Presentation of Reserves in the Financial Statements

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ACCOUNTING STANDARDS BOARD

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Purpose

- Explain **what reserves are** and **what they are not** in terms of the Standards of GRAP.
- Clarify which reserves are permitted in terms of the Standards, including when "other reserves" may arise.
- Explain **how movements affecting reserves flow through the financial statements**.

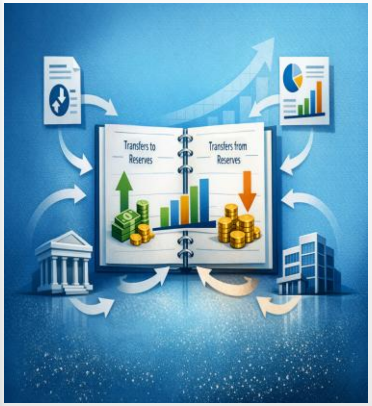
What are Reserves?

- Components of **net assets** accumulated from
  - ✓ past surpluses, deficits or
  - ✓ Transactions required or permitted by the Standards of GRAP.
- **Do not** represent cash set aside.
- May reflect **restrictions or specific purposes,** where this information is relevant to users understanding of the financial statements.

How do reserves flow through the statements?

How reserves flow through the financial statements

- Revenue and expenses are **first** recognised in **surplus or deficit, unless a Standard of GRAP requires or permits otherwise.**
- The net surplus or deficit for the period is **then transferred** to statement of changes in net assets as accumulated surplus or deficit.
- Items are not recognised directly in the statement of changes in net assets, except where the Standards of GRAP specifically require this.



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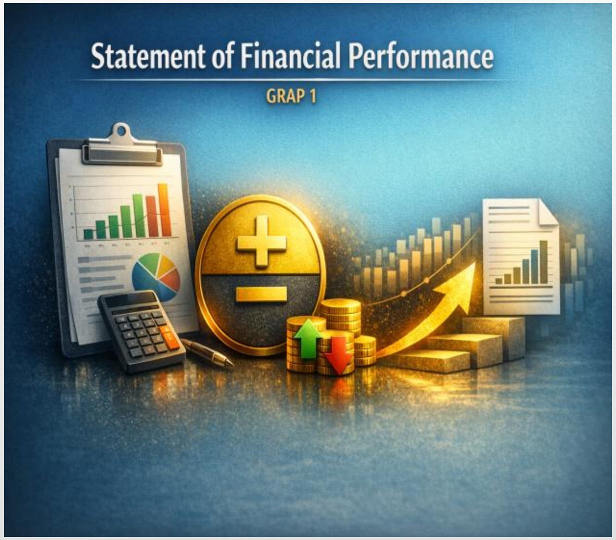
Statement of financial performance

What the statement of financial performance shows (GRAP 1)

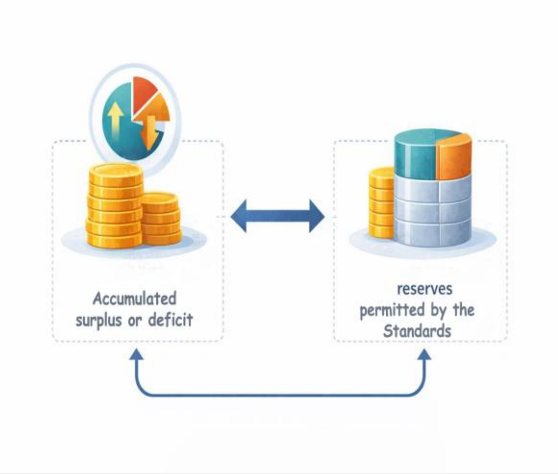
- ✓ Revenue and expenses for the period.
- ✓ The resulting surplus or deficit for the period.
- ✓ This surplus or deficit reflects financial performance for the period.



Statement of changes in net assets

What the statement of changes in net assets shows (GRAP 1)

- The surplus or deficit for the period
- Transfers between:
  - ✓ accumulated surplus or deficit, and
  - ✓ reserves permitted by the Standards.
- Opening and closing balances of accumulated surplus/deficit and each reserve for the current and comparative period.



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Other reserves

"Other reserves" – a key practice issue

- The Standards do not permit entities to create reserves subjectively.
- Reserves may be presented separately only when:
  - ✓ Required or permitted by the Standards of GRAP, and
  - ✓ Their separate presentation provides useful information to users of the financial statements.

Generic reserves such as "other reserves" often indicate:

- ✓ Presentation that does not enhance usefulness, or
- ✓ Inappropriate direct recognition in net assets.

Applying the requirements in practice

- Identify whether a reserve is specifically required or permitted in the Standards of GRAP.
- Ensure all revenue and expenses are:
  - ✓ recognised in surplus or deficit first, **unless a Standards of GRAP require or permit otherwise,** and
  - ✓ only then transferred to net assets.
- Use clear, descriptive reserve accounts that explain:
  - ✓ the nature and purpose of the reserve, and
  - ✓ any restrictions, where this information is relevant to users' understanding of the financial statements.

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