Accounting Standards Board

Newsletter March 2024 Edition

In this edition of the newsletter:

- Do you know when to recognise and how to initially measure statutory receivables?
- Message from the CEO – What are we voting for in 2024 and where can I get information?
- Do you understand the difference between the impairment and derecognition of a statutory receivable?
- Share your challenges to subsequently measure statutory receivables with the Board

Do you know when to recognise and how to initially measure statutory receivables?

Statutory receivables, such as property tax, traffic fines, penalties, appropriations, grants or other fees charged in terms of legislation or similar means are common in the public sector. These receivables are accounted for using GRAP 108 on *Statutory Receivables*.

When should you recognise a statutory receivable?

GRAP 108 does not specify when a statutory receivable is recognised. The receivable is recognised with the related revenue transaction.

Revenue is recognised using either GRAP 9 on *Revenue from Exchange Transactions*, or GRAP 23 on *Revenue from Non-exchange Transactions (Taxes and Transfers).*

How is a statutory receivable initially measured?

Statutory receivables are initially measured at their transaction amount. The transaction amount is the amount specified in, or calculated, levied or charged in accordance with legislation or similar means, for example grant amounts specified in the Division of Revenue Act.

To initially measure a statutory receivable, the principles in GRAP 9 or GRAP 23 (as applicable) and GRAP 108 are applied. Both GRAP 9 and GRAP 23 require revenue to be measured at the "fair value" of the consideration received or receivable. The "fair value" determined by GRAP 9 or GRAP 23 is deemed to be the transaction amount for purposes of GRAP 108.

Do you have challenges to recognise and initially measure statutory receivables?

The Board is undertaking a post-implementation review (PIR) of GRAP 108 to assess if the Standard meets its objectives in providing relevant and useful information to users, and to understand preparers' challenges with applying the Standard. For this purpose, the Board published an *Invitation to Participate in the PIR of GRAP 108* [ED 207].

One of the areas on which the Board seeks comment is to understand entities' challenges to recognise and initially measure statutory receivables.

How to share your comment

Comment may also be shared at roundtable consultations. Contact amandab@asb.co.za if you want to be invited to these consultations.

Message from the CEO – What are we voting for in 2024 and where can I get information?

We officially have the day we will be voting – 29 May 2024. So, what will we be voting for when we go to the polls? If you're like me, I probably didn't understand too much about government and how it operates until I actually started working in the public sector.

This year, we will have national and provincial elections. This means it is an opportunity to influence who will be involved in determining the overarching policies of government at a macro-level. This includes policies on education, healthcare, defence, policing, human settlements, the environment, home affairs, and the list goes on.

The national and provincial budgets set out what money national and provincial government will collect and how this money will be spent on government's various activities. These budgets are tabled in Parliament and the provincial legislatures respectively. Thereafter, individual departments, public entities, and others develop their own budgets based on the allocations they receive. Budgets are accompanied by Annual Performance Plans that outline the service delivery and other activities government and its entities will undertake in a year.

A key measure of any government's (and entities') success is comparing their spending and other plans to actual activity. The actual financial activity for government and its entities is presented in the financial statements. A detailed comparison of the actual financial results and the budgets are included in the financial statements. The financial statements are included in an Annual Report, and once audited, is tabled in Parliament. The Annual Report includes a range of useful information, including detailed information about the actual services and other activities delivered versus its annual plan.

Where can you find the Annual Reports? While they should be available on each individual entity's website, this can be time consuming. All entities' Annual Reports – as tabled in Parliament – are available from the Parliamentary Monitoring Group.

Next month, we will explore some key information in the financial statements and what it means.

Do you understand the difference between the impairment and derecognition of a statutory receivable?

After initial recognition, an entity's statutory receivable balance, as reflected in the statement of financial position, may be reduced by an impairment or derecognition. These two concepts are distinct economic phenomena that impact the statement of financial position differently.

Impairment of statutory receivables

A statutory receivable is impaired when the cash flows that an entity expects to receive is less than the value reflected on its statement of financial position. This may be, for example, due to financial difficulty experienced by a debtor. Impairment results in the loss of future economic benefits associated with an asset, i.e. the cash or another financial asset that will be received to settle the receivable.

GRAP 108 on *Statutory Receivables* requires an entity to assess, at each reporting date, if there are any indications that a statutory receivable, or group of statutory receivables may be impaired.

When a statutory receivable is impaired, it continues to be reflected on the entity's statement of financial position as the entity still has a right to the future economic benefits associated with the receivable.

Derecognition of a statutory receivable

Derecognition of a statutory receivable means that the entity no longer controls the right to future economic benefits associated with the receivable. This will be, for example, when a debtor settles its debt, or when the entity no longer has a right to collect the amount owed to it.

GRAP 108 includes criteria to determine if a statutory receivable should be derecognised. Derecognition of a statutory receivable will result in the removal of the receivable from the entity's statement of financial position.

Share your challenges to distinguish the impairment and derecognition of a statutory receivable with the Board

The Accounting Standards Board is undertaking a post-implementation review (PIR) of GRAP 108 [ED 207] to assess if the Standard meets its objectives in providing relevant and useful information to users, and to understand preparers' difficulties and implementation challenges with applying the Standard.

If you have any challenges to distinguish whether a statutory receivable should be impaired or derecognised, the Board would like to hear from you.

How can you share your comments?

You can share your views by submitting written comment on ED 207, or by participating in roundtable consultations. Please contact amandab@asb.co.za if you want to participate in these consultations.

Share your challenges to subsequently measure statutory receivables with the Board

To understand preparers' difficulties with applying GRAP 108 on *Statutory Receivables*, the Board is undertaking a post-implementation review (PIR) [ED 207]. One of the areas in which the Board seeks input is on the subsequent measurement challenges that preparers experience with statutory receivables.

What are the subsequent measurement requirements for a statutory receivable?

An entity subsequently measures a statutory receivable using the cost method. This method involves adjusting the transaction amount for (a) accrued interest and other charges, for example penalties on late payments, and (b) impairment. The transaction amount is the initial amount at which a statutory receivable is recognised with reference to the amount specified in, or calculated, levied or charged in accordance with legislation or similar means.

Interest and other charges accrued

Interest and other charges, for example fines and penalties, are levied on overdue or unpaid statutory receivables in terms of legislation or similar means. The interest rate and the basis used for levying the interest is often specified in legislation or similar means. The interest and other charges are recognised and measured in accordance with the amounts specified in legislation or similar means.

Any interest and other charges follow the initial classification of the statutory receivable based on the nature of the transaction.

Impairment

GRAP 108 requires an entity to assess at each reporting date if there is an indication that a receivable or group of receivables is impaired. If there is an indication that a statutory receivable or group of statutory receivables is impaired, the impairment loss is measured as the difference between the estimated future cash flows and the carrying amount of the receivable.

How can you share your challenges?

Preparers are invited to share their comment on ED 207 by participating in roundtable consultations. You can contact amandab@asb.co.za if you want to participate in these consultations.

You can also share your challenges by submitting written comment to info@asb.co.za.

Contact us
E-mail : info@asb.co.za

Disclaimer

The Newsletter has been prepared by the Secretariat of the ASB for information purposes only. It has not been reviewed, approved or otherwise acted on by the Board.