Accounting Standards Board

Newsletter November 2023 Edition

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Charting the course: A preview of key initiatives by the Accounting Standards Board in 2024

As we kick off 2024, the prospect of fresh opportunities adds excitement to the air. This year, the ASB will start important projects, while maintaining momentum on other ongoing efforts. I unpack the planned initiatives and activities that the Accounting Standards Board will undertake this year.

Measurement of assets and liabilites

The key project we will start this year is to develop guidance on measuring assets and liabilities. This is often an area where judgement is required. Preparers have said they need more guidance on choosing an appropriate measurement model – current value or historical cost (where a choice is allowed in the Standards). Preparers also need guidance on applying a measurement basis and the techniques to use, especially under the current value model.

The project will start by understanding whether recently issued IPSAS guidance would be suitable for the local environment. We will consult our stakeholders as part of this process. This phase will be followed by the development of local guidance on measurement.

Related party disclosures

The objective of GRAP 20 on *Related Party Disclosures* is to ensure that an entity's financial statements include the necessary information on related party transactions, outstanding balances, and the relationship underpinning them for accountability purposes. This information should highlight any potential impact on an entity's financial position and surplus or deficit due to relationships with related parties, as well as transactions and outstanding balances with those parties. .

We are starting a project to review compliance with GRAP 20 and to understand practice. The review will primarily be a desktop review, meaning that we will review publicly available information. We are likely to discuss the results of the review with our stakeholders, to better understand root causes of the issues identified, and potential actions that could resolve them.

Next ASB work programme consultation

As we reach the halfway mark of the current ASB work programme, it will be time to consult our stakeholders on the 2027 to 2029 work programme. Stakeholder feedback helps to shape the work that we will do over the next three years. Look out for further communication on this consultation.

Financial Instruments

We are nearing the end of the implementation period of GRAP 104 on *Financial Instruments* (revised 2019). The revised Standard becomes effective 1 April 2025, which means entities need information from 1 April 2024 for comparative purposes.

This year, we will focus on communicating information that assists entities with the transition to the revised Standard. A repository of resources is available on the ASB website here.

The GRAP 104 Reference Group has been working hard to assess the potential areas where more guidance is needed. We thank them for their contributions to date and look forward to the work they will continue to do this year.

Ehancing the application of Standards GRAP

During projects, we often hear from our stakeholders that the practical application of Standards of GRAP can be complex. We launched a project to enhance the application of Standards of GRAP, with the purpose of communicating basic principles from the Standards in a simple and concise manner. The material includes short recordings and related presentations. These have been well received by stakeholders, and we will continue to develop more content for the foreseeable future.

Subscribe to the ASB's YouTube channel to access these recordings and other material related to the ASB's projects.

GRAP updates

The ASB hosted GRAP updates for public entities and municipalities have become highlights in our year.

The ASB YouTube channel contains recordings of previous sessions.

In closing, thank you to our stakeholders involved in our projects and activities. Your inputs ensure we are able to deliver relevant and quality Standards of GRAP. In the words of Helen Keller - "Alone we can do so little; together we can do so much." We look forward to a productive year together.

Elizna van der Westhuizen

Head of Technical

Revised Standards on transfer of functions and mergers approved by the Board

Revisions to GRAP 105 on *Transfer of Functions Between Entities Under Common Control*, GRAP *106 on Transfer of Functions Between Entities Not Under Common Control and GRAP 107 on* Mergers (the local Standards) were approved by the Accounting Standards Board (the Board) at its December 2023 meeting.

Aligning local Standards with international developments

In 2017, the International Public Sector Accounting Standards Board (IPSASB) issued IPSAS 40 on Public Sector Combinations to provide guidance on accounting for public sector combinations.

The Board undertook a project in 2023 to identify similarities and differences between IPSAS 40 and the local Standards to better align with international guidance. This resulted in the issue of a local Exposure Draft to include guidance from IPSAS 40, and additional guidance from the IFRS Accounting Standard® on *Business Combinations* (IFRS 3) that was issued since the approval of IPSAS 40.

Even though the IPSASB issued a single IPSAS to deal with public sector combinations, the Board agreed to retain the format of the local guidance as three separate Standards, as local stakeholders understand which Standard to apply in specific circumstances. No significant application issues on the local Standards have been raised to date.

Additional IPSAS 40 guidance

Additional guidance from IPSAS 40 included in the local Standards are:

- scope exclusions relating to the formation of a joint arrangement and the transfer of an investment entity as defined in GRAP 35 on *Consolidated Financial Statements*;

- an additional factor to consider whether a transaction is part of a transfer of functions or a separate transaction involving the acquisition of an asset or liability;
- additional exceptions to the recognition and measurement principles;
- examples of how control of a function is obtained in a non-exchange transaction;
- additional disclosures that require applying the disclosures in aggregate, for collective immaterial transfers of functions or mergers, the composition of the combined entity's first set of financial statements after a merger, and disclosures where the initial accounting for a transfer of functions or merger is incomplete and provisional amounts used; and
- illustrative examples on the application of principles in the local Standards.

Additional IFRS 3 guidance

The revisions to GRAP 105 and GRAP 106 include application guidance from IFRS 3:

- an optional concentration test to assess whether a transferred set of activities, assets and/or liabilities is not a function; and
- guidance to assess if a transferred set of activities, assets and/or liabilities, that does not have outputs is substantive.

Illustrative examples are also included to explain the application of these principles and guidance.

Significant differences

The Board agreed to depart from IPSAS 40's guidance in the following areas:

- The local Standards retain a measurement period of two years due to practical considerations. IPSAS 40 only permits a one year measurement period.
- IPSAS 40 requires that the carrying amounts of assets acquired or received and/or liabilities assumed be adjusted to conform to the acquirer's or combined entity's financial statements. Transactions between the parties involved in the transfer of functions or merger also need to be eliminated prior to the transfer of function or merger. To avoid additional costs, similar requirements are not included in the GRAP 105 or GRAP 107.
- IPSAS 40 requires an entity to present financial statements for periods prior to the date on which the assets and/or liabilities are acquired, received or assumed. A similar requirement is not included in the local Standards as the entities involved in a transfer or functions or merger present their own sets of financial statements prior to the transfer or merger taking place. Any newly acquired or received functions will be reflected in financial statements prepared after the transfer or merger date.
- The treatment of the excess of the consideration transferred (if any), and the net of the acquisition date amounts of the identifiable asset acquired or received, liabilities assumed, and any non-controlling interests in GRAP 106, differs from IPSAS 40. IPSAS 40 requires that the excess be recognised as an asset, and annually assessed for impairment. In GRAP 106, the excess is recognised in surplus or deficit on the transfer date as it is seen as a premium paid by the acquirer to the previous owners. The Board also concluded that an entity may not be able to reliably measure the "goodwill", and the excess should therefore not be recognised as an asset.

Next steps

A recommendation will be made to the Minister of Finance (the Minister) to approve the proposed effective date of 1 April 2026 for the revised GRAP 105, GRAP 106 and GRAP 107.

Until the effective date for the revisions to the local Standards is approved by the Minister, entities will not be required to apply the requirements in the local Standards, or consider them in developing an accounting policy.

What is the difference between a statutory receivable and a contractual receivable?

Share your views on accounting for statutory receivables

The Standard of GRAP on *Statutory Receivables* (GRAP 108) became effective for all entities, other than trading entities, from 1 April 2019. Trading entities applied GRAP 108 from 1 April 2021.

The Board will undertake a post-implementation review (PIR) in 2024 to assess if GRAP 108 meets its objectives by providing relevant and useful information to users, and to understand preparers' challenges with applying the Standard (if any). For this purpose, the Board approved an *Invitation to Participate in the PIR of GRAP 108* (ED 207). Comment on ED 207 closes on 27 October 2024.

The focus areas

From an initial desktop review and engagements with specific stakeholders, a number of focus areas were identified for the PIR. Among others, these focus areas are:

The focus area	What is the issue?
Distinguishing statutory receivables from contractual receivables	There is uncertainty about when a receivable is contractual or statutory, particularly when the transaction is regulated by legislation, supporting regulations or similar means (hereafter "legislation or similar means") and initiated by a contract.
Initial measurement	GRAP 108 requires that a statutory receivable initially be measured at its transaction amount using the prescripts of legislation or similar with reference to the specific tariff, fee, scale or calculation basis. The fair value of the statutory receivable is determined using the Standard of GRAP on *Revenue from Exchange Transactions* or the Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)*.
Impairment of statutory receivables	The revised Standard of GRAP on *Financial Instruments* (GRAP 104 (2019)) introduces a new impairment model, namely the expected credit loss (ECL) model. Under this model, a forward–looking approach is applied to assess the expected loss amount of a contractual receivable. GRAP 108 currently applies an incurred loss model to assess if a statutory receivable is impaired. Impairment occurs following default or other impairment event. With GRAP 104 (2019) becoming effective from 1 April 2025, it was questioned if the ECL model should also be adopted in GRAP 108.
Presentation of statutory receivables	The Standards of GRAP require that receivables from exchange and non-exchange transactions be presented separately on the face of the statement of financial position. The notes to the financial statements separately disclose the carrying amounts of statutory receivables to distinguish them from contractual and other receivables. Some entities remain uncertain about what and how to present statutory receivables in the financial statements and notes.
Disclosing information about statutory receivables	Financial statements should provide information on statutory receivables to enable users to make decisions about their nature and type, and the basis used to account for, and measure these receivables. Users also need information on when statutory receivables are derecognised and on their collectability. The information on statutory receivables is not useful if standardised text from GRAP 108 is presented, or when disclosures are incomplete.

Following the outcome of the PIR, the Board will decide if amendments are required to GRAP 108, and if any other actions may be necessary. These actions may include developing Fact Sheets, Interpretations of the Standards of GRAP, or issuing or revising Frequently Asked Questions.

How can you share your comments?

All users, preparers and auditors are invited to share their comment on ED 207 by participating in roundtable and direct consultations. You can contact amandab@asb.co.za if you want to participate in these consultations.

Share your views on accounting for statutory receivables

What is the difference between a statutory receivable and a contractual receivable?

Receivables in the public sector arise from arrangements established through contracts, legislation or similar means. These receivables are usually settled by delivering cash or another financial asset to another party or by providing goods or services.

There are two broad categories of receivables in the public sector – statutory receivables and contractual receivables.

What is a statutory receivable?

A statutory receivable arises from legislation or similar means, such as regulations, by-laws, ministerial orders, cabinet or municipal council decisions, or similar (hereafter referred to as "legislation or similar means"). Examples of statutory receivables include property tax, traffic fines, penalties, appropriations, grants and other fees charged in terms of legislation or similar means. Statutory receivables can either be exchange or non-exchange in nature.

Statutory receivables are accounted for using the Standard of GRAP on *Statutory Receivables* (GRAP 108).

What is a contractual receivable?

A contractual receivable, for example, for the sale or provision of goods or services arises from contracts that are evidenced by:

- willing parties entering into the contract;
- rights and obligations for the parties to the arrangement, even though the rights and obligations do not result in the equal performance by each party; and
- performance and remedy for non-performance are enforceable by law.

Contractual receivables are accounted for using the Standard of GRAP on *Financial Instruments* (GRAP 104).

The difference between statutory and contractual receivables

The public sector is a highly regulated environment with overarching Acts and Regulations that govern the actions or behaviour of entities. Even if an entity's operations are regulated by legislation, it does not automatically mean that all the transactions it undertakes arise from statute. Even if an entity is required to render certain services or undertake certain activities in terms of the Constitution of the Republic of South Africa, 1996, it does not necessarily mean that these services or activities are statutory.

Contractual and statutory arrangements can be distinguished in the following ways:

	Statutory receivables	Contractual receivables
How the receivable arises	Undertaken in terms of legislation or similar means.	Governed by common law.
Nature of the transaction	Parties are usually compelled to transact with each other in terms of legislation or similar means.	Parties are willing, and transactions are entered into voluntarily.

Remedies for non-performance	Usually outlined in legislation or similar.	Agreed between the parties and enforced by law.

The Board needs your comment

The Board is undertaking a post-implementation review (PIR) of GRAP 108 to assess the impact of the requirements in GRAP 108 on users and preparers. For this purpose, the Board approved an *Invitation to Participate in the PIR of GRAP 108 (ED 207)*. Comment on ED 207 closes on 27 October 2024.

The Board welcomes comment from all stakeholders on any aspect of GRAP 108. One of the areas on which the Board seeks comment is to understand whether entities have challenges distinguishing receivables as statutory or contractual and, if any, what these challenges are.

Comment may also be provided through roundtable or direct consultations with the ASB. Contact *amandab@asb.co.za* if you want to be invited to these consultations.

Contact us
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