



national treasury

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**TO ALL: ACCOUNTING OFFICERS OF NATIONAL DEPARTMENTS
ACCOUNTING OFFICERS OF PROVINCIAL DEPARTMENTS
PROVINCIAL ACCOUNTANTS-GENERAL
AUDITOR-GENERAL OF SOUTH AFRICA**

UPDATES TO THE MODIFIED CASH STANDARD FOR THE 2020/2021 FINANCIAL YEAR

1. PURPOSE

The purpose of this letter is to inform accounting officers, chief financial officers of national and provincial departments, provincial accountants-general and the Auditor-General of South Africa of the updates included on the Modified Cash Standard for the 2020/21 financial year.

2. BACKGROUND

- 2.1 Given the exemption granted by the Minister of Finance delaying the reporting deadlines for the 2019/2020 financial year, a decision was taken not to amend the Modified Cash Standard (MCS) for the 2020/2021 financial year.
- 2.2 During the CFO Forum in March 2021, discussions were held about challenges regarding the practicality of measuring capital assets acquired through a transfer of function or merger by the reporting period in terms of the respective MCS Chapter 19 on *Transfer of Functions* and MCS Chapter 20 on *Mergers*.
- 2.3 In setting the MCS the National Treasury considers provisions in the Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board (ASB). According to GRAP 105 *Transfers of Functions Between Entities Under Common Control*, GRAP 106 *Transfers of Functions Between Entities Not Under Common Control* and GRAP 107 *Mergers* issued by the ASB entities that apply GRAP have a measurement period relief. The measurement period relief allows the entities to measure their assets and liabilities two years from the transfer date or merger date.

3. REPORTING FRAMEWORK

- 3.1 After due consideration and consultation with the Provincial Accountants-General, the National Treasury added the GRAP equivalent relief on measurement period to the MCS Chapter 19 on *Transfer of Functions* and MCS Chapter 20 on *Mergers*.
- 3.2 In assisting affected departments on disclosure of transfer of functions or mergers, the National Treasury will issue the relevant disclosure guidance.
- 3.3 **Annexure A** and **Annexure B** set out the paragraphs added to the MCS Chapter 19 on *Transfer of Functions* and MCS Chapter 20 on *Mergers* in the MCS for the 2020/2021 financial reporting cycle, respectively.

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3.4 The Directive on the Modified Cash Standard for the 2020/2021 financial year has been updated and is attached hereto as **Annexure C**.

4. DISSEMINATION OF INFORMATION

Accounting officers of national and provincial departments are requested to bring the contents of this correspondence to the attention of Chief Financial Officers and other affected officials in their respective departments. The Auditor-General of South Africa (AGSA) represented by Audit Research and Development (ARD) is requested to bring the contents of this correspondence to the attention of the AGSA auditors.



KAREN MAREE
ACTING ACCOUNTANT-GENERAL
DATE: 12 April 2021

**ANNEXURE A: PARAGRAPHS UPDATED IN MCS CHAPTER 19 ON *TRANSFER OF FUNCTIONS*
FOR THE 2020/2021 FINANCIAL YEAR**

Measurement period

- .33 **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 that the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust any amounts recognised/recorded 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/recorded 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.**
- .34 The measurement period is the period after the transfer date during which the acquirer may adjust amounts recognised/recorded for a transfer of functions. The measurement period provides the acquirer with reasonable time to obtain the information necessary to identify and measure the following as of the transfer date in accordance with the requirements of this Standard:
- a) the assets acquired and liabilities assumed;
 - b) the consideration transferred, if any, for the transferor; and
 - c) the resulting excess of the purchase consideration paid (if any) over the assets acquired and liabilities assumed.
- .35 The acquirer shall consider all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the amounts recognised/recorded 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 the 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.
- .36 During the measurement period, the acquirer shall recognise/record adjustments to the amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed.
- .37 After the measurement period ends, the acquirer shall revise the accounting for a transfer of functions only to correct an error in accordance with the Chapter 4 on *Accounting Policies, Estimates and Errors*.
- .47 **The acquirer shall disclose the following information for each material transfer of functions or in the aggregate for individually immaterial transfer of functions that are material collectively if the initial accounting for a transfer of functions is incomplete (see paragraph .33) for particular assets, liabilities, or any consideration and the amounts recognised/recorded in the financial statements for the transfer of functions:**
- a) the reasons why the initial accounting for the transfer of functions is incomplete;
 - b) the assets, liabilities, or any consideration for which the initial accounting is incomplete;
 - c) the nature and amount of any measurement period adjustments recognised/recorded during the reporting period in accordance with paragraph .36.

ANNEXURE B: PARAGRAPHS UPDATED IN MCS CHAPTER 19 ON *TRANSFER OF FUNCTIONS* AND MCS CHAPTER 20 ON *MERGERS* FOR THE 2020/2021 FINANCIAL YEAR

Measurement period

- .21 **If the initial accounting for a merger is incomplete by the end of the reporting period in which the merger occurs, the combined entity shall report in its financial statements that the accounting is incomplete. During the measurement period, the combined entity shall retrospectively adjust the amounts recognised/recorded at the merger date to reflect new information obtained about facts and circumstances that existed as of the merger date and, if known, would have affected the measurement of the amounts s/recorded as of that date. The measurement period ends as soon as the combined entity receives the information it was seeking about facts and circumstances that existed as of the merger date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the merger date.**
- .22 The measurement period is the period after the merger date during which the combined entity may adjust the amounts recognised/recorded for a merger. The measurement period provides the combined entity with reasonable time to obtain the information necessary to identify and measure the following as of the merger date in accordance with the requirements of this Standard:
- a) the assets acquired and liabilities assumed;
 - b) the consideration transferred, if any, for the combining entities; and
 - c) the resulting excess of the purchase consideration paid (if any) over the assets acquired and liabilities assumed.
- .23 The combined entity shall consider all relevant factors in determining whether information obtained after the merger date should result in an adjustment to the amounts recognised/recorded or whether that information results from events that occurred after the merger date. Relevant factors include the date when additional information is obtained and whether the combined entity can identify a reason for a change to the amounts. Information that is obtained shortly after the merger date is more likely to reflect circumstances that existed at the merger date than is information obtained several months later.
- .24 During the measurement period, the combined entity shall recognise/record adjustments to the amounts as if the accounting for the merger had been completed at the merger date. Thus, the combined entity shall revise comparative information for prior periods presented in financial statements as needed.
- .25 After the measurement period ends, the combined entity shall revise the accounting for a merger only to correct an error in accordance with the Chapter 4 *on Accounting Policies, Estimates and Errors*.
- .39 **The combined entity shall disclose the following information for each material merger or in the aggregate for individually immaterial mergers that are material collectively if the initial accounting for a merger is incomplete (see paragraph .21) for particular assets, liabilities, or any consideration and the amounts recognised/recorded in the financial statements for the merger:**
- a) the reasons why the initial accounting for the merger is incomplete;
 - b) the assets, liabilities, or any consideration for which the initial accounting is incomplete;
 - c) the nature and amount of any measurement period adjustments recognised/recorded during the reporting period in accordance with paragraph .24.