.**
- .14 Dividends or similar distributions from a controlled entity, a joint venture or an associate are recognised in the separate financial statements of an entity when the entity's right to receive the dividend or similar distribution is established. The dividend or similar distribution is recognised in surplus or deficit unless the entity elects to use the equity method, in which case the dividend or similar distribution is recognised as a reduction from the carrying amount of the investment.**
- .15 When a controlling entity reorganises the structure of its economic entity by establishing a new entity as its controlling entity in a manner that satisfies the following criteria:**
- (a) the new controlling entity obtains control of the original controlling entity either (i) by issuing equity instruments in exchange for existing equity instruments of the original controlling entity or (ii) by some other mechanism which results in the new controlling entity having a controlling ownership interest in the original controlling entity;**
 - (b) the assets and liabilities of the new economic entity and the original economic entity are the same immediately before and after the reorganisation; and**
 - (c) the owners of the original controlling entity before the reorganisation have the same absolute and relative interests in the net assets of the original economic entity and the new economic entity immediately before and after the reorganisation;**

and the new controlling entity accounts for its investment in the original controlling entity in accordance with paragraph .10(a) in its separate financial statements, the new controlling entity shall measure cost at the carrying amount of its share of the net asset items shown in the separate financial statements of the original controlling entity at the date of the reorganisation.

- .16 Similarly, an entity that is not a controlling entity might establish a new entity as its controlling entity in a manner that satisfies the criteria in paragraph .15. The requirements in paragraph .15 apply equally to such reorganisations. In such cases, references to “original controlling entity” and “original economic entity” are to the “original entity”.

Disclosure

- .17 ***An entity shall apply all applicable Standards of GRAP when providing disclosures in its separate financial statements, including the requirements in paragraphs .18 to .21.***
- .18 ***When a controlling entity, in accordance with paragraph .05 of GRAP 35, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:***
- (a) ***The fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with the Standards of GRAP have been produced for public use; and the address where those consolidated financial statements are obtainable.***
 - (b) ***A list of significant investments in controlled entities, joint ventures and associates, including:***
 - (i) ***The name of those controlled entities, joint ventures and associates.***
 - (ii) ***The jurisdiction in which those controlled entities, joint ventures and associates operate (if it is different from that of the controlling entity).***
 - (iii) ***Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.***
 - (c) ***A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).***
- .19 ***When an investment entity that is a controlling entity (other than a controlling entity covered by paragraph .18) prepares, in accordance with paragraph .08, separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by the Standard of GRAP on Disclosure of Interests in Other Entities (GRAP 38).***

- .20** *A controlling entity that is not itself an investment entity shall, in addition to disclosing its accounting policy choice in terms of paragraph .10 for measuring its investment in the investment entity in its separate financial statements, present the disclosures relating to investment entities required by GRAP 38.*
- .21** *When a controlling entity (other than a controlling entity covered by paragraphs .18 to .20) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the controlling entity or investor shall identify the financial statements prepared in accordance with GRAP 35 or GRAP 36, to which they relate. The controlling entity or investor shall also disclose in its separate financial statements:*
- (a) The fact that the statements are separate financial statements and the reasons why those statements are prepared, if not required by legislation or similar means.*
 - (b) A list of significant controlled entities, joint ventures and associates, including:*
 - (i) The name of those controlled entities, joint ventures and associates.*
 - (ii) The jurisdiction in which those controlled entities, joint ventures and associates operate (if different from that of the controlling entity).*
 - (iii) Its proportion of the ownership interest held in those entities and a description of how that ownership interest has been determined.*
 - (c) A description of the method used to account for the controlled entities, joint ventures and associates listed under (b).*

Transitional provisions

- .22** *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.*

Effective date

- .23** *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.*

Withdrawal of the Standards of GRAP on Consolidated and Separate Financial Statements, Investments in Associates and Interests in Joint Ventures (2005)

- .24** *This Standard supersedes the previous Standards of GRAP on Consolidated and*



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Separate Financial Statements, Investments in Associates and Interests in Joint Ventures issued in 2005.

Basis for conclusions

The basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the accounting for separate financial statements. This basis for conclusions accompanies, but is not part, of this Standard.

Background

- BC1. The International Public Sector Accounting Standards Board (IPSASB) issued five Exposure Drafts during 2014 with the objective to align the International Public Sector Standards (IPSASs) on *Consolidated and Separate Financial Statements*, *Investments in Associates* and *Interests in Joint Ventures* with the IFRS Accounting Standards on *Consolidated Financial Statements*, *Joint Arrangements*, *Disclosure of Interests in Other Entities*, and the IAS Standards on *Separate Financial Statements* and *Investments in Associates and Joint Ventures*.
- BC2. As the Board aligns its Standards of GRAP with the equivalent IPSASs, it agreed to include a project on its work programme to align the Standards of GRAP on *Consolidated and Separate Financial Statements* (GRAP 6), *Investments in Associates* (GRAP 7) and *Interests in Joint Ventures* (GRAP 8) with the five IPSASs. These Standards of GRAP will replace GRAP 6, 7 and 8, and were issued together as Exposure Drafts (ED 144 to ED 148) in July 2016.
- BC3. This basis for conclusions summarises the Board's considerations in developing the Standards of GRAP that deal with the accounting for interests in other entities.

Investment entities

- BC4. GRAP 35 requires that an investment entity shall not consolidate its controlled entities, but instead, shall measure an investment in a controlled entity at fair value. It further requires that a controlling entity of an investment entity, that is not itself an investment entity, should present consolidated financial statements in which the investments of the controlled investment entity are measured at fair value in accordance with GRAP 104, and other assets and liabilities and revenue and expenses are consolidated.
- BC5. The IPSASB included the same requirements in the International Public Sector Accounting Standard on *Separate Financial Statements* (IPSAS 34) in prescribing the accounting for investment entities in an entity's separate financial statements. The wording in IPSAS 34 may lead an entity to conclude that the assets, liabilities, revenue and expenses need to be consolidated in an entity's separate financial statements, which is not the intention.
- BC6. The Board considered whether it should require the use of a single measurement basis, and in particular, debated whether fair value should be required for the measurement of the investment. The Board concluded that a controlling entity that is not itself an investment entity should measure its investment in a controlled investment entity either (a) at cost; (b) in accordance with GRAP 104; or (c) using the



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equity method as described in GRAP 36. The Board concluded that a broader approach should be adopted to measure the investment in the investment entity in the controlling entity's separate financial statements. Requiring the controlling entity to apply fair value to measure its investment in the investment entity may be challenging when fair values are not available.



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Comparison with the International Public Sector Accounting Standard on *Separate Financial Statements* (January 2015)

This Standard is drawn primarily from IPSAS 34. The main differences between this Standard and IPSAS 34 are as follows:

- IPSAS 34 describes the residual of total assets after deducting total liabilities as “net assets/equity” whereas this Standard refers to “net assets”.
- The definitions for “equity method” and “investment entity” have been included in this Standard.
- This Standard requires that a controlling entity that is not itself an investment entity, should measure its investments in a controlled investment entity either at cost, in accordance with GRAP 104 or using the equity method as described in GRAP 36. IPSAS 34 requires the controlling entity to account for its investments in a controlled entity in accordance with the IPSAS on *Consolidated Financial Statements*.
- Transitional provisions to this Standard are dealt with differently than in IPSAS 34.