ACCOUNTING STANDARDS BOARD

INTERPRETATION OF THE STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS

(IGRAP 9)

Issued by the
Accounting Standards Board

February 2010

Acknowledgement

This Interpretation of the Standards of Generally Recognised Accounting Practice (IGRAP) is drawn primarily from the equivalent IFRIC Interpretation on *Distributions of Non-cash Assets to Owners* (IFRIC 17) published by the IFRS® Interpretations Committee of the International Accounting Standards Board (IASB) in November 2008. The IASB has issued a comprehensive body of IFRS® Accounting Standards and IFRIC® Interpretations. Extracts of IFRIC 17 are reproduced in this Interpretation of the Standards of GRAP with the permission of the IASB.

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DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS

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

- Consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.

Introduction

This pronouncement is set out in paragraphs .01 to .20. 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*.

Interpretation of the Standards of GRAP on *Distributions of Non-cash Assets to Owners*

References

- GRAP 1 *Presentation of Financial Statements*
- GRAP 6 *Consolidated and Separate Financial Statements*
- GRAP 14 *Events After the Reporting Date*
- GRAP 104 *Financial Instruments*
- GRAP 105 *Transfer of Functions Between Entities Under Common Control*
- GRAP 106 *Transfer of Functions Between Entities Not Under Common Control*
- GRAP 107 *Mergers*

Background

.01 Sometimes an entity distributes assets other than cash (non-cash assets) as dividends or similar distributions to its owners acting in their capacity as owners. In those situations, an entity may also give its owners a choice of receiving either non-cash assets or a cash alternative.

.02 Standards of GRAP do not provide guidance on how an entity should measure dividends or similar distributions to its owners. The Standard of GRAP on *Presentation of Financial Statements* requires an entity to present details of dividends or similar distributions recognised as distributions to owners either on the face of the statement of financial performance or in the statement of changes in net assets or in the notes to the financial statements.

Scope

.03 This Interpretation applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

(a) distributions of non-cash assets (e.g. items of property, plant and equipment, transfer of function as defined in the Standards of GRAP on *Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control,* and *Mergers* or ownership interests in another entity); and

(b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

.04 This Interpretation applies only to distributions in which all owners of the same class of residual interests are treated equally.

.05 This Interpretation does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

.06 In accordance with paragraph .05, this Interpretation does not apply when the non-cash asset is ultimately controlled by the same parties both before and after the distribution. "A group of individuals shall be regarded as controlling an entity when, as a result of binding arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities". Therefore, for a distribution to be outside the scope of this Interpretation on the basis that the same parties control the asset both before and after the distribution, a group of individual owners receiving the distribution must have, as a result of binding arrangements, such ultimate collective power over the entity making the distribution.

.07 In accordance with paragraph .05, this Interpretation does not apply when an entity distributes some of its ownership interests in a controlled entity but retains control of the controlled entity. The entity making a distribution that results in the entity recognising a non-controlling interest in its controlled entity accounts for the distribution in accordance with the Standard of GRAP on *Consolidated and Separate Financial Statements* (GRAP 6).

.08 This Interpretation addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by owners who receive such a distribution.

Issues

.09 When an entity declares a dividend or similar distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend or similar distribution payable. Consequently, this Interpretation addresses the following issues:

(a) When should the entity recognise the dividend or similar distribution payable?

(b) How should an entity measure the dividend or similar distribution payable?

(c) When an entity settles the dividend or similar distribution payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend or similar distribution payable?

Consensus

When to recognise a dividend or similar distribution payable

.10 The liability to pay a dividend or similar distribution shall be recognised when the dividend or similar distribution is appropriately authorised and is no longer at the discretion of the entity, which is the date when the dividend or similar distribution is declared by management.

Measurement of a dividend or similar distribution payable

.11 An entity shall measure a liability to distribute non-cash assets as a dividend or similar distribution to its owners at the fair value of the assets to be distributed.

.12 If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend or similar distribution payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.

.13 At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend or similar distribution payable, with any changes in the carrying amount of the dividend or similar distribution payable recognised in net assets as adjustments to the amount of the distribution.

Accounting for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend or similar distribution payable when an entity settles the dividend or similar distribution payable

.14 When an entity settles the dividend or similar distribution payable, it shall recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend or similar distribution payable in surplus or deficit.

Presentation and disclosures

.15 An entity shall present the difference described in paragraph .14 as a separate line item in surplus or deficit.

.16 An entity shall disclose the following information, if applicable:

(a) the carrying amount of the dividend or similar distribution payable at the beginning and end of the period; and

(b) the increase or decrease in the carrying amount recognised in the period in accordance with paragraph .13 as result of a change in the fair value of the assets to be distributed.

.17 If, after the end of a reporting period but before the financial statements are authorised for issue, an entity declares a dividend or similar distribution to distribute a non-cash asset, it shall disclose:

(a) the nature of the asset to be distributed;

(b) the carrying amount of the asset to be distributed as of the end of the reporting period; and

(c) the estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method used to determine that fair value required by the Standard of GRAP on *Financial Instruments.*

Transitional provisions

.18 ***All changes resulting from the application of this Interpretation shall be accounted for in accordance with the requirements of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This Interpretation shall only be applied to those distributions of non-cash assets to owners that occurred after 1 April 2010.***

Effective date

Initial adoption of the Standards of GRAP

.19 ***This Interpretation becomes effective with reference to the effective date of the applicable Standards of GRAP as 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.***

Entities already applying Standards of GRAP

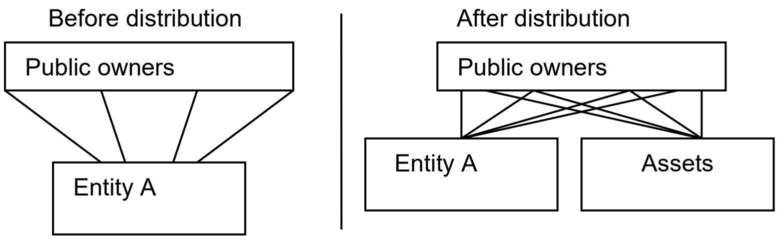
.20 ***An entity shall apply this Interpretation for annual financial statements covering periods beginning on or after 1 April 2011.***

Appendix - Illustrative examples

This appendix is illustrative only and does not form part of this Interpretation. The purpose of this appendix is to illustrate the application of this Interpretation and to assist in clarifying its meaning.

Scope of this Interpretation (paragraphs .03 to .08)

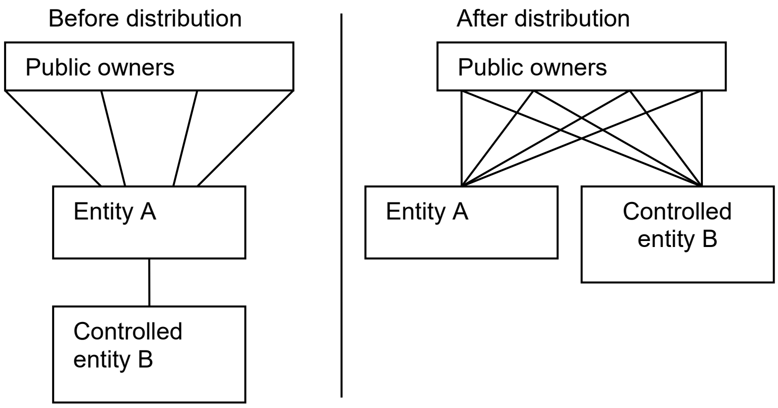
CHART 1



IE1. Assume Entity A is owned by public owners. No single owner controls Entity A and no group of owners is bound by a binding agreement to act together to control Entity A jointly. Entity A distributes certain assets pro rata to the owners. This transaction is within the scope of this Interpretation

IE2. However, if one of the owners (or a group bound by a binding agreement to act together) controls Entity A both before and after the transaction, the entire transaction (including the distributions to the minority owners) is not within the scope of this Interpretation. This is because in a pro rata distribution to all owners of the same class of residual interests, the controlling owner (or group of owners) will continue to control the non-cash assets after the distribution.

CHART 2 (distribution of shares of controlled entities)



IE3. Assume Entity A is owned by public owners. No single owner controls Entity A and no group of owners is bound by a binding agreement to act together to control Entity A jointly. Entity A owns all of the shares of controlled entity B. Entity A distributes all of the shares of controlled entity B pro rata to its owners, thereby losing control of controlled entity B. This transaction is within the scope of this Interpretation.

IE4. However, if entity A distributes to its owners shares of controlled entity B representing only a non-controlling interest in controlled entity B and retains control of controlled entity B, the transaction is not within the scope of this Interpretation. Entity A accounts for the distribution in accordance with GRAP 6. Entity A controls controlled entity B both before and after the transaction.

Comparison with the IFRIC Interpretation on *Distributions of Non-cash Assets to Owners* (March 2009)

This Interpretation is drawn primarily from the IFRIC Interpretation on *Distributions of Non-cash Assets to Owners* (IFRIC 17). The main differences between this Interpretation and IFRIC 17 are as follows:

- This Interpretation uses different terminology, in certain instances, from IFRIC 17. The most significant examples are the use of the terms "surplus or deficit", "dividends or similar distributions", "owner", "controlled entity", "residual interests" and "binding arrangements". The equivalent terms in IFRIC 17 are "profit or loss", "dividends", "shareholder", "subsidiary", "equity instruments" and "contractual arrangements".
- This Interpretation has been amended to reflect that management is responsible for the declaration of dividends or similar distributions in the South African public sector. IFRIC 17 provides guidance on the recognition of dividends when it is declared by management or a board of directors and approved by the relevant authority; and when it is declared by management and no further approval is required. This Interpretation only provides for the second scenario.
- The transitional provisions included in this Interpretation are different to those in IFRIC 17.