



ACCOUNTING STANDARDS BOARD

THE STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE ON

TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105)

Acknowledgement

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Introduction

This pronouncement is set out in paragraphs .01 to .76. 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.

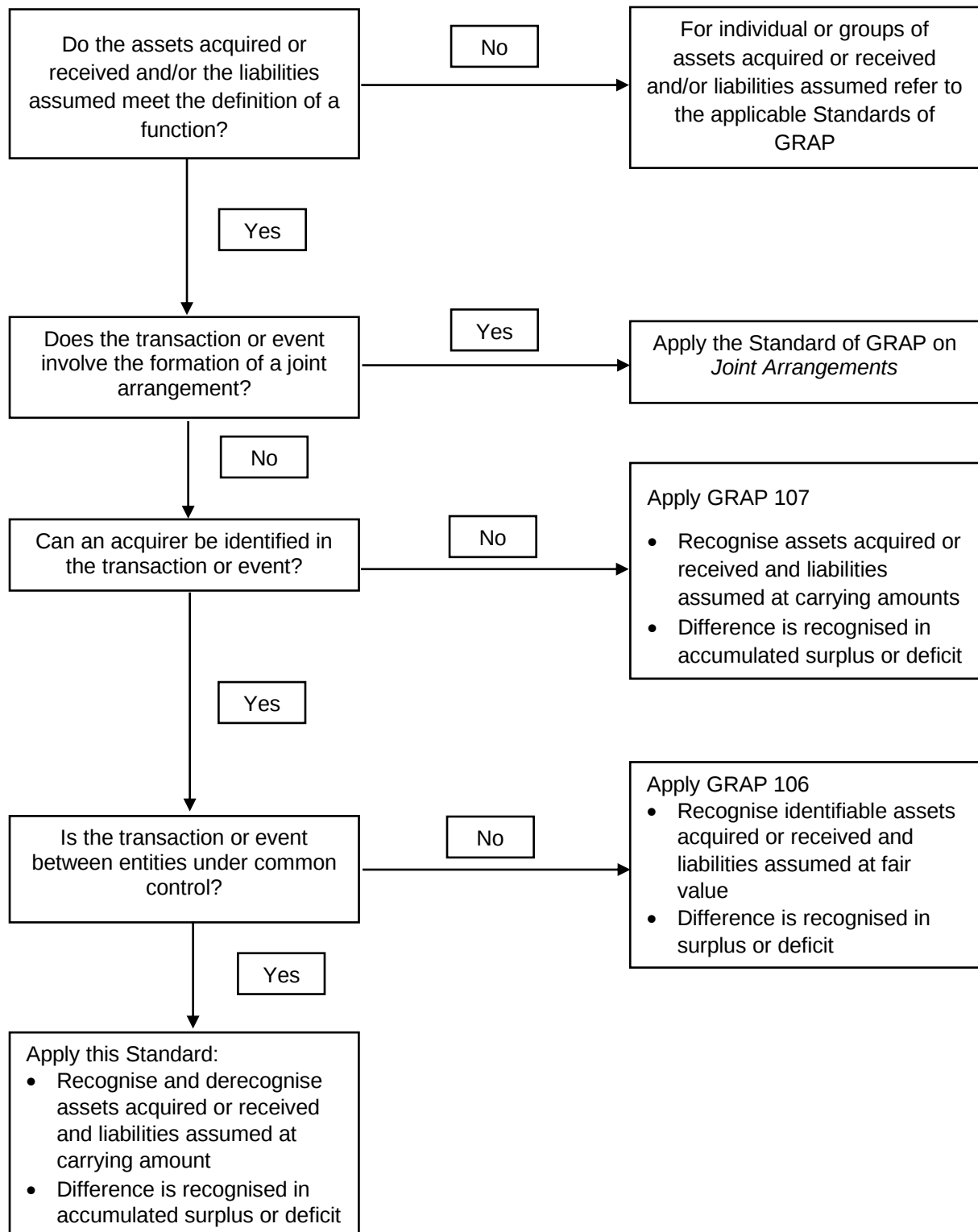
¹ In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

- .01 The objective of this Standard is to establish principles and requirements for the acquirer and transferor in a transfer of functions between entities under common control and its effects.

Scope

- .02 ***An acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for a transfer of functions between entities under common control. This Standard does not apply to:***
- (a) ***the acquisition or receipt of an asset or a group of assets (and any related liabilities), and/or a liability or a group of liabilities that do not constitute a function. In such cases an entity shall identify and recognise the individual asset or a group of assets (and any related liabilities), and/or a liability or group of liabilities transferred;***
 - (b) ***a transfer of functions between entities not under common control (see the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106));***
 - (c) ***a merger (see the Standard of GRAP on Mergers (GRAP 107)); and***
 - (d) ***the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.***
- .03 ***The requirements of this Standard do not apply to the transfer of an investment entity as defined in the Standard of GRAP on Consolidated Financial Statements, or an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.***
- .04 Entities should consider the following diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger:



- .05 The acquisition or receipt of an asset or a group of assets (and any related liabilities), and/or the assumption of a liability or group of liabilities are excluded from the scope of this Standard. These arrangements result in the acquisition, receipt of an asset or a group of assets (and any related liabilities) and/or the assumption or transfer of a liability or a group of liabilities by an entity rather than the transfer of functions. For example, when a national roads agency takes control of a provincial road from various provincial departments, it is a transfer of individual assets.
- .06 If no acquirer can be identified in the transaction or event, GRAP 107 should be applied. A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.
- .07 A transaction or event in which an acquirer can be identified, and that occurs between entities under common control falls within the scope of this Standard. A transfer of functions between entities under common control is a reorganisation and/or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions, and that control is not transitory.
- .08 A transaction or event in which an acquirer can be identified and that are between entities not under common control should be accounted for in terms of GRAP 106.

Definitions

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

*An **acquirer** is the entity that gains control of one or more functions in a transfer of functions.*

*A **binding arrangement** is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.*

***Carrying amount of an asset or liability** is the amount at which an asset or liability is recognised in the statement of financial position.*

***Control**: An entity controls another entity when the entity is exposed, or has rights to variable benefits from its involvement with the other entity and has the ability to effect the nature and amount of those benefits through its power over the other entity.*

*A **function** is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purposes of achieving an entity's objectives, by providing goods and/or services or generating revenue.*

*A **merger** is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.*

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.

A transferor is the entity that loses control of one or more functions that the acquirer obtains control in a transfer of functions.

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

Binding arrangements

.10 Binding arrangements can be evidenced in several ways:

- (a) a contract concluded between the parties;
- (b) legislation, supporting regulations or similar means including, but not limited to, laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or
- (c) through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties.

Common control

.11 For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity. For example, a national Health Department is mandated through legislation to transfer its primary school nutrition programme to the national Education Department. Because the national Education Department is identified as the acquirer, and both departments are within the national sphere of government and within the same economic entity, the transfer of functions falls within the scope of this Standard.

.12 The extent of non-controlling interests in each of the entities that are involved in a transfer of functions before and after the transfer of functions is not relevant in determining whether the transaction or event involves entities under common control.

Function

.13 A function is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purposes of achieving an entity's objectives by providing goods and/or services or generating revenue. Although a

function usually has outputs, outputs are not required for an integrated set of activities and related assets and/or liabilities to qualify as a function. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole entity. For the purpose of this Standard, the three elements of a function are defined as follows:

- (a) **Input:** Any resource that creates outputs, or has the ability to contribute to the creation of outputs when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, and the ability to obtain access to necessary materials or rights and employees.
- (b) **Process:** Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but the intellectual capacity of an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)
- (c) **Output:** The result of inputs and processes applied to achieve and improve efficiency of those inputs that provide goods and/or services or generate revenue. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

Optional test to assess if a set of activities, assets and/or liabilities is a not a function (see Appendix A paragraphs AG1. to AG5.)

- .14 An entity may elect to apply an optional test (the concentration test) to assess if an acquired or received set of activities, assets and/or liabilities is a not a function. The concentration test is met if substantially all of the carrying amounts of the gross assets acquired or received is concentrated in a single asset or group of similar assets (see Appendix A paragraph AG2.). An entity may elect to apply the concentration test separately for each transaction or other event.
- .15 If the concentration test is not met, or if the entity elects not to perform the assessment, the requirements in paragraphs .16 to .19 should be applied to determine if the acquired or received set of activities and assets and/or liabilities are a function.

Elements of a function

- .16 Although functions usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a function. To be capable of being conducted and managed for the purposes identified in the definition of a function, an

integrated set of activities and assets and/or liabilities requires two essential elements - inputs and processes applied to those inputs. A function need not include all of the inputs or processes that the transferor used in operating that function. However, to be considered a function, an integrated set of activities and assets and/or liabilities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Appendix A paragraphs AG8. to AG10. provide guidance on how to assess whether an acquired or received process is substantive.

- .17 If an acquired or received set of activities and assets and/or liabilities has outputs, continuation of revenue does not on its own indicate that both an input and substantive process have been acquired or received.
- .18 The nature of the elements of a function varies by sector and by the structure of an entity's operations (activities), including the entity's stage of development. Established functions often have many different types of inputs, processes and outputs, whereas new functions often have few inputs and processes and sometimes only a single output (product). Nearly all functions also have liabilities, but a function need not have liabilities. Furthermore, an acquired or received set of activities and assets that is not a function might have liabilities.
- .19 Determining whether a particular set of activities and assets and/or liabilities is a function should be based on whether the integrated set is capable of being conducted and managed as a function by another entity. Thus, in evaluating whether a particular set is a function, it is not relevant whether a transferor operated the set as a function or whether the acquirer intends to operate the set as a function.

Identifying the acquirer and transferor

- .20 ***For each transfer of functions between entities under common control an acquirer and transferor shall be identified.***
- .21 The terms and conditions of a transfer of functions between entities under common control are set out in a binding arrangement.
- .22 The binding arrangement governing the terms and conditions of a transfer of functions may identify which entity to the transaction or event is the transferor(s) and which entity is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which entity is the acquirer and which entity is the transferor. For example, if the Department of Health used to feed primary school children on a daily basis and it subsequently ceases to do so following a transfer of the programme to the Department of Education, this is a clear indication that the Department of Health is the transferor and the Department of Education is the acquirer. Additional evidence may be that an entity no longer receives funding from the fiscus to carry out certain activities.

- .23 In a transfer of functions effected primarily by transferring cash or other assets (where applicable) and/or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets (where applicable) and/or incurs the liabilities.
- .24 In a transfer of functions involving more than one entity, one of the entities that existed before the transaction or event may be identified as the acquirer on the basis of available evidence. For example, if the management of one of the entities involved in the transfer of functions dominates the selection of the management team in the newly establish entity, the dominant entity is usually the acquirer.
- .25 Determining the acquirer should include a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event should be accounted for in terms of GRAP 107.

Determining the transfer date

- .26 ***The acquirer and the transferor shall identify the transfer date, which is the date on which the acquirer obtains control of the function and the transferor loses control of that function.***
- .27 The binding arrangement governing the terms and conditions of a transfer of functions between entities under common control may specify that the transaction or event is effective from a specific date. The date on which the acquirer obtains control of one or more functions is generally the date on which the acquirer transfers the consideration (if any), and/or acquires or receives the assets and/or assumes the liabilities of the transferor as identified in the binding arrangement – closing date. However, the acquirer may obtain control on a date that is either earlier or later than the closing date. For example, legislation passed in Parliament on 1 April 20X1 requires Department A to take over the functions of Department B. Both Departments are within the same province. A directive is issued stating that the effective date of the transfer is 1 June 20X1. Department A however only obtains control of the assets and liabilities on 1 July 20X1 through a memorandum of understanding drawn up between the two departments. As Department A can only use or otherwise benefit from the transfer of functions in pursuit of its objectives, or exclude or otherwise regulate the access of others to those benefits from 1 July 20X1, the transaction or event should be accounted for as from 1 July 20X1. The acquirer should consider all relevant facts and circumstances in identifying the transfer date.
- .28 The fact that a binding arrangement exists creates an obligation for either one or both of the parties to act in order to fulfil the terms and conditions of the arrangement. This means that under the binding arrangement, the acquirer has an enforceable claim over the transferor either, to relinquish control of the entity, or over the assets, liabilities and non-controlling interests of the function to be transferred.

Recognising the assets acquired, received or transferred, liabilities assumed or relinquished, and any non-controlling interests

Recognition principle

- .29** *As of the transfer date, the acquirer shall recognise the assets acquired or received, liabilities assumed and any non-controlling interests received in a transfer of functions. The recognition of assets acquired or received, liabilities assumed, and any non-controlling interests acquired or received by the acquirer, and the derecognition of assets and/or liabilities by the transferor is subject to the conditions specified in the paragraphs below.*

Criteria for the acquirer and transferor

- .30** The assets acquired or received and/or liabilities assumed that qualify for recognition by the acquirer or derecognition by the transferor in a transfer of functions between entities under common control are normally governed by the terms and conditions of the binding arrangement.
- .31** The assets acquired, received or transferred and/or the liabilities assumed or relinquished must be part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions. The acquirer and transferor should apply the guidance in paragraphs .32 and .33 to determine which assets are acquired, received or transferred and/or which liabilities are assumed or relinquished as part of a transfer of functions and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable Standard of GRAP.

Determining what is part of the transfer of functions transaction

- .32** *The acquirer and the transferor may have a pre-existing relationship or other relationship before or when negotiations for a transfer of functions began, or they may enter into a binding arrangement during the negotiations that is separate from a transfer of functions i.e. amounts that are not part of that transferred by the transferor. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and transferor exchanged in a transfer of functions. The acquirer shall apply this Standard only to the consideration transferred, if any, and the assets acquired, received liabilities assumed and any non-controlling interests acquired or received by the acquirer in a transfer of functions as governed by the terms and conditions of the binding arrangement. Similarly, the transferor shall apply this Standard to recognise only the consideration received (if any) and derecognise the assets transferred and/or liabilities relinquished in a transfer of functions as governed by the terms and conditions of the binding arrangement. Apart from*



those transactions identified in paragraphs .35 and .36, separate transactions shall be accounted for in accordance with the applicable Standards of GRAP.

- .33 A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer, rather than primarily for the benefit of the transferor before the transfer of functions, is likely to be a separate transaction. The following are examples of separate transactions that are not part of a transfer of functions:
- (a) a transaction that in effect settles pre-existing relationships between the acquirer and the transferor;
 - (b) a transaction that reimburses the transferor for paying the acquirer's acquisition-related costs; and
 - (c) contributions received from third parties as compensation for future services as a result of undertaking the transfer of functions.

Paragraphs .35 to .37 provide related guidance.

- .34 The acquirer and transferor should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of a transfer or function or whether the transaction is separate:
- (a) **The reasons for the transaction** — Understanding the reasons why the parties to the transfer of functions entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred, if any, and the assets acquired, received or transferred, and/or liabilities assumed or relinquished. For example, if a transaction is arranged primarily for the benefit of the acquirer rather than primarily for the benefit of the transferor before the transfer of function, that portion of the consideration (and any related assets and/or liabilities) is less likely to be part of the exchange of the transferor. Accordingly, the acquirer would account for that portion separately from the transfer.
 - (b) **Who initiated the transaction** — Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the transferor. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits or service potential to the acquirer with little or no benefit received by the transferor before the transfer of functions. On the other hand, a transaction or arrangement initiated by the transferor is less likely to be for the benefit of the acquirer and more likely to be part of the transfer of functions transaction.
 - (c) **The timing of the transaction** — The timing of the transaction may also provide insight into whether it is part of the transfer of functions. For example, a transaction between the acquirer and transferor that takes place during the negotiations of the terms of the transfer of functions may have been entered into in contemplation of the transfer of function to provide future economic benefits

or service potential to the acquirer. If so, the transferor before the transfer of functions is likely to receive little or no benefit from the transaction except for benefits they receive as part of the transfer of functions.

Effective settlement of a pre-existing relationship between the acquirer and transferor in a transfer of functions (application of paragraph .33(a))

.35 The acquirer and transferor may have a relationship that existed before they contemplated the transfer of functions, referred to here as a "pre-existing relationship". A pre-existing relationship between the acquirer and transferor may be contractual (for example, vendor and customer or supplier) or non-contractual (for example, plaintiff and defendant).

.36 If a transfer of functions in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

- (a) for a pre-existing non-contractual relationship (such as a lawsuit), fair value.
- (b) for a pre-existing contractual relationship, the lesser of (i) and (ii):
 - (i) The amount by which the binding arrangement is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable contract is a contract that is unfavourable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.)
 - (ii) The amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the binding arrangement is unfavourable.

If (ii) is less than (i), the difference is included as part of a transfer of functions accounting. The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset and/or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

.37 A pre-existing relationship may be a binding arrangement that the acquirer recognises as a reacquired right. If the binding arrangement includes terms that are favourable or unfavourable when compared with pricing for current market transactions for the same or similar items, the acquirer recognises, separately from the transfer of functions, a gain or loss for the effective settlement of the binding arrangement, measured in accordance with paragraph .35.

Criteria for the acquirer

- .38 The assets received and/or liabilities assumed must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements*² and the recognition criteria in the applicable Standards of GRAP at the transfer date.
- .39 Costs that the acquirer expects, but which the acquirer is not obliged to incur in the future to effect its plan to exit an activity of the transferor or to terminate the employment of, or relocate the transferor's employees, are not liabilities at the transfer date. Therefore, the acquirer does not recognise those costs as part of a transfer of functions. Instead, the acquirer recognises these costs in its financial statements after the transfer has occurred, in accordance with the applicable Standards of GRAP.

Accounting by the acquirer

Initial recognition and measurement

- .40 ***As of the transfer date, the acquirer shall recognise the purchase consideration paid (if any) to the transferor, and all the assets acquired or received, the liabilities assumed, and any non-controlling interests acquired or received in a transfer of functions. Recognition of the assets acquired or received, liabilities assumed and any non-controlling interests acquired or received is subject to the conditions specified in paragraphs .30, .31, .38 and .39.***

Measurement principle

- .41 ***The acquirer shall measure the assets received, liabilities assumed and non-controlling interests at their carrying amounts as of the transfer date.***
- .42 This Standard defines the carrying amount of an asset or liability as the amount at which an asset or liability is recognised in the statement of financial position. Depending on the type of asset acquired or received and/or liability assumed, the carrying amount may comprise different amounts. For example, the carrying amount of an item of property, plant and equipment comprises the asset's cost less accumulated depreciation and accumulated impairment losses. On the transfer date, the acquirer recognises these amounts separately in its financial statements.
- .43 If, on the transfer date, the transferor did not apply Standards of GRAP, the acquirer should adjust the basis of accounting used for the assets acquired or received, and/or liabilities assumed to align it to Standards of GRAP prior to the transfer.
- .44 The consideration paid by the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the acquirer

² 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*.

should de-recognise such assets on the transfer date at their carrying amounts, i.e. the amount at which the asset is recognised by the acquirer in its statement of financial position as of the transfer date.

- .45 An entity often obtains control of a function in a non-exchange transaction in which it transfers no consideration. Such circumstances include, but are not limited to:
- (a) the transfer of a function to the entity by a donor for no consideration. Such transfers may take the form of a bequest; and
 - (b) the transfer of a function to the entity where the function has net liabilities. The entity may accept the acquisition or receipt of net liabilities to prevent the cessation of the function.
- .46 An acquirer that obtains control of a transfer of functions in a non-exchange transaction in which it transfers no consideration, recognises a surplus or deficit in accordance with paragraph .40.

Recognising and measuring components arising as a result of the transfer of functions

- .47 *The acquirer shall recognise within accumulated surplus and deficit amounts equal and opposite to the following items:***
- (a) *the difference between the carrying amounts of the assets acquired or received;***
 - (b) *the carrying amounts of liabilities assumed;***
 - (c) *the carrying amounts of the transferor's non-controlling interests; and***
 - (d) *the consideration paid (if any) to the transferor and adjustments required to the basis of accounting as described in paragraph .43.***

Measurement period

- .48 *If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets, liabilities and non-controlling interests if new information is obtained about facts and circumstances that existed as of the transfer date, and if known, would have resulted in the recognition of those assets, liabilities and non-controlling interests as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of***

the transfer date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the transfer date.

- .49 The measurement period is the period after the transfer date during which the acquirer may adjust the provisional amounts recognised for a transfer of functions. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the assets, liabilities and non-controlling interests as of the transfer date in accordance with the requirements of this Standard:
- (a) the assets acquired or received, liabilities assumed, and any non-controlling interest in the transfer of functions;
 - (b) the consideration transferred, if any, in the transfer of functions; and
 - (c) the resulting excess of the purchase consideration paid (if any) over the assets received, liabilities assumed and non-controlling interests acquired or received.

The information necessary to identify and measure the assets, liabilities and any non-controlling interests in the transferor will generally be available at the transfer date. However, this may not be the case where the transferor has previously prepared their financial statements using different accounting policies.

- .50 The acquirer should consider all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the transfer date. Relevant factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the transfer date is more likely to reflect circumstances that existed at the transfer date than is information obtained several months later.
- .51 The acquirer recognises an increase (decrease) in the provisional amount recognised for an asset, liability and any non-controlling interests by adjusting accumulated surplus or deficit in accordance with paragraph .47. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset, liability and any non-controlling interests. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the transferor's facilities, part or all of which are covered by the transferor's liability insurance policy. If the acquirer obtains new information during the measurement period about the transfer date carrying amounts of that liability, the adjustment to the accumulated surplus or deficit from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to accumulated surplus or deficit resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

- .52 During the measurement period, the acquirer should recognise adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the acquirer should revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.
- .53 After the measurement period ends, the acquirer should revise the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors*.

Acquisition-related costs

- .54 Acquisition-related costs are costs that the acquirer or transferor incurs to effect the transfer of functions. These costs include finders fees, advisory, legal, accounting, valuation and other professional or consulting fees, general administrative costs including the costs of maintaining an internal acquisitions department, and any costs of registering and issuing debt and equity securities. The acquirer should account for acquisition-related costs as expenses in the period in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities should be recognised in accordance with the Standard of GRAP on *Financial Instruments* (GRAP 104).

Subsequent measurement

- .55 ***The acquirer shall measure and account for assets acquired or received, liabilities assumed and any non-controlling interests in a transfer of functions in accordance with the applicable Standards of GRAP for those items, depending on their nature.***
- .56 ***At the transfer date, the acquirer shall classify or designate the assets acquired or received and/or liabilities assumed as necessary to subsequently apply other Standards of GRAP. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date.***
- .57 In some situations, the Standards of GRAP provide for different accounting depending on how an entity classifies or designates a particular asset and/or liability. Examples of classifications or designations that the acquirer should make on the basis of the relevant conditions as they exist at the transfer date include but are not limited to:
- (a) the classification of particular financial assets and/or liabilities as measured at fair value or amortised cost in accordance with GRAP 104; and
 - (b) the assessment of whether an embedded derivative should be separated from the holders of compound financial instruments in accordance with GRAP 104.

.58 This Standard provides two exceptions to the principle in paragraph .56:

- (a) classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on *Leases* (GRAP 13); and
- (b) classification of a contract as an insurance contract in accordance with the IFRS Accounting Standard(s) on insurance.

The acquirer should classify those contracts on the basis of the terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date).

Accounting by the transferor

Derecognition of assets transferred, liabilities relinquished and non-controlling interests transferred

.59 *As of the transfer date, the transferor shall derecognise from its financial statements, all the assets transferred, liabilities relinquished and non-controlling interests transferred in a transfer of functions at their carrying amounts.*

.60 Until the transfer date, the transferor should continue to measure these assets, liabilities and non-controlling interests in accordance with applicable Standards of GRAP.

.61 The consideration received from the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration received is in the form of other assets, the transferor should measure such assets at their fair value on the transfer date in accordance with the applicable Standard of GRAP.

.62 *The difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received (if any) from the acquirer shall be recognised in accumulated surplus or deficit.*

Disclosure

.63 *The acquirer and transferor shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a transfer of functions that occurs either:*

- (a) *during the current reporting period; or***
- (b) *after the end of the reporting period but before the financial statements are authorised for issue.***

.64 To meet the objective in paragraph .63, the acquirer and transferor should disclose the following information for each a transfer of functions that occurs during the reporting period:

- (a) the accounting policy adopted for a transfer of functions that occurred during the reporting period;
 - (b) the name and description of the entities involved in the transfer of functions, and a brief description of the functions transferred;
 - (c) the transfer date;
 - (d) the primary reason for the transfer of functions and a description of how the acquirer obtained control of the functions, where applicable, the legal basis for the transfer of functions; and
 - (e) the amounts recognised as of the transfer date for each major class of assets acquired or received and/or transferred and/or liabilities assumed or relinquished.
- .65 For a transaction that is recognised separately from the acquisition or receipt or transfer of assets, and/or assumption or relinquish of liabilities in accordance with paragraph .32:
- (a) a description of each transaction;
 - (b) how the transaction was accounted for;
 - (c) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and
 - (d) if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.
- .66 The disclosure of separately recognised transactions required by paragraph .65 should include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of financial performance in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised should also be disclosed.
- .67 For individually immaterial transfer of functions occurring during the reporting period that are material collectively, the acquirer and transferor should disclose in aggregate the information required by paragraphs .65 and .66.
- .68 If the specific disclosures required by this and other Standards of GRAP do not meet the objectives set out in paragraphs .64 to .67 and .69 to .72, the acquirer and transferor should disclose whatever additional information is necessary to meet those objectives.

Acquirer

- .69 To meet the objective in paragraph .63 the acquirer should disclose the following information for each transfer of functions that occurs during the reporting period:

- (a) for each affected line item in the financial statements, the amounts recognised as of the transfer date for each major class of asset acquired or received and/or liability assumed;
- (b) the difference between the carrying amounts of the assets acquired or received, the liabilities assumed, the non-controlling interests and the consideration paid (if any) to the transferor and any adjustments required to the basis of accounting as described in paragraph .43, as a separate line item in net assets;
- (c) additional contingent liabilities and contingent assets disclosed attributable to a transfer of functions; and
- (d) revenue and expenditure attributable to a transfer of functions subsequent to its transfer.

Financial statements of subsequent periods need not repeat these disclosures.

.70 If the transfer date of a transfer of functions is after the end of the reporting period but before the financial statements are authorised for issue, the acquirer should disclose the information required by paragraphs .65 and .66 unless the initial accounting for the transfer of functions is incomplete at the time the financial statements are authorised for issue. In that situation, the acquirer should describe which disclosures could not be made and the reasons why they cannot be made.

.71 *The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments in the current reporting period that relate to transfer of functions that occurred in the period or previous reporting periods.*

.72 To meet the objective in paragraph .71, the acquirer should disclose the following information if the initial accounting for a transfer of functions is incomplete (see paragraph .48) for particular assets, liabilities, and any consideration and the amounts recognised in the financial statements for the transfer of functions thus have been determined only provisionally:

- (a) the reasons why the initial accounting for the transfer of functions is incomplete;
- (b) the assets, liabilities, or any items of consideration for which the initial accounting is incomplete; and
- (c) the nature and the amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph .52.

Transferor

.73 *The transferor shall disclose the following, in addition to the disclosure requirements in the Standard of GRAP on Discontinued Operations*



(GRAP 100), for each transfer of functions that occurred during the reporting period:

- (a) for each affected line item in the financial statements, the carrying amount of the assets transferred, the liabilities relinquished and non-controlling interests transferred for each major class of asset and/or liability; and*
- (b) the difference between the carrying amounts of the assets transferred, the liabilities relinquished, the non-controlling interests transferred and the consideration received (if any) from the acquirer, as a separate line item in net assets.*

Financial statements of subsequent periods need not repeat these disclosures.

Transitional provisions

Initial adoption of the Standards of GRAP

- .74 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 shall be read in conjunction with each applicable directive.*

Effective date

Initial adoption of the Standards of GRAP

- .75 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 (PFMA).*

Withdrawal of the Standard of GRAP on Transfer of Functions Between Entities Under Common Control (2010)

- .76 This Standard supersedes the Standard of GRAP on Transfer of Functions Between Entities Under Common Control issued in 2010.*

Appendix A – Application guidance

This appendix is an integral part of this Standard.

Optional test to assess if a set of activities, assets and/or liabilities is not a function (see paragraph .14)

- AG1. Paragraph .14 allows an entity to choose to apply, or to not apply an optional test (the concentration test). The concentration test is a simplified assessment to decide if whether an acquired or received set of activities and assets and/or liabilities is not a function. An entity may make such an election separately for each transaction or other event.
- AG2. The concentration test is met, i.e. the activities, assets and/or liabilities is not a function, if substantially all of the carrying amounts of the gross assets acquired or received is concentrated in a single asset or group of similar assets. For the concentration test:
- (a) the carrying amounts of the gross assets acquired or received should exclude cash and cash equivalents;
 - (b) the carrying amounts of the gross assets acquired or received should include any consideration transferred (plus the carrying amount of any non-controlling interest and the carrying amount of any previously held interest) in excess of the carrying amounts of net assets acquired or received. The carrying amounts of the gross assets acquired or received may normally be determined as the total obtained by adding the carrying amounts of the consideration transferred (plus the carrying amount of any non-controlling interest and the carrying amount of any previously held interest) to the carrying amounts of the liabilities assumed, and then excluding the items identified in subparagraph (a). However, if the carrying amounts of the gross assets acquired or received is more than that total, a more precise calculation may sometimes be needed;
 - (c) a single asset should include any asset or group of assets that would be recognised and measured as a single asset in a transfer of functions;
 - (d) if a tangible asset is attached to, and cannot be physically removed and used separately from, another tangible asset (or from an underlying asset subject to a lease, as defined in GRAP 13, without incurring significant cost, or significant diminution in utility or carrying amount to either asset (for example, land and buildings), those assets should be considered a single asset;
 - (e) when assessing whether assets are similar, an entity should consider the nature of each single asset and the risks associated with managing and creating outputs from the assets (that is, the risk characteristics); and
 - (f) the following should not be considered similar assets:
 - (i) a tangible asset and an intangible asset;

- (ii) tangible assets in different classes (for example, inventory, infrastructure and vehicles) unless they are considered a single asset in accordance with the criterion in subparagraph (d);
 - (iii) intangible assets in different classes (for example, brand names, licences and intangible assets under development);
 - (iv) a financial asset and a non-financial asset;
 - (v) financial assets in different classes (for example, accounts receivable and investments in residual interests); and
 - (vi) assets that are within the same class of asset but have significantly different risk characteristics.
- AG3. The requirements in paragraph AG2. do not modify the guidance on similar assets in the Standard of GRAP on *Intangible Assets* (GRAP 31), nor do they modify the meaning of the term “class” in the Standard of GRAP on *Property, Plant and Equipment*, GRAP 31 and GRAP 104.
- AG4. Applying the concentration test has the following consequences:
- (a) if the concentration test is met, the set of activities and assets and/or liabilities is not a function and no further assessment is needed; or
 - (b) if the concentration test is not met, or if the entity elects not to apply the test, the entity should assess if a particular set of activities and assets and/or liabilities meets the definition of a function (see paragraph .15).
- AG5. For the definition of a function to be met, paragraph .16 explains that, to be considered a function, an acquired or received set of activities and assets and/or liabilities must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Assessing if an acquired or received process is substantive (see paragraph .16)

- AG6. Paragraphs AG7. to AG10. explain how to assess whether an acquired or received process is substantive if the transferred set of activities and assets and/or liabilities does not have outputs (paragraph AG8.) and if it does have outputs (paragraph AG10.).
- AG7. An example of an acquired or received set of activities and assets and/or liabilities that does not have outputs at the transfer date is an early-stage entity that has not started providing good and/or services. Moreover, if an acquired or received set of activities and assets and/or liabilities have future economic benefits or service potential at the transfer date, it is considered to have outputs at that date, even if subsequently it will no longer has future economic benefits or service potential, for example because it will be integrated by the acquirer.
- AG8. If a set of activities and assets and/or liabilities does not have outputs at the transfer date, an acquired or received process (or group of processes) should be

considered substantive only if:

- (a) it is critical to the ability to develop or convert an acquired or received input or inputs into outputs; and
- (b) the inputs acquired or received include both an organised workforce that has the necessary skills, knowledge or experience to perform that process (or group of processes) and other inputs that the organised workforce could develop or convert into outputs. An organised workforce is a workforce that understands and knows how to operate the process that is acquired or received as part of the transfer, to create the outputs. The outputs could include:
 - (i) intellectual property that could be used to develop a good or service;
 - (ii) other resources that could be developed to create outputs; or
 - (iii) rights to obtain access to necessary materials or rights that enable the creation of future outputs.

Examples of the inputs mentioned in subparagraphs (b)(ii) to (iii) include technology, and in-process research and development projects.

AG9. If a set of activities and assets and/or liabilities has outputs at the transfer date, an acquired or received process (or group of processes) should be considered substantive if, when applied to an acquired or received input or inputs, it:

- (a) is critical to the ability to continue producing outputs, and the inputs acquired or received include an organised workforce with the necessary skills, knowledge or experience to perform that process (or group of processes); or
- (b) significantly contributes to the ability to continue producing outputs; and
 - (i) is considered unique or scarce; or
 - (ii) cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

AG10. The following additional discussion supports both paragraphs AG8. and AG9.:

- (a) An acquired or received contract is an input and not a substantive process. Nevertheless, an acquired or received contract, for example a contract for outsourced asset management, may give access to an organised workforce. An entity should assess whether an organised workforce accessed through such a contract performs a substantive process that the entity controls, and thus has been acquired or received. Factors to be considered in making that assessment include the duration of the contract and its renewal terms.
- (b) Difficulties in replacing an acquired or received organised workforce may indicate that the acquired or received organised workforce performs a process that is critical to the ability to create outputs.

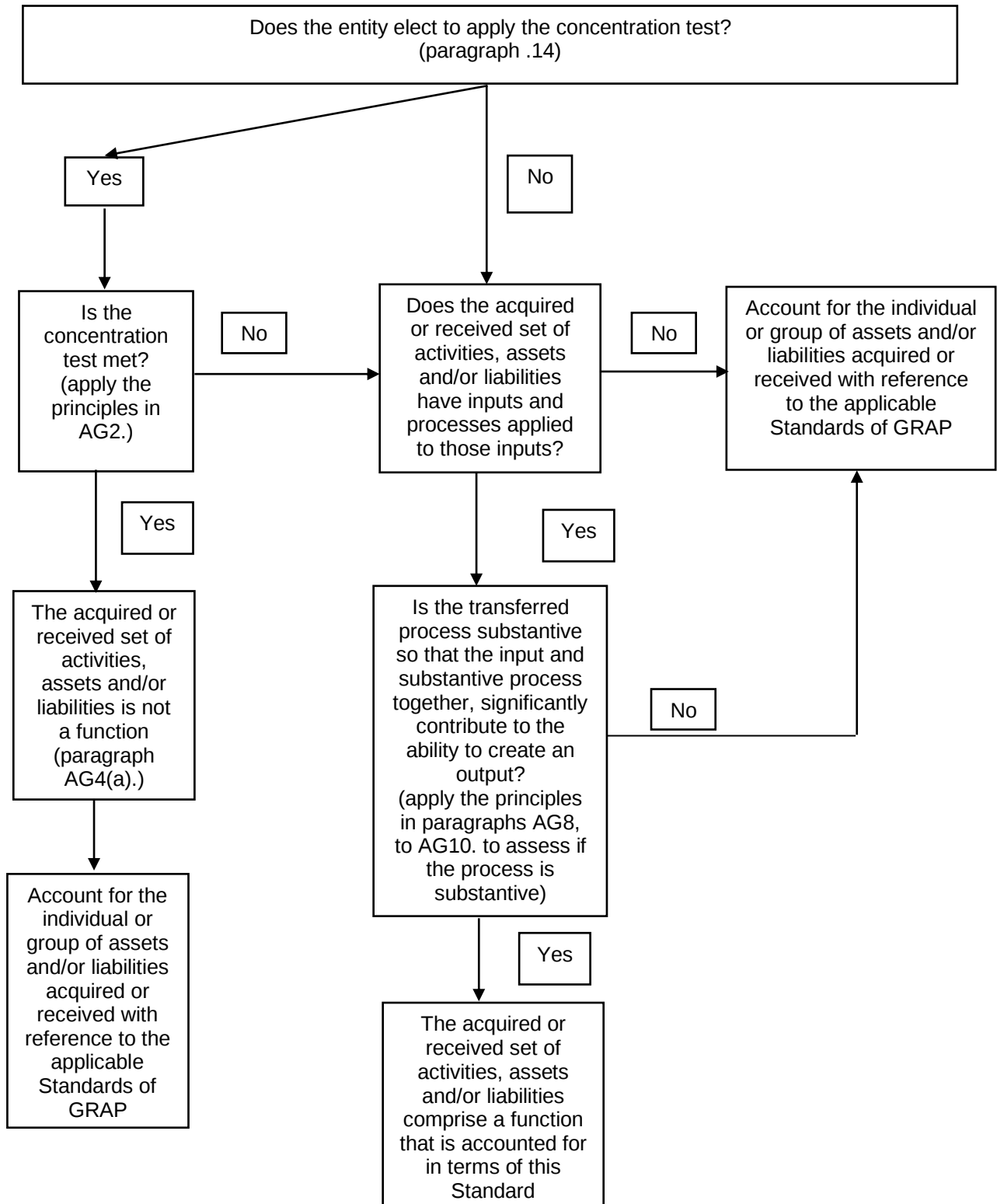


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- (c) A process (or group of processes) is not critical if, for example, it is ancillary or minor within the context of all the processes required to create outputs.

AG11. The following diagram explains the steps and related accounting to be applied to assess if an acquired or received set of activities, assets and/or liabilities where an entity elects, or not, to apply the concentration test, is a function.

Is a set of activities, and assets and/or liabilities, where an entity elects, or not elect to apply the concentration test, a function?





Appendix B - Consequential amendments to Standards of GRAP

The purpose of this appendix is to identify the consequential amendments to other Standards of GRAP resulting from the issue of this Standard. Amended text is shown with new text underlined and deleted text struck through.

B1. DIRECTIVE 2 *Transitional Provisions for Public Entities, Trading Entities, Municipal Entities, Public Technical and Vocational Education and Training Colleges, and Constitutional Institutions*

Amend and delete the following paragraphs in Directive 2:

GRAP 105 *Transfer of Functions Between Entities Under Common Control*

Transitional provisions

- .89 *The requirements ~~of~~ GRAP 105 (revised 2023) shall be applied prospectively to a transaction or event that involves a transfer of functions when the transfer date is on or after the initial adoption of the Standard GRAP 105 (revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 105 (revised 2023) paragraphs .4048 to .5345 of this Standard.*
- .90 ~~[Deleted] GRAP 105 only applies to a transfer of functions that occurs after the initial adoption of the Standard. Assets acquired and liabilities assumed as a result of a transfer of functions where the transfer date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.~~

B2. DIRECTIVE 3 *Transitional Provisions for High Capacity Municipalities*

Amend and delete the following paragraphs in Directive 3:

GRAP 105 *Transfer of Functions Between Entities Under Common Control*

Transitional provisions

- .100 *The requirements ~~in~~ GRAP 105 (revised 2023) shall be applied prospectively to a transaction or event that involves a transfer of functions when the transfer date is on or after the initial adoption of the Standard GRAP 105 (revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 105 (revised 2023) paragraphs .4048 to .4553 of this Standard.*
- .101 ~~[Deleted] GRAP 105 only applies to a transfer of functions that occurs after the initial~~



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~~adoption of the Standard. Assets acquired and liabilities assumed as a result of a transfer of functions where the transfer date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.~~

B3. DIRECTIVE 4 *Transitional Provisions for Medium and Low Capacity Municipalities and Trading Entities*

Amend and delete the following paragraphs in Directive 4:

GRAP 105 *Transfer of Functions Between Entities Under Common Control*

Transitional provisions

- .127** *The requirements ~~in~~of GRAP 105 (revised 2023) shall be applied prospectively to a transaction or event that involves a transfer of functions when the transfer date is on or after the initial adoption of the Standard GRAP 105 (revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 105 (revised 2023) paragraphs .4840 to .5345 of the Standard.*
- .128** *[Deleted] GRAP 105 only applies to a transfer of functions that occurs after the initial adoption of the Standard. Assets acquired and liabilities assumed as a result of a transfer of functions where the transfer date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.*

B4. DIRECTIVE 8 *Transitional Provisions for Parliament and Provincial Legislatures*

Amend and delete the following paragraphs in Directive 8:

GRAP 105 *Transfer of Functions Between Entities Under Common Control*

Transitional provisions

- .88** *The requirements ~~in~~of GRAP 105 (revised 2023) shall be applied prospectively to a transaction or event that involves a transfer of functions when the transfer date is on or after the initial adoption of the Standard GRAP 105 (revised 2023). The transitional provisions should be read in conjunction with the requirements on the measurement period as included in GRAP 105 (revised 2023) paragraphs .4840 to .5345 of the Standard.*
- .89** *[Deleted] GRAP 105 only applies to a transfer of functions that occurs after the initial adoption of the Standard. Assets acquired and liabilities assumed as a result of a transfer of functions where the transfer date preceded the adoption of the Standard, should not be adjusted upon initial adoption of the Standard.*

Illustrative Examples

These examples accompany, but are not part of, GRAP 105.

Assessing if a transaction or event is a transfer of functions, and if it occurs between entities under common control

- IE1. A national public entity (Entity A), that currently runs a nutrition programme for unemployed persons, is mandated by new legislation to transfer this programme to another national public entity (Entity B). Both entities are within the national sphere of government. As part of the transfer, the employees that are responsible for the nutrition programme, including any moveable assets (such as laptops and printers) used by them to perform the functions are also transferred to Entity B, along with any liabilities related to the programme.
- IE2. To assess if the transfer of functions needs to be accounted for using GRAP 105 the following should be assessed (see paragraph .04):
- (a) Do the assets acquired or received and/or the liabilities assumed meet the definition of a function?: Yes – both the employees, assets used to perform the functions and any related liabilities are transferred from Entity A to Entity B. This includes the processes applied to perform the function. The transfer is an integrated set of activities that is capable of being conducted and managed for the purpose of achieving Entity A's objectives as it will be included as a new programme, i.e. service delivery objective, of Entity A.
 - (b) Does the transaction or event involve the formation of a joint arrangement?: No, two or more parties do not have joint control, as neither of the parties involved in the transaction or event agreed the sharing of control by way of a binding arrangement. Furthermore, the unanimous consent of the parties sharing the control is also not required in the binding arrangement. A joint arrangement is therefore not established.
 - (c) Can an acquirer be identified?: Yes, Entity B is the acquirer in the new legislation.
 - (d) Is the transaction or event between entities under common control?: Yes, the transaction occurred between two entities in the same sphere of government.
- IE3. The transaction should therefore be accounted as a transfer of functions between entities under common control using GRAP 105.

Definition of a function

- IE4. The examples in paragraphs IE5. to IE30. illustrate application of the guidance paragraphs .13 to .19 (including the guidance in Appendix A paragraphs AG1. to AG11.) on the definition of a function.

Example A — receipt of staff accommodation

Scenario 1 — Background

IE5. Entity A receives a portfolio of 10 single-family homes to be used for staff accommodation that each have an in-place lease. Each single-family home includes the land, building and property improvements. Each home has a different floor area and interior design. The 10 single-family homes are located in the same area and the staff that will occupy the homes are similar. No employees, other assets, processes or other activities are received.

Scenario 1 — Application of requirements

IE6. Entity A elects to apply the optional concentration test set out in Appendix A paragraph AG2. and concludes that:

- (a) Each single-family home is considered a single asset in accordance with Appendix A paragraph AG2. for the following reasons:
 - (i) the building and property improvements are attached to the land and cannot be removed without incurring significant cost; and
 - (ii) the building and the in-place lease are considered a single asset, because they would be recognised and measured as a single asset in a transfer of functions.
- (b) The group of 10 single-family homes is a group of similar assets because the assets (all single-family homes) are similar in nature and the risks associated with managing and creating outputs are not significantly different. This is because the types of homes and staff that will occupy the homes are not significantly different.
- (c) Consequently, substantially all of the carrying amounts of the gross assets received are concentrated in a group of similar assets.

IE7. Therefore, Entity A concludes that the set of activities and assets received is not a function.

Scenario 2 — Background

IE8. Assume the same facts as in Scenario 1 except that Entity A also receives a multi-tenant office park with six 10-storey office buildings that are fully leased. The additional set of activities and assets received includes the land, buildings, leases and contracts for outsourced cleaning, security and maintenance. No employees, other assets, other processes or other activities are received. The aggregate carrying amounts associated with the office park is similar to the aggregate carrying amounts associated with the 10 single-family homes. The processes performed through the contracts for outsourced cleaning and security is ancillary or minor within the context of all the processes required to create outputs.



Scenario 2 — Application of requirements

- IE9. Entity A elects to apply the optional concentration test set out in Appendix A paragraph AG2. and concludes that the single-family homes and the office park are not similar assets, because the single-family homes and the office park differ significantly in the risks associated with operating the assets, obtaining tenants and managing tenants. In particular, the scale of operations and risks associated with the two classes of customers are significantly different. Consequently, the carrying values of the gross assets received are not substantially all concentrated in a group of similar assets because the carrying amounts of the office park are similar to the aggregate carrying amounts of the 10 single-family homes. Thus, Entity A assesses whether the set meets the minimum requirements to be considered a function in accordance with paragraphs .13 to .19 and Appendix A paragraphs AG6. to AG10.
- IE10. The set of activities and assets has outputs because it generates revenue through the in-place leases. Consequently, Entity A applies the criteria in Appendix A paragraph AG9. to determine whether any processes received are substantive.
- IE11. Entity A concludes that the criterion in Appendix A paragraph AG9(a). is not met because:
- (a) the set does not include an organised workforce; and
 - (b) Entity A considers that the processes performed by the outsourced cleaning, security and maintenance personnel (the only processes received are ancillary or minor within the context of all the processes required to create outputs (see Appendix A paragraph AG10(c).) and, therefore, are not critical to the ability to continue producing outputs.
- IE12. After considering the only processes received, those performed by the outsourced cleaning, security and maintenance personnel, Entity A also concludes that the criteria in Appendix A paragraph AG9(b). are not met. Either of the following reasons justifies that conclusion:
- (a) The processes do not significantly contribute to the ability to continue producing outputs.
 - (b) The processes are readily accessible in the marketplace. Thus, they are not unique or scarce. In addition, they could be replaced without significant cost, effort, or delay in the ability to continue producing outputs.
- IE13. Because none of the criteria in Appendix A paragraph AG9. is met, Entity A concludes that the received set of activities and assets is not a function.

Scenario 3 — Background

- IE14. Assume the same facts as in Scenario 2, except that the received set of activities and assets also includes the employees responsible for leasing, tenant management, and managing and supervising all operational processes.

Scenario 3 — Application of requirements

- IE15. Entity A elects not to apply the optional concentration test set out in Appendix A paragraph AG2. and therefore assesses whether the set meets the minimum requirements to be considered a function in accordance with paragraphs .13 to .19 and Appendix A paragraphs AG6. to AG10.
- IE16. The received set of activities and assets has outputs because it generates revenue through the in-place leases. Consequently, Entity A applies the criteria in Appendix A paragraph AG9.
- IE17. Entity A concludes that the criterion in Appendix A paragraph AG9(a). is met because the set includes an organised workforce with the necessary skills, knowledge or experience to perform processes (i.e. leasing, tenant management, and managing and supervising the operational processes) that are substantive because they are critical to the ability to continue producing outputs when applied to the received inputs (i.e. the land, buildings and in-place leases). Furthermore, Entity A concludes that the criterion in paragraph .17 is met because those substantive processes and inputs together significantly contribute to the ability to create output. Consequently, Entity A concludes that the received set of activities and assets is a function.

Example B – acquisition of a biotech entity

Background

- IE18. Entity A purchases a legal entity (Entity B). Entity B's operations include research and development activities on several drug compounds that it is developing (in-process research and development projects); senior management and scientists who have the necessary skills, knowledge, or experience to perform research and development activities; and tangible assets (including the headquarters, a research lab, and lab equipment). Entity B does not yet have a marketable product and cannot yet be used in delivering a service. Each of the assets acquired has a similar carrying amount.

Application of requirements

- IE19. It is evident that the carrying amount of the gross assets acquired is not substantially all concentrated in a single asset or group of similar assets. Thus, the optional concentration test set out in Appendix A paragraph AG2. would not be met. Consequently, Entity A assesses whether the set meets the minimum requirements to be considered a function in accordance with paragraphs .13 to .19 and Appendix A paragraphs AG1. to AG11.
- IE20. Entity A first assesses whether it has acquired any processes. No process is documented. Nevertheless, the acquired organised workforce has proprietary knowledge of Entity B's ongoing projects and experience with them. Applying paragraph .13(b), Entity A concludes that the intellectual capacity of the acquired organised workforce having the necessary skills and experience following rules and

conventions provides the necessary processes that are capable of being applied to inputs to create outputs.

- IE21. Entity A next assesses whether the acquired processes are substantive. The set of activities and assets does not have outputs. Thus, Entity A applies the criteria in Appendix A paragraph AG8. Entity A concludes that those criteria are met because:
- (a) the acquired processes are critical to the ability to develop or convert the acquired inputs into outputs; and
 - (b) the inputs acquired include both:
 - (i) an organised workforce that has the necessary skills, knowledge, or experience to perform the acquired processes; and
 - (ii) other inputs that the organised workforce could develop or convert into outputs. Those inputs include the in-process research and development projects.
- IE22. Finally, applying the criteria in paragraph .13, Entity A concludes that the acquired substantive processes and the acquired inputs together significantly contribute to the ability to create output. Consequently, Entity A concludes that the acquired set of activities and assets is a function.

Example C — acquisition of a television station

Background

- IE23. Entity A purchases broadcasting assets from another entity (Entity B). The acquired set of activities and assets includes only the communications licence, the broadcasting equipment and an office building. Each of the assets acquired has a similar carrying amounts. Entity A does not acquire the processes needed to broadcast programmes and it does not acquire any employees, other assets, other processes or other activities. Before the transfer date, Entity B stopped broadcasting using the set of activities and assets acquired by Entity A.

Application of requirements

- IE24. Entity A elects to apply the optional concentration test set out in Appendix A paragraph AG2. and concludes that:
- (a) the broadcasting equipment and building are not a single asset because the equipment is not attached to the building and can be removed without significant cost or diminution in utility or carrying amounts of either asset;
 - (b) the licence is an intangible asset, whereas the broadcasting equipment and building are tangible assets in different classes. Consequently, in accordance with Appendix A paragraph AG2(f)., the assets are not considered similar to each other; and



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- (c) each of the single assets has similar carrying amounts. Thus, the carrying amount of the gross assets acquired is not substantially all concentrated in a single asset or group of similar assets.

- IE25. As the concentration test is not met, Entity A assesses whether the set of activities and assets meets the minimum requirements to be considered a function in accordance with paragraphs .16 to .19 and Appendix A paragraphs AG6. to AG10.
- IE26. The set of activities and assets does not have outputs, because Entity B has stopped broadcasting. Thus, Entity A applies the criteria in Appendix A paragraph AG8. The set does not include an organised workforce, so it does not meet those criteria. Consequently, Entity A concludes that the acquired set of activities and assets is not a function.

Example D — acquisition of a closed manufacturing facility

Background

- IE27. Entity A purchases a closed manufacturing facility—the land and the building—as well as the related equipment. The carrying amount of the equipment and the carrying amount of the facility are similar. To comply with local laws, Entity A must take over the employees who worked in the facility. No other assets, processes or other activities are acquired. The acquired set of activities and assets stopped producing outputs before the transfer date.

Application of requirements

- IE28. Entity A elects to apply the optional concentration test set out in Appendix A paragraph AG2. and concludes that:
- (a) the equipment and the facility are not a single asset because the equipment could be removed from the facility without significant cost or diminution in utility or carrying amount of either the equipment or the facility—the equipment is not attached to the facility and can be used in many other types of manufacturing facilities;
 - (b) the equipment and facility are not similar assets because they are in different classes of tangible assets; and
 - (c) the values of the equipment and the facility are similar. Therefore, the carrying amount of the gross assets acquired is not substantially all concentrated in a single or group of similar assets.
- IE29. As the concentration test is not met, Entity A assesses whether the set of activities and assets meets the minimum requirements to be considered a function in accordance with paragraphs .13 to .19 and Appendix A paragraphs AG6. to AG10.
- IE30. The acquired set of activities and assets does not have outputs at the transfer date because it stopped producing outputs before then. Consequently, Entity A applies the criteria in Appendix A paragraph AG8. The set includes an organised workforce that

has the necessary skills, knowledge or experience to use the equipment, but it does not include another acquired input (such as intellectual property or inventories) that the organised workforce could develop or convert into outputs. The facility and the equipment cannot be developed or converted into outputs. Consequently, Entity A concludes that the acquired set of activities and assets is not a function.

Example E — determining the carrying amount of the gross assets acquired

Background

- IE31. Entity A holds a 20% interest in Entity B. At the transfer date, Entity A acquires a further 50% interest in Entity B and obtains control of it. Entity B's assets and liabilities on the transfer date are the following:
- (a) a building with a carrying amount of R500;
 - (b) an intangible asset with a carrying amount of R400;
 - (c) cash and cash equivalents with a carrying amount R100; and
 - (d) financial liabilities with a carrying amount of R700.
- IE32. Entity A pays R200 for the additional 50% interest in Entity B. Entity A determines that at the transfer date, the carrying value of Entity B is R400, the carrying amount of the non-controlling interest in Entity B is R120 (30% x R400) and that the carrying amount of the previously held interest is R80 (20% x R400).

Application of requirements

- IE33. To perform the optional concentration test set out in Appendix A paragraph AG2., Entity A needs to determine the carrying amount of the gross assets acquired. Applying Appendix A paragraph AG2., Entity A determines that the carrying amount of the gross assets acquired is R1 000, calculated as follows:
- (a) the carrying amount of the building (R500); plus
 - (b) the carrying amount of the intangible asset (R400); plus
 - (c) the excess (R100) of:
 - (i) the sum (R400) of the consideration transferred (R200), plus the carrying amount of the non-controlling interest (R120), plus the carrying amount of the previously held interest (R80); over
 - (ii) the carrying amount of the net assets acquired ($R300 = R500 + R400 + R100 - R700$).
- IE34. The excess referred to in paragraph IE33(c). is determined in a manner similar to the initial measurement of the excess of the purchase consideration paid by the acquirer in accordance with paragraph .43. Including this amount in determining the carrying amount of the gross assets acquired or received means that the concentration test is based on an amount that is affected by the value of any substantive processes acquired or received.

- IE35. The carrying amount of the gross assets acquired or received is determined after making the following exclusions specified in Appendix A paragraph AG2(a). for items that are independent of whether any substantive process was acquired or received, the carrying amount of the gross assets acquired or received does not include the carrying amount of the cash and cash equivalents acquired (R100).
- IE36. The carrying amount of the gross assets acquired or received (R1 000) may also be determined as follows:
- (a) the total (R1 100) obtained by adding:
 - (i) the amount paid (R200) (plus the carrying amount of the non-controlling interest (R120) plus the carrying amount of the previously held interest (R80)); to
 - (ii) the carrying amount of the liabilities assumed; less
 - (b) the cash and cash equivalents acquired (R100).

Measurement period in a transfer of functions

- IE37. Suppose that Entity A acquires or receives some of its functions to Entity B following the enactment of legislation on 30 March 20X3. Prior to the transfer of functions, both entities measure land and buildings using the revaluation model. Entity A had, at the transfer date, undertaken an independent valuation for its land and buildings. This valuation was not complete by the time Entity A authorised for issue, its financial statements for the year ended 30 June 20X3. In its 20X3 annual financial statements, Entity A recognised provisional values for the land and buildings of R150 000 and R275 000 respectively. At the transfer date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the transfer date, Entity A received an independent valuation, which estimated the transfer date value of the land as R160 000 and the transfer date value of the buildings as R365 000.
- IE38. In its financial statements for the year ended 30 June 20X4, Entity A retrospectively adjusts the 20X3 prior year information as follows:
- (a) The carrying amount of the land as of 30 June 20X3 is increased by R10 000. As the land has an indefinite life, no depreciation is charged.
 - (b) The carrying amount of the buildings as of 30 June 20X3 is increased by R89 500. That adjustment is measured as the valuation adjustment at the transfer date of R90 000 less the additional depreciation that would have been recognised if the asset's value at the transfer date had been recognised from that date (R500 for one months' depreciation).
 - (c) An adjustment of R100 000 is recognised in accumulated surplus or deficit as of 30 June 20X4.
 - (d) Depreciation expense for 20X3 is increased by R500.

- IE39. In accordance with GRAP 105.71, Entity A discloses:

- (a) In its 20X3 financial statements, that the initial accounting for the transfer of functions has not been completed because the valuation of land and buildings previously controlled by Entity A has not yet been received.
- (b) In its 20X4 financial statements, the amounts and explanations of the adjustments to the provisional values recognised during the current reporting period. Therefore, Entity A discloses that the 20X3 comparative information is adjusted retrospectively to increase the value of the land and buildings by R99 500 (R100 000 at the transfer date), an increase in depreciation expense of R500 and an increase in accumulated surplus or deficit of R100 000.

Disclosure requirements relating to a transfer of functions

Illustrating the consequences of applying the disclosure requirements in paragraphs .63 to .68.

IE40. The following example illustrates some of the disclosure requirements relating to a transfer of functions between entities under common control; it is not based on an actual transaction. The example assumes that Entity A received some functions from Entity B following the enactment of legislation. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated.

Paragraph Reference																	
.64 .64(d)	On 1 July 20X2 Entity B received some functions of Entity A in a transfer of functions between entities under common control after the relevant legislation has been enacted. The transfer of functions aimed at improving services to customers in the province.																
Amounts recognised for each major class of assets acquired or received and/or liabilities assumed as at 1 July 20X2																	
.64(e)	<table> <tr> <th></th><th>R'000</th></tr> <tr> <td>Financial assets</td><td>1 701</td></tr> <tr> <td>Inventory</td><td>5</td></tr> <tr> <td>Property, plant and equipment</td><td>74 656</td></tr> <tr> <td>Intangible assets</td><td>42</td></tr> <tr> <td>Liabilities</td><td>(320)</td></tr> <tr> <td>Financial liabilities</td><td>(60)</td></tr> <tr> <td>Total net assets</td><td><u>76 024</u></td></tr> </table>		R'000	Financial assets	1 701	Inventory	5	Property, plant and equipment	74 656	Intangible assets	42	Liabilities	(320)	Financial liabilities	(60)	Total net assets	<u>76 024</u>
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Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for accepting or rejecting certain proposals related to the accounting for transfer of functions between entities under common control. This basis for conclusions accompanies, but is not part of, this Standard.

Initial development of this Standard

- BC1. This basis for conclusions summarises the Board's considerations in developing this Standard. In forming its views, the Board considered the views expressed and the comment received from stakeholders that responded to the Invitation to Comment (ITC) on a Discussion Paper on *Transfer of Functions* (Discussion Paper 4) issued in November 2007. The Board further considered the responses to an ITC on an Exposure Draft of this Standard (issued May 2010).
- BC2. In developing this Standard, the Board considered the principles in the Standards of GRAP on *Revenue from Exchange Transactions* (GRAP 9), *Revenue from Non-exchange Transactions (Taxes and Transfers)*, GRAP 100 and the IFRS Accounting Standard on *Business Combinations* (IFRS 3) (2008) issued by the International Accounting Standards Board.
- BC3. A project on the accounting for entity combinations arising from exchange transactions is included on the International Public Sector Accounting Standards Board's (IPSASB) work programme. The Board will continue to monitor this project and, at an appropriate time, consider the implications of the IPSASB project on this Standard.

Background

- BC4. In Discussion Paper 4, the Board proposed that a Standard of GRAP equivalent of IFRS 3 dealing with entity combinations should be issued and that entity combinations arising from exchange transactions undertaken between entities not under common control also be included in the scope of the project. It was also proposed that a Standard should be developed to deal with transfer of functions undertaken between entities that are:
- under common control, whether by way of an exchange and a non-exchange transaction; and
 - not under common control by way of a non-exchange transaction.
- BC5. Following proposals from respondents to Discussion Paper 4 to include a transaction or event undertaken between entities not under common control by way of a non-exchange transaction in the scope of the IFRS 3 equivalent Standard of GRAP, the Board agreed to the development of the following Standards:

- GRAP 106 to include in its scope transactions undertaken between entities not under common control by way of an exchange and non-exchange transaction; and
- This Standard includes in its scope transactions undertaken between entities under common control by way of an exchange and non-exchange transaction.

BC6. Some respondents to the Exposure Draft requested that the same approach should be applied in accounting for all transactions or events that involve a transfer of functions within government. However, the Board concluded that in a transfer of functions undertaken between entities under common control there will be no effect on the consolidated financial statements, whereas a transfer of functions undertaken between entities not under common will have an effect on the consolidated financial statements. The Board reconfirmed its view that two separate Standards should be develop for transactions or events undertaken between entities under common control, and those undertaken between entities not under common control.

BC7. The Board also noted that the initial recognition and measurement principles of transfers of functions undertaken between entities not under common control by way of a non-exchange transaction, is similar to those for business combinations currently within the scope of IFRS 3.

BC8. Discussion Paper 4 also proposed accounting principles for transactions and events where one entity is not deemed to gain control over another entity. As these arrangements do not involve “control”, respondents supported the development of a separate Standard of GRAP on mergers.

Common control

BC9. The government of the Republic of South Africa is divided into three different spheres, i.e. national, provincial and local, each given independence from the decision-making of another sphere. Control for accounting purposes is defined in the Standard of GRAP on *Consolidated and Separate Financial Statements* as: “The power to govern the financing and operating policies of an entity so as to obtain benefit from its activities”. The key consideration in determining whether or not control exists for accounting purposes is that an entity must be able to demonstrate both that it has certain decision-making capabilities over another, and that it benefits from the activities of that entity.

BC10. The national government is responsible for setting the overall policies and objectives for all three spheres of government in line with the prescripts of the Constitution of the Republic of South Africa, 1996. Each sphere of government is in turn responsible for executing its assigned functions in line with the overall policies and objectives set by national government. In effect, national government benefits from the activities undertaken by the various spheres of government, as these contribute to it achieving its overall policies and objectives. The fact that national government provides funding

for the operations and may regulate the operating environment does not necessarily imply control for financial reporting purposes.

BC11. In South Africa, this is supported by the requirements in section 8 and 19 of the PFMA to prepare separate consolidated financial statements on a national level and for each province. Similarly, section 122 of the Municipal Finance Management Act, Act No. 56 of 2003, requires the preparation of consolidated financial statements for each municipality.

BC12. In rare circumstances, for example, through national legislation, an entity in one sphere of government may intervene in the administration of an entity in another sphere of government, if that other entity cannot and does not fulfil its executive obligation. For example, an entity in the national sphere of government may intervene in the administration of a municipality if that municipality is unable to fulfil its constitutional or legislative mandate. These interventions mean that executive decisions are taken on behalf of the other entity until it is able to fulfil its legislative obligations. Such interventions are usually only temporary in nature. However, during this period, circumstances must be evaluated to establish whether or not the intervention meets the definition of control.

Scope

Transfer of individual assets or groups of assets and/or liabilities (paragraphs .02(a) and .05)

BC13. Arrangements that require one entity to take over an asset or a group of assets, or a liability or a group of liabilities of another entity are outside the scope of this Standard, as these arrangements are merely the acquisition of an asset or a group of assets and/or the assumption of a liability or a group of liabilities.

Mergers (paragraphs .02(c) and .06)

BC14. A merger involves the establishment of a new combined entity formed in which none of the former entities obtains control over any other and no acquirer can be identified. Determining whether an acquirer can be identified includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. In a merger, the combining entities come together for the mutual sharing of risks and benefits of the combined entity. Mergers are not included in the scope of this Standard. GRAP 107 should be applied in accounting for such arrangements.

A transaction or event undertaken between entities under common control (paragraphs .02 and .07)

BC15. A transaction or event in which an acquirer can be identified and that results in a transfer of functions between entities in the same sphere of government, and/or between entities that are part of the same economic entity, will fall within the scope of

this Standard as the transaction or event is undertaken between entities under common control. The entities involved in the transfer of functions are ultimately controlled by the same entity before and after the transfer of functions. If the function is transferred to a newly established entity that did not exist prior to the transfer date, the transfer will also fall within the scope of this Standard if the newly established entity is identified as the acquirer and the acquirer and transferor forms part of the same economic entity subsequent to the transfer of functions.

A transaction or event undertaken between entities not under common control (paragraphs .02(b) and .08)

BC16. A transaction or event in which an acquirer can be identified and that results in a transfer of functions between entities in different spheres of government, and/or between entities that are not part of the same economic entity do not fall within the scope of this Standard as the transaction or event is undertaken between entities not under common control. The entities involved in the transfer of functions are not ultimately controlled by the same entity before and after the transfer of functions. Entities should apply GRAP 106 in accounting for such transfer of functions.

Initial recognition and measurement

BC17. As limited guidance exists in the public sector on the accounting for transfer of functions undertaken between entities under common control, the Board considered the appropriateness of guidance on the acquisition and disposal of assets as included in other Standards of GRAP in developing principles for the recognition and measurement of the assets acquired or transferred and liabilities assumed or relinquished in a transfer of functions.

BC18. In most instances, the guidance provided by other standard setters, either for the acquisition of an entity or part of an entity, or for the acquisition of assets acquired requires the use of fair value as a measurement basis.

BC19. Discussion Paper 4 concluded that carrying amounts should be used to account for a transaction or event undertaken between entities under common control. The proposal to use carrying amounts was supported by the following:

- If carrying amounts are used by both the acquirer and transferor, no gain or loss is recognised by either party as opposed to remeasuring those assets and liabilities to fair value.
- Gains and losses are not recognised as the entity that ultimately controls the acquirer and transferor are merely transacting with itself.
- No costs need to be incurred to revalue any assets and liabilities.

Respondents to Discussion Paper 4 concurred with the Board's view.

BC20. Respondents to the Exposure Draft supported this proposal, and this Standard requires that the acquirer should recognise the assets acquired and the liabilities assumed, on the transfer date, at the carrying amount at which the transferor

recognised such assets and liabilities in its financial statements as of the transfer date.

- BC21. During the comment period, some respondents raised concerns about the fact that the transferor's carrying amounts could be incomplete on the transfer date due to the values being inaccurate or because the transferor is applying a different basis of accounting. A requirement has been included in this Standard to clarify that if the transferor is not applying the accrual basis of accounting prior to the transfer of functions, it should change its basis of accounting to that of an accrual basis of accounting prior to the transfer.

Measurement period

- BC22. This Standard provides the acquirer with a reasonable period after the transfer date, a measurement period, during which to obtain the information necessary to identify and measure the assets acquired and liabilities assumed in a transfer of functions. If sufficient information is not available at the transfer date to measure the assets and liabilities, the acquirer determines and recognises provisional amounts until the necessary information becomes available.
- BC23. A constraint is placed on the period for which it is deemed reasonable to seek information necessary to complete the accounting for a transfer of functions. The measurement period ends as soon as the acquirer receives the necessary information about facts and circumstances that existed as of the transfer date or learns that the information is not obtainable. The Board agreed to a measurement period of two years.
- BC24. The Board also concluded that the acquirer should provide the users of financial statements with relevant information about the status of items that have been measured using provisional amounts. A disclosure requirement has been included to provide such information.

Effective settlement of a pre-existing relationship between the acquirer and transferor in a transfer of functions

- BC25. The settlement of a pre-existing relationship between the acquirer and the transferor is not part of the transfer of functions as these transactions were entered into, by, or on behalf of the acquirer or primarily for the benefit of the acquirer rather than primarily for the benefit of the transferor before a transfer of functions. Such transactions should be accounted for in terms so the applicable Standards of GRAP.
- BC26. As these transactions were entered into at arm's length, the acquirer should measure the gain or loss when settling the pre-existing relationship at its fair value.

Excess of the purchase consideration paid by the acquirer over the net assets acquired

- BC27. Discussion Paper 4 proposed that any excess of the purchase consideration paid by the acquirer over the net asset value of the assets acquired or transferred and

liabilities assumed or relinquished should be treated as a purchase premium and recognised in surplus or deficit. Discussion Paper 4 further proposed that the transferor should recognise such excess in accordance with GRAP 9, and any excess of the carrying amounts of the assets transferred and liabilities relinquished over the purchase consideration paid by the acquirer, should be recognised by the transferor in surplus or deficit.

- BC28. The Board reconsidered its initial view following comment from respondents to Discussion Paper 4. It was agreed that any excess of the purchase consideration paid by the acquirer (if any) over the net asset value of the assets acquired or transferred and the liabilities assumed or relinquished should be recognised by both the acquirer and transferor in accumulated surplus and deficit, as the transaction between the acquirer and transferor represents a transaction with owners that occurred between entities under common control. The acquirer is thus entitled to the transferor's portion of the accumulated surplus or deficit that relates to the assets transferred and liabilities relinquished.
- BC29. Respondents to the Exposure Draft supported this proposal, and this Standard requires that the acquirer and transferor should recognise the difference between the assets acquired or transferred, the liabilities assumed or relinquished and the consideration paid or received (if any) in accumulated surplus or deficit.

Revisions following the approval of IPSAS 40 on *Public Sector Combinations*

- BC30. When the Board developed GRAP 105 during 2010, no equivalent International Public Sector Accounting Standard existed. The International Public Sector Accounting Standards Board issued IPSAS 40 on *Public Sector Combinations* during 2017. During 2022, the Board undertook a project to compare the principles in IPSAS 40 with that in the local Standards. The objective of the review was to identify any similarities and differences between IPSAS 40 and the local Standards.
- BC31. The principles in IPSAS 40 relating to an amalgamation were compared to GRAP 105. One of the criteria in IPSAS 40 to assess if the combination has the economic substance of an amalgamation is whether the transaction occurs between entities under common control. GRAP 105 applies to a transaction or event between entities under common control.
- BC32. Furthermore, when GRAP 105 was initially developed by the Board, it agreed that the assets received and/or liabilities assumed be measured at their carrying amounts as explained in paragraph BC19. The measurement principles applicable to the assets acquired and liabilities assumed for an amalgamation in IPSAS 40 are similar.
- BC33. The Board agreed to retain the format of the local guidance, i.e. three separate Standards of GRAP. This is because preparers find it easier to apply the appropriate Standard based on the nature of the transaction or event, and because no substantive implementation issues have been raised by stakeholders.

- BC34. Based on the outcome of the review, the Board agreed that GRAP 105 should be revised by including additional, authoritative guidance from IPSAS 40, where applicable. The Board also agreed that any additional guidance in GRAP 105, that is not included in IPSAS 40, should be retained if it remains relevant. Any amendments to IFRS 3, that were issued subsequent to IPSAS 40 being issued, should be included in GRAP 105.
- BC35. The amendments to IFRS 3 follows a post-implementation review of IFRS 3 where it was noted that entities find it difficult to assess:
- (a) if the processes acquired, are sufficient to constitute one of the elements required for an acquired set of activities and assets to be a business, and if any missing processes are so significant that the set is not a business; and
 - (b) how to apply the definition of a business if the acquired set of activities and assets does not generate revenue.
- BC36. The review also highlighted that the definition of a business was broad and IFRS 3 had no guidance to identify when an acquired set of activities and assets is not a business. As a result, IFRS 3 clarified the definition of a business to determine if a transaction should be accounted for as a business combination or as an asset acquisition. Guidance was also included to clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. An optional concentration test was also added that permits a simplified assessment of whether an acquired set of activities and assets is a business.

Measurement period

- BC37. IPSAS 40 allows a one year measurement period, whereas GRAP 105 (2010) allowed a measurement period of two years. The Board agreed to retain a two year measurement period. This is because, from practical experience, it was observed that entities need more than one year to obtain the necessary information to identify and measure the assets acquired or received, liabilities assumed and non-controlling interests in a transfer of functions.

Measurement principle

- BC38. IPSAS 40 requires that the assets and/or liabilities to be transferred be measured at their carrying amounts in the financial statements of the acquirer. The entity transferring the assets and/or liabilities should adjust the carrying amounts of the assets and/or liabilities to conform to the acquirer's financial statements. Adjustments also need to be made to eliminate transactions between the entity transferring the assets and/or liabilities in calculating the excess.
- BC39. The Board agreed that the principle in GRAP 105 (2010) should be retained, i.e. that the assets and/or liabilities are measured at their carrying amounts. No adjustments need to be made to the carrying amounts to conform to the acquirer's accounting



GRAP 105

policy, and no transactions between the transferring entities need be eliminated. This is to avoid additional costs to effect the transfer of functions, and because the functions of the transferor will continue to be provided by another entity.

Presentation

BC40. IPSAS 40 allows an entity to present financial statements for periods prior to the date on which the assets and/or liabilities are acquired or received. The Board concluded that this principle should not be included as, in a transfer of functions, the transferor and acquirer will present their own sets of financial statements prior to the transfer. The acquirer's newly acquired or received functions will be reflected in the set of financial statements after the transfer of functions.

Comparison with the International Public Sector Accounting Standard on *Public Sector Combinations* (January 2017)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Public Sector Combinations* (IPSAS 40). The main differences between this Standard and IPSAS 40 are as follows:

- The heading and related text in this Standard were amended from “amalgamation”, “acquisition”, “public sector combination”, “combining operation”, amalgamation date” and “resulting entity” to “transfer of functions”, “acquirer”, “transfer date”, and “transferor”.
- Definitions and explanatory guidance from other Standards of GRAP were included as part of this Standard where they are relevant to the understanding of this Standard.
- A diagram and related text explaining the distinction between a transfer of functions under common control, a transfer of functions not under common control and a merger have been included to assist entities in determining if this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.
- The guidance in IPSAS 40 to conclude if a combination should be accounted for as an amalgamation or acquisition was omitted.
- Guidance explaining when the transaction or event is a transfer of functions under common control was included in this Standard to clarify the application of this Standard.
- Additional guidance is included in this Standard explaining that the terms and conditions of a binding arrangement should be considered to identify the acquirer, the transferor, the assets and liabilities and any non-controlling interests. IPSAS 40 does not include similar guidance.
- This Standard does not apply “the modified pooling of interests method” as described in IPSAS 40. Instead, the assets acquired or received, liabilities assumed and non-controlling interests are measured at their carrying amounts, and transactions between the entities prior to the transfer of functions are not eliminated in calculating the excess
- This Standard provides guidance and prescribes disclosure for both the acquirer and transferor. IPSAS 40 only provides guidance and prescribes disclosures for the acquirer.
- Exceptions to the recognition and measurement principles on licences and similar rights previously granted by the entities involved in the amalgamation, as well as for income taxes and employee benefits are not included in this Standard.



GRAP 105

- Guidance on a transaction that remunerates employees or former owners of the transferor for future services and to reimburse the transferor for paying the acquirer's acquisition-related costs are not included in this Standard.
- The measurement period of two years in GRAP 105 (2010) was retained due to practical considerations. IPSAS 40 only permits a year.
- Guidance from IFRS 3 on the elements of a function, the optional test to identify concentration of fair value and assessing whether a transferred process is substantive have been included in this Standard.
- Illustrative examples from IPSAS 40 that are not relevant have not been included in this Standard.
- Any related application guidance included as an appendix to IPSAS 40 was included as part of the text of this Standard, where applicable.
- The option in IPSAS 40 to present financial statements for periods prior to the transfer has not been included in this Standard.
- Transitional provisions to this Standard are dealt with differently than in IPSAS 40.