

# SUMMARIES

## Standards of GRAP



**national treasury**  
Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



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# GRAP 1 – Presentation of Financial Statements

Effective 1 April 2021

## OVERALL CONSIDERATIONS

### Fair presentation and compliance with GRAP

Financial statements are required to be presented fairly the financial position, financial performance and cash flows of an entity. Financial statements complying with Standards of GRAP is presumed to result in fair presentation

### Going concern

Financial statements are required to be prepared on a going concern basis (unless entity is in liquidation or has ceased operating or there is an indication that the entity is not a going concern).

### Accrual basis of accounting

Entities are required to use accrual basis of accounting except for cash flow information.

### Presentation consistency

An entity is required to retain presentation and classification from one period to the next.

### Materiality and aggregation

Each material class of similar assets and items of dissimilar nature or function is to be presented separately.

### Comparative information

At least 1 year of comparative information

### Offsetting

Offsetting of assets and liabilities or revenue and expenses are not permitted unless required by other GRAPs.

## COMPONENTS OF FINANCIAL STATEMENTS

A complete set of financial statements comprises:

- ✓ Statement of financial position
  - ✓ Statement of financial performance
  - ✓ Statement of changes in net assets
  - ✓ Cash flow statement
  - ✓ Comparison of budget to actual amounts either as a separate additional statement or as a budget column in the financial statements
  - ✓ Notes, including of significant accounting policies
- All statements are required to be presented with equal prominence.

## STRUCTURE AND CONTENT

### STATEMENT OF FINANCIAL POSITION

Present current and non-current items separately; or Present items in order of liquidity.

#### Current assets

- Expected to be realised in, or is intended for sale or consumption in the entity's normal operating cycle
- Held primarily for trading
- Expected to be realised within 12 months
- Cash or cash equivalents. All other assets are required to be classified as non-current.

#### Current liabilities

- Expected to be settled in the entity's normal operating cycle
- Held primarily for trading
- Due to be settled within 12 months
- The entity does not have the right at the end of the reporting period to defer settlement of the liability for at least 12 months. All other liabilities are to be classified as non-current.

### STATEMENT OF FINANCIAL PERFORMANCE

All items of revenue and expense recognised in the period are included in surplus or deficit unless a Standard of GRAP requires or permits otherwise. Entities must choose between 'function of expense method' and 'nature of expense method' to present expense items

### STATEMENT OF CHANGES IN NET ASSETS

Represents the total surplus or deficit for the period, other revenues and expenses recognised directly as changes in net assets, with contributions by and distributions to owners

### CASH FLOW STATEMENT

Provides users with a basis to assess the ability of the entity to generate cash and need to utilise those cash flows

*Information required to be presented on the face of the statements and further information required to be presented in the notes is detailed in GRAP 1 and GRAP 2*

### NOTES TO THE FINANCIAL STATEMENTS

Statement of compliance with GRAP along with significant accounting policies, estimates, assumptions, and judgements and additional information useful to users' understanding / decision making

### REPORTING PERIOD

Financials presented at least annually, if longer or shorter, entity must disclose that fact with reasons.

### IDENTIFICATION OF FINANCIAL STATEMENTS

Must be clearly identified and distinguished from other information in the same published document, and must identify the name of the reporting entity, whether the financial statements cover the individual entity or the economic entity. The reporting date, presentation currency, rounding used

# GRAP 2 – Cash Flow Statements

Effective 1 April 2021

## COMPONENTS OF A CASH FLOW STATEMENT

### Operating Activities

These are the principal activities of the entity and include activities that are not investing or financing activities.

### Investing Activities

These relate to the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents.

### Financing Activities

These relate to the activities that cause changes to the size and composition to the contributed capital and borrowings of the entity.

**Interests and dividends** received/paid may be classified as operating, investing or financing, based on its nature and as long as they are consistently treated from period to period.

## REPORTING CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities must be reported using the **direct method**.

### DIRECT METHOD

Major classes of gross cash receipts and gross payments are disclosed:

- ✓ Taxation received
- ✓ Sale of goods and services
- ✓ Grants
- ✓ Cash paid to employees
- ✓ Interest received (where appropriate)
- ✓ Taxes paid
- Net cash from operating activities
- A reconciliation of net cash from operating activities with the surplus or deficit on the statement of financial performance

## DEFINITION: CASH AND CASH EQUIVALENTS

Cash and cash equivalents are:

- ✓ Short-term (where the original maturity is 3 months or less, irrespective of maturity timing post reporting date)
- ✓ Highly liquid investments
- ✓ Readily convertible to known amounts of cash
- ✓ Subject to insignificant risk of change in value

## CONSIDERATIONS TO NOTE

- ✓ Non-cash investing and financing activities must be disclosed separately elsewhere in the financial statements
- ✓ Cash flow must be reported GROSS, set-off is permitted in very limited cases
- ✓ Cash flow arising from taxes on surplus will be separately disclosed and will be classified as cash flows from operating activities unless, they can be specifically identified with financing and investing activities.
- ✓ Cash flows arising from acquisition and disposal of controlled entities or other operating units are investing activities.
- ✓ Where the equity method is used for joint ventures and associates, the cash flow statement should only show cash flows between the investor and investee.
- ✓ Where a joint venture is proportionately consolidated, the entity should only include its proportionate share of the cash flows of the joint venture
- ✓ Disclose, with management commentary, cash not available for use by the entity
- ✓ Foreign exchange transactions should be recorded at the rate at the date of the cash flow
- ✓ Assets and liabilities denominated in a foreign currency generally include an element of unrealised exchange difference at the reporting date
- ✓ Disclose components of cash equivalents and reconciliation to the statement of financial position amount

# GRAP 3 – Accounting Policies, Changes in Accounting Estimates and Errors



Effective 1 April 2021

## ACCOUNTING POLICIES

### DEFINITION

**Accounting policies** are specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

#### Selection and application of accounting policies:

- If a Standard of GRAP deals with a transaction, use the standard
- If no Standard of GRAP on a transaction, management judgment should be applied in developing and applying an accounting policy resulting in information that is relevant, reliable and complete in all material respects

#### The following sources should be referred to, to make judgment:

- Requirements in other Standards of GRAP (or interpretation) dealing with similar issues
- Definitions, recognition criteria and measurement concepts in the Framework
- Use of the most recent pronouncements of other standard setting bodies and accepted public or private sector practices to the extent that these are not in conflict with the sources above

**Consistency of accounting policies** – accounting policies should be consistent for similar transactions, events or conditions unless required or permitted otherwise by a Standard of GRAP

#### Only change a policy if:

- Standard of GRAP requires it or
- The change will provide more relevant and reliable information

#### Principle:

Apply changes in accounting policies:

- If change is due to a new Standard of GRAP → apply transitional provisions;
- If no transitional provisions → apply retrospectively

If impractical to determine period specific effects or cumulative effects of the change in policy, then prospectively apply to earliest period that is practical

## CHANGES IN ACCOUNTING ESTIMATES

### DEFINITION

**A change in an accounting estimate** is an adjustment of the carrying amount of an asset or liability, or the amount of periodic consumption, resulting from assessing the present status of, and the expected future benefits and obligations associated with, the asset or liability.

#### Principle:

Recognise the change prospectively in surplus or deficit in:

- Period of change, if the change only affects that period; or
- Period of change and future periods (if the change affects both)

## ERRORS

### DEFINITION

**Prior period errors** are omissions from and misstatements in, an entity's financial statements for one or more prior periods arising from failure to use/misuse of reliable information that:

- ✓ was available when the financial statements for that period are authorised for issue; and
- ✓ could have been reasonably expected to have been obtained and taken into account in the preparation and presentation of the financial statements.

Errors include:

- Mathematical mistakes
- Mistakes in applying accounting policies
- Oversights and misinterpretation of facts
- Fraud

#### Principle:

Correct all errors retrospectively. Restate the comparative amounts for prior periods in which error occurred OR if the error occurred before that date, restate opening balance of assets, liabilities and net assets for the earliest period presented

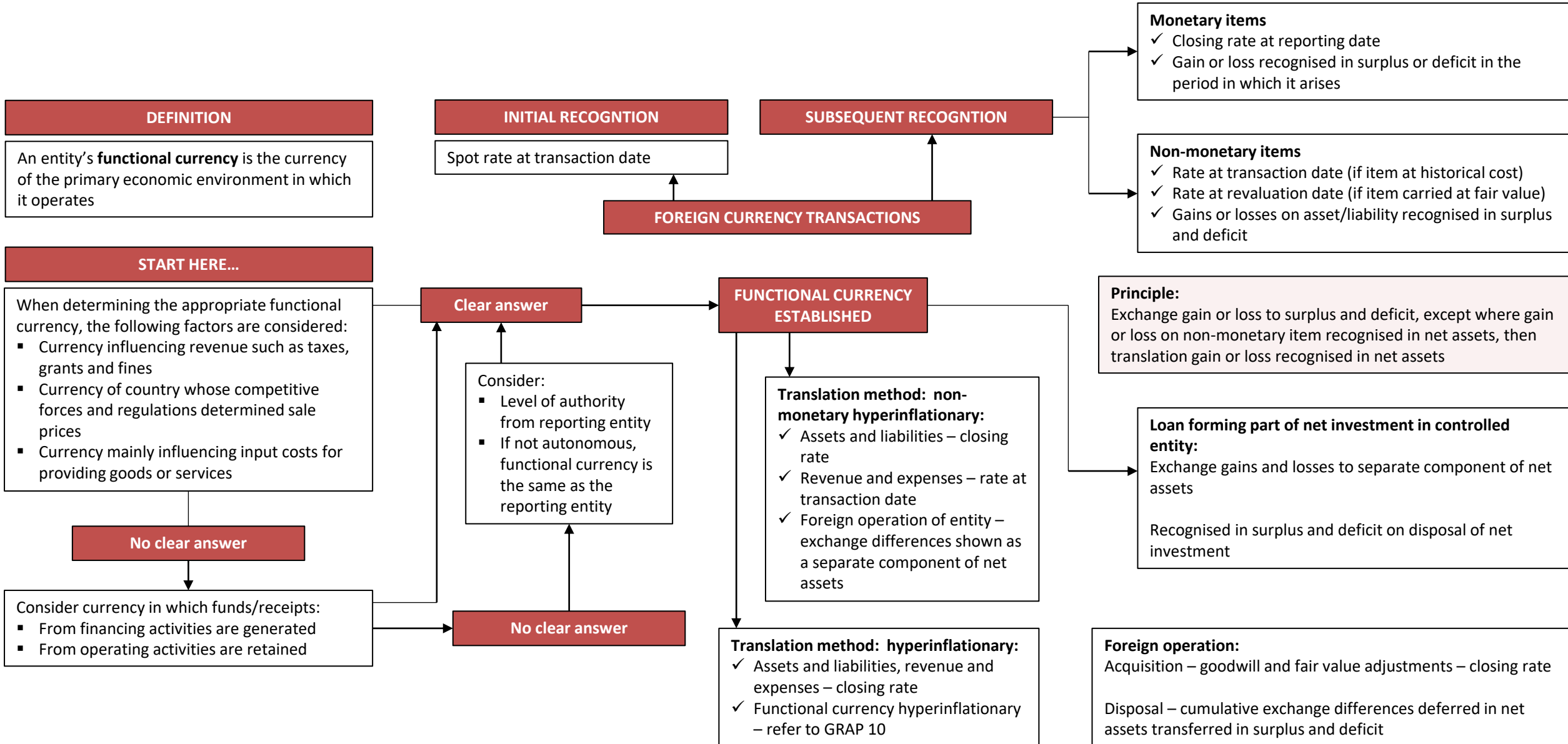
If impractical to determine period specific effects of error, restate opening balances for earliest period practicable

If impractical to determine cumulative effects of the error, restate comparative information for the earliest period practicable



# GRAP 4 – The Effects of Changes in Foreign Exchange Rates

Effective 1 April 2021



# GRAP 5 – Borrowing Costs

Effective 1 April 2021

## DEFINITION

**Borrowing costs** are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs may include:

- ✓ Interest on bank overdrafts and short-term and long-term borrowings
- ✓ Amortisation of discounts or premiums relating to borrowings
- ✓ Amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- ✓ Finance charges in respect of finance leases (in accordance with GRAP 13) and service concession arrangements (in accordance with GRAP 32)
- ✓ Exchange differences arising from foreign currency borrowings to the extent that it is regarded as an adjustment to interest costs

## DEFINITION

A **qualifying asset** is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale

Examples include:

- ✓ Office buildings
- ✓ Infrastructure assets, such as roads, bridges and power generation facilities
- ✓ Investment properties measured at cost that are being redeveloped

Financial assets and inventories that are produced over a short period of time, are not qualifying assets. Assets that are ready for intended use or sale when acquired are also non-qualifying assets

## RECOGNITION

### BENCHMARK TREATMENT

Borrowing costs will be recognised as an expense in the period in which it is incurred, regardless of how the borrowings are applied

### ALLOWED ALTERNATIVE TREATMENT

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Such borrowing costs are capitalised to the cost of the asset when:

- a) It is probable that they will result in future economic benefits or service potential to the entity; and
- b) The costs can be measured reliably

Other borrowing costs are recognised as an expense in the period in which they are incurred.

Capitalisation **commences** when:

- ✓ Expenditures for the asset are being incurred
- ✓ Borrowing costs are being incurred
- ✓ Activities that are necessary to prepare the asset for its intended use or sale are in progress

Capitalisation is **suspended** during extended periods in which active development of a qualifying asset is interrupted/suspended.

Capitalisation will **cease** when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete

When the construction of a qualifying asset is completed in parts, and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare that part for its intended use or sale are completed.



# GRAP 9 – Revenue From Exchange Transactions

Effective 1 April 2021

## DEFINITION

**Revenue** is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

**Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange

## MEASUREMENT

- Revenue is recognised at the fair value of the consideration received or receivable
- If the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of the cash and cash equivalents received or to be received. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting the future receipts using an imputed interest rate
- An exchange for goods or services of a similar nature and value is not regarded as a transaction that generates revenue. However, an exchange for a dissimilar item is regarded as generating revenue. The revenue is measured at the fair value of the goods or services received or the fair value of the goods or services given up, adjusted for any cash and cash equivalents transferred
- Where a transaction is statutory (non-contractual) in nature, revenue is measured by reference to the relevant legislation, regulation or similar means. The amount represents the fair value of the consideration received or receivable.

## RECOGNITION

### SALE OF GOODS

Revenue arising from the sale of goods should be recognised when all of the following conditions have been satisfied:

- ✓ The significant risks and rewards of ownership are transferred
- ✓ Entity does not have continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- ✓ The amount of revenue can be measured reliably
- ✓ It is probable that the economic benefits or service potential associated with the transaction will flow to the entity
- ✓ The costs incurred or to be incurred in respect of the transaction can be measured reliably

### RENDERING OF SERVICES

When the outcome of a transaction can be estimated reliably, revenue should be recognised by reference to the stage of completion of the transaction at the reporting date, provided that all of the following conditions are met:

- ✓ The amount of revenue can be measured reliably
  - ✓ It is probable that the economic benefits or service potential associated with the transaction will flow to the entity
  - ✓ The stage of completion at the reporting date can be measured reliably
  - ✓ The costs incurred, or to be incurred, in respect of the transaction can be measured reliably
- When the outcome of a transaction cannot be estimated reliably, revenue arising from the rendering of services should be recognised only to the extent of the expenses recognised that are recoverable

### INTEREST, ROYALTIES AND DIVIDENDS

For interest, royalties and dividends, if it is probable that the economic benefits or service potential will flow to the entity and the amount of revenue can be measured reliably, revenue should be recognised as follows:

- Interest: using the effective interest rate method, as in GRAP on Financial Instruments
- Royalties: as they are earned according to the substance of the relevant agreement
- Dividends: the owner's or entity's right to receive payment is established

# GRAP 11 – Construction Contracts

Effective 1 April 2021

## DEFINITION

A **construction contract** is:

- ✓ A contract, or similar binding arrangement
- ✓ Specifically negotiated for the construction of an asset or combination of assets that are closely interrelated or interdependent in terms of design, technology and function or their ultimate purpose or use

A **fixed price contract** is a construction contract in which the contractor agrees to a fixed price, or a fixed rate per unit of output, which in some cases is subject to escalation clauses

A **cost plus** or **cost based contract** is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of commercially-based contract plus an additional percentage of these costs or a fixed fee, if any

**Contract revenue** includes the amount of revenue agreed in the initial contract, plus variations in the original work, plus claims and incentives to the extent that

- ✓ It will result in revenue (expected to be collected), and
- ✓ It is capable of being measured (can be measured reliably)

Where the cost associated with a construction contract are recovered from another entity (i.e., by way of an appropriation or conditional grant), the contract is classified as a fixed price contract. Any revenue received / receivable is recognised in terms of GRAP 23. The contract costs are recognised in terms of GRAP 11

## COMBINING CONTRACTS

A group of contracts, whether with a single customer or with several customers, should be treated as a single contract when:

- ✓ The group of contracts is negotiated as a single package
- ✓ The contracts are so closely interrelated that it is, in effect, part of a single project with an overall margin, if any
- ✓ The contracts are performed concurrently or in continuous sequence

## OUTCOME CAN BE ESTIMATED RELIABLY

- If the entity can make an assessment of the revenue, the stage of completion and the costs to complete the contract
- If the outcome can be measured reliably, revenue and costs on the contract should be recognised with reference to stage of completion bases. Under this basis, contract revenue is matched with contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and surplus which can be attributed to the portion of work completed
- When it is probable that the total contract costs will exceed contract revenue, the expected deficit is immediately recognised as an expense

**Contract costs** includes

- ✓ Costs directly related to the contract
- ✓ Costs attributable to contract activity in general and that can be allocated to the contract on a systematic and rational basis, and
- ✓ Other costs specifically chargeable to the client under the contract terms

## SEPARATING CONTRACTS

If a contract covers many assets, the contract should be accounted for separately if:

- ✓ Separate proposals were submitted for each asset
  - ✓ Each asset in the contract were negotiated separately
  - ✓ The costs and revenues of each asset can be identified
- Otherwise, the contract should be accounted for in its entirety
- If the contract provides an option to the customer to order additional assets, the additional assets should be accounted for separately if:
- ✓ The additional assets differs significantly (in design, technology or function) from the original asset, or
  - ✓ The price of the additional asset is negotiated separately

## OUTCOME CANNOT BE ESTIMATED RELIABLY

- Revenue will be recognised only to the extent of contract costs incurred that is probable will be recoverable (no surplus is recognised)
- Contract costs will be recognised as an expense in the period in which they are incurred
- An expected deficit on a construction contract should be immediately recognised as an expense

# GRAP 12 – Inventories

Effective 1 April 2021

## DEFINITION

**Inventories** are assets:

- ✓ Held for sale or distribution in ordinary course of operations
- ✓ In the process of production for sale or distribution
- ✓ In the form of materials or supplies to be consumed or distributed in the production process or in the rendering of services

## INITIAL RECOGNITION

Inventories are recognised as assets, if and only if:

- ✓ It is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- ✓ The cost of the inventories can be measured reliably

## INITIAL MEASUREMENT

- Inventories that qualify for recognition as assets are initially measured at cost
- Where inventories are acquired through a non-exchange transaction, their cost is measured at fair value as at the date of acquisition

### Cost formulas:

For non-interchangeable items:

- Specific identification of individual costs

For interchangeable items, either:

- FIFO
- Weighted average

Use of the LIFO method is prohibited

**May use standard cost method if results in approximate cost**

The standard cost method takes into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions

## COST

### Includes

- ✓ Cost of purchase, including taxes, transport and handling
- ✓ A deduction of trade or cash discounts and volume rebates
- ✓ Cost of conversion
- ✓ Other costs to bring inventories to its present condition and location

### Excludes

- ✓ Anormal waste
- ✓ Storage costs
- ✓ Administrative overheads not related to production
- ✓ Forex differences
- ✓ Selling costs
- ✓ Interest costs (where settlement is deferred)

This is an implicit impairment test, thus inventories are excluded from the GRAPs on impairment

## NET REALISABLE VALUE (NRV)

**Does not apply to inventories to be distributed at no charge or for a nominal charge**

Net realisable value is the estimated selling price in the **ordinary course** of operation, less the estimate costs to make the sale, exchange or distribution

## CURRENT REPLACEMENT COST (CRC)

**Applies to inventories to be distributed at no charge or for a nominal charge**

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date

MEASUREMENT AFTER RECOGNITION

Lower of

## RECOGNITION OF EXPENSES

- The carrying amount of inventories is expensed when sold, exchanged or distributed during the period
- A write down to NRV or CRC and losses of inventories is expensed in the period incurred
- Write down reversal set-off against expense

# GRAP 13 – Leases

Effective 1 April 2021

## DEFINITION

A **lease** is an agreement whereby the lessor conveys to the lessee in return for a series of payments the right to use an asset for an agreed period of time

An **operating lease** is a lease other than a finance lease

A **finance lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred

## ACCOUNTING TREATMENT

## CLASSIFICATION OF A FINANCE LEASE

## ACCOUNTING TREATMENT

### Lessor:

- Treats contract as an executory contract
- Retains leased asset in statement of financial position
- Recognises lease revenue on a straight-line basis over the lease term

### Lessee:

- Treats contract as an executory contract
- Does not recognise leased asset in statement of financial position
- Recognises lease expense on a straight-line basis over the lease term

Examples of situations that would ordinarily lead to a lease being classified as a finance lease (not all need to be met):

- The lease transfers ownership of the asset to the lessee by the end of the lease term
- The lease has a bargain option to purchase the leased asset at a price that is reasonably certain at that date of inception that the option will be exercised
- The lease term is for the major part of the economic life of the asset even if title is not transferred
- At the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset
- The leased assets are of such specialised nature that only the lessee can use them without major modifications
- The leased assets cannot easily be replaced by another asset

Other indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease:

- If the lessee can cancel the lease, the lessor's losses associated with the lease are borne by the lessor
- Gains or losses from the fluctuation in the fair value of the residual value accrue to the lessee
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent

### Lessor:

- Recognises lease payments as a receivable equal to net investment of the lease
- Leased asset is not recognised in the statement of financial position
- Recognises finance revenue based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease

### Lessee:

- Lessee recognises the leased asset and liability, in the statement of financial position at amounts equal to the lower of the fair value of the leased asset and the PV of lease payments
- Discount rate to be used to calculate PV is implicit rate in the lease
- Minimum lease payments made are apportioned between finance charges and reduction of outstanding liability
- The finance charge is allocated to each period of the lease term to produce a constant rate of interest over the period
- A depreciation expense arises for depreciable assets

**Overriding principle:**  
Substance over form

## CONSIDERATIONS TO NOTE

- A lessee may classify a property interest held under an operating lease as an investment property. If this is done, then that interest is accounted for as if it were a finance lease
- Lessors and lessees recognise incentives for the agreement of a new or renewed operating lease as a reduction in lease rental revenue or expense respectively over the lease term, on a straight-line basis
- A lease of land generally will be classified as an operating lease unless the title transfers to the lessee
- A lease of land and buildings should be treated as two separate leases, and are classified differently
- A series of linked transactions in the legal form of a lease should be accounted for based on the substance of the arrangement, the substance can be that the series of transactions is not a lease

# GRAP 14 – Events After Reporting Date

Effective 1 April 2021

## DEFINITION

**Events after the reporting date:** Favourable and unfavourable events, that occur between the reporting date and the date when the financial statements are authorised for issue

### ADJUSTING EVENTS

An event after the reporting date that provides further evidence of conditions that existed at the reporting date

Examples:

- ✓ Events that indicate that the going concern assumption in relation to the whole or part of the entity is not appropriate
- ✓ Settlement after reporting date of court cases that confirm the entity had a present obligation at reporting date
- ✓ Bankruptcy of a customer that occurs after reporting date that confirms a loss existed at reporting date on trade receivables
- ✓ Sales of inventories after reporting date that give evidence about their net realisable value at reporting date
- ✓ Determination after reporting date of cost of assets produced or proceeds from assets sold, before reporting date
- ✓ Discovery of fraud or errors that show the financial statements are incorrect

Financial statements are **adjusted** for conditions that existed at reporting date

### GOING CONCERN

An entity should not prepare its financial statements on the going concern basis if management determines after the reporting date either that there is an intention to liquidate the entity or to cease operating, or that there is no realistic alternative but to do so

#### Disclose:

- Date when the financial statements were authorised for issue and who gave that authorisation
- For any information received about conditions that existed at reporting date, disclosure that relate to those conditions are updated with the new information

### NON-ADJUSTING EVENTS

An event after the reporting date that is indicative of a condition that arose after the reporting date

Examples:

- ✓ Major entity combination or disposal of a controlled entity
- ✓ Major purchase or disposal of assets
- ✓ Destruction of a major production plant by fire after reporting date
- ✓ Announcing a plan to discontinue operations or transfer of functions / merger
- ✓ Announcing a major restructuring after reporting date
- ✓ Abnormal large changes after the reporting period in assets prices or foreign exchange rates
- ✓ Entering into major commitments such as guarantees
- ✓ Commencing major litigation arising solely out of events that occurred after the reporting period

Financial statements are not **adjusted** for conditions that arose after the reporting date

### DIVIDENDS OR SIMILAR DISTRIBUTIONS

If an entity declares dividends or similar distributions after the reporting date, the entity does not recognise those dividends or similar distributions as a liability at the reporting date

**Disclose** for each material category of non-adjusting event after the reporting date:

- The nature of the event
- An estimate of its financial effect, or a statement that such an estimate cannot be made

# GRAP 16 – Investment Property

Effective 1 April 2021

## DEFINITION

Property (land or building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both

## CLASSIFICATION

### Property held under an operating lease

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property provided that the

- ✓ Rest of the definition of investment property is met
- ✓ Operating lease is accounted for as if it were in accordance with GRAP 13
- ✓ Lessee uses the fair value model set out in GRAP 16 for all investment properties

### Partial own use

- If the owner uses part of the property in the production or supply of goods and services or for administration purposes, and part to earn rentals or for capital appreciation, and the proportions can be sold or leased out separately under a finance lease, each part is accounted for separately. The part that is rented out is investment property
- If portions cannot be sold or leased out separately, the property is investment property only if the owner-occupied portion is insignificant

### Provision of ancillary services to occupants

If those services are a relatively insignificant component of the arrangement, then the entity may treat the property as investment property. Where the services provided are more significant the property should be classified as owner-occupied

### Inter-entity rentals

Property rented to a controlling entity or another controlled entity is not investment property in the consolidated financial statements that include both the lessor and the lessee, because the property is owner-occupied from the perspective of the economic entity

## INCLUDES

- ✓ Land held for long-term capital appreciation
- ✓ Land held for undetermined future use
- ✓ Building leased out under an operating lease on a commercial basis
- ✓ Vacant property held to be leased out under an operating lease on a commercial basis to external parties
- ✓ Property that is being constructed or developed for future use as investment property

**Transfers** to or from investment property can be made only when there has been a change in the use of the property

## EXCLUDES

- ✓ Property held for use in the production or supply of goods or services for administrative purposes (GRAP 17 applies)
- ✓ Property held for sale in the ordinary course of business or in the process of construction or development for such sale (GRAP 12 applies)
- ✓ Property being constructed or developed on behalf of third parties (GRAP 11 applies)
- ✓ Owner occupied property (GRAP 17 applies)
- ✓ Property leased to another entity under a finance lease (GRAP 13 applies)
- ✓ Property held to provide a social service and which also generates cash flows (GRAP 17 applies)
- ✓ Property held for strategic purposes (GRAP 17 applies)

## RECOGNITION

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the property will flow to the entity, and the cost or fair value of the property can be reliably measured

## MEASUREMENT

### Initial measurement

- ✓ Investment property is initially measured at cost, including transaction costs
- ✓ Such costs should not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy
- ✓ Where investment property is acquired at no cost, or for nominal cost, its cost is its fair value at the date of acquisition

### Subsequent measurement

GRAP 16 permits entities to choose between a fair value model and a cost model

#### Cost model

After initial recognition, investment property is accounted for in accordance with the cost model in GRAP 17 (cost less accumulated depreciation and impairment losses)

#### Fair value model

Investment property is re-measured at fair value. Gains and losses arising from changes in fair value of investment property must be included in surplus or deficit for the period in which it arises



# GRAP 17 – Property, Plant and Equipment

Effective 1 April 2021

## DEFINITION

**Property, plant and equipment** are tangible items that:

- Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- Are expected to be used during more than one reporting period

## RECOGNITION AND INITIAL MEASUREMENT

**Recognised when:**

- It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- The cost or fair value of the item can be measured reliably

**Measurement:**

- Initially recorded at cost
- Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition

**Cost comprises:**

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

## MEASUREMENT SUBSEQUENT TO INITIAL RECOGNITION

### Cost Model

The asset is carried at cost less accumulated depreciation and accumulated impairment

### Revaluation Model

The asset is carried at a revalued amount, being its fair value at the date of the revaluation, less subsequent depreciation and subsequent impairment, provided that the fair value can be measured reliably

### Depreciation

- The depreciable amount (cost less residual value) should be allocated on a systematic basis over the assets useful life
- The residual value, the useful life and depreciation method of an asset should be reviewed at least each reporting date
- Change in residual value, depreciation method and useful life represent changes in estimates
- Depreciation is charged to surplus or deficit, unless it is included in the carrying amount of another asset
- Depreciation begins when the asset is available for use

- Revaluations should be carried out regularly (the carrying amount should not differ materially from its fair value at the reporting date)
- If an item is revalued, the entire class to which it relates is revalued
- Revalued assets are depreciated the same way as under the cost model
- An increase in value is credited to a revaluation surplus unless it represents the reversal of a revaluation decrease of the same asset previously recognised in surplus or deficit; in this case the increase in value is recognised in surplus or deficit

## OTHER MATTERS

### Derecognition

- ✓ Remove the asset from the statement of financial position on disposal / when no future economic benefits or service potential are expected from its use or disposal
- ✓ The gain or loss on derecognition is the difference between the net disposal proceeds, if any, and the carrying amount and should only be recognised in surplus or deficit

### Component accounting

- Significant parts / components should be depreciated over their estimated useful life
- Costs of replacing parts should be capitalised and the existing parts being replaced should be derecognised

### Spare parts, stand-by or servicing equipment

- Are classified as property, plant and equipment when they meet the definition thereof, else are classified as inventories

# GRAP 18 – Segment Reporting

Effective 1 April 2021

## DEFINITION

A **segment** is an activity of an entity:

- That generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity)
- Whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance, and
- For which separate financial information is available

## IDENTIFYING REPORTABLE SEGMENTS

Based on the definition of a segment, existence of information and managers responsible for such activities

## AGGREGATION OF SEGMENTS (THE CRITERIA)

Two or more segments may be aggregated if the segments have similar economic characteristics **and** share a majority of the aggregation criteria below:

- The nature of the goods and/or services delivered
- The type or class of customer or consumer to which goods and services are delivered
- The method used to distribute the goods or provide the services, or
- If applicable, the nature of the regulatory environment that applies to the segment

**OR**

If the segments are individually insignificant and a practical limit (i.e. number of reportable segments) has been reached. The practical limit is determined by the entity, however more than 10 reportable segments may be regarded as less useful and relevant

## MEASUREMENT

- The amount of each segment item reported is the measure reported to management for decision making purposes
- Assets, liabilities, revenue and expenses allocated to reportable segments are done on a reasonable basis
- The segment information disclosed is thus not necessarily GRAP compliant information, as it is based on amounts reported internally
- Segment information disclosed must be reconciled back to the GRAP amounts disclosed in the financial statements
- Adjustments and eliminations made in preparing the entity's financial statements are considered in preparing the reportable segments only if they are included in the measure of the segment's surplus / deficit used by management

## GEOGRAPHICAL AREAS

- An entity discloses the geographical areas in which it operates that are relevant for decision making purposes and is based on the information used to produce the annual financial statements
- Relevant information is disclosed, provided that such information is available and the cost to provide such information is not excessive

# GRAP 19 – Provisions, Contingent Liabilities and Contingent Assets

Effective 1 April 2021

## DEFINITIONS

### Principal:

Provisions should only be recognised when there is a liability. Thus, only genuine present obligations are recognised and not planned future expenditure

A **provision** is a liability of uncertain timing or amount

A **contingent liability** is:

- A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
- A present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability

A **contingent asset** is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future event not wholly within the control of the entity

## RECOGNITION

**Provisions** are recognised when:

- The entity has a present legal or constructive obligation as a result of a past event
- It is probable ('more likely than not') that an outflow of economic benefits or service potential will be required to settle the obligation, and
- A reliable estimate can be made of the amount of the obligation

**Contingent assets** are not recognised but are disclosed where an inflow of economic benefits or service potential is probable

**Contingent liabilities** are not recognised but are disclosed unless the outflow of economic benefits or service potential is remote

## ONEROUS CONTRACTS

- An onerous contract is one where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it
- For onerous contracts, the provision is recognised and measured at the lower of the cost of fulfilling the contract or the costs / penalties incurred in cancelling the contract
- Before a separate provision for onerous contract is recognised, an entity recognises an impairment loss that has occurred on assets dedicated to the contract

## MEASUREMENT

The amount recognised should be the best estimate of the expenditure required to settle the present obligation at the reporting date. This means:

- Provisions for one-off events (environmental clean-up, settlement of lawsuit) are measured at the **most likely outcome**
- Provisions are large populations of events (warranties) are measured at a **probability-weighted expected value**
- Both measurements are discounted (where the effect is material) using a pre-tax discount rate that reflects the current market assessment of the time value of money **and** the risks specific to the liability

In reaching this best estimate, the entity takes into account the **risks** and uncertainties that surround the underlying events

In measuring provisions, consider future events as follows: forecast reasonable change in applying existing technology (cannot predict discovery of new technology); ignore possible gains on sale of assets; and consider changes in legislation only if it is virtually certain to be enacted

- Reimbursements from 3<sup>rd</sup> parties for some or all expenditure required to settle a provision are recognised only when it is virtually certain that the reimbursement will be received. The reimbursement is treated as a separate asset, which cannot exceed the amount of the provision.
- Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate, if it is no longer probable that an outflow of economic benefits will be required to settle the obligation, the provision is reversed.

# GRAP 20 – Related Party Disclosures

Effective 1 April 2021

## DEFINITIONS

A **related party** is a person or entity with the ability to control or jointly control the other entity, or exercise significant influence over the other party, or visa versa, or an entity that is subject to common control, or joint control

A **related party transaction** is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged

A **person or a close member** of that person's family is related to an entity if that person:

- Has control or joint control over the entity
- Has significant influence over the entity
- Is a member of management of the entity or its controlling entity

An entity is related to the reporting entity if any of the following conditions apply:

- The entity is a member of the same economic entity;
- One entity is an associate or joint venture of the other entity
- Both entities are joint ventures of the same third party
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity
- The entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity
- The entity is controlled or jointly controlled by a person or close member of that person's family identified as a related party
- A person or close member of that person's family identified as a related party has significant influence over that entity or is a member of management of that entity or its controlling entity

## DISCLOSURES

### Relationships where control exists

Regardless of whether there have been transactions, disclosure of the name of its controlling party and if different, ultimate controlling party

### Related party transactions

Only if there have been transactions, disclose:

- The nature of related party relationship
- Amount of the transactions
- Amount of outstanding balances, including commitments
- Provisions for doubtful debts related to the amount of outstanding balances
- Expenses recognised during the period in respect of bad or doubtful debts due from related parties

### Exemption from disclosures if the transaction occurs within

Normal supplier and/or client/recipient relationship and T&Cs

### Key management personnel compensation

Disclose in total, for each class of management, the following categories:

- Fees for services as a member
- Basic salary
- Bonuses and performance related payments
- Other short-term employee benefits
- Post-employment benefits
- Other long-term benefits
- Termination benefits
- Commission, gain or surplus sharing arrangements
- Any other benefits received

# GRAP 21 – Impairment of Non-cash-generating Assets

Effective 1 April 2021

## DEFINITIONS

**Non-cash-generating assets** are assets other than cash-generating assets  
**Cash-generating assets** are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

- An entity determines the designation on initial recognition, based on the objective of using the asset (i.e. whether it is used to generate a commercial return for the entity).
- When it is not clear if the objective to use an asset is to generate commercial return, it is designated as non-cash-generating (to deliver services)
- A redesignation occurs only when there is clear evidence that such redesignation is appropriate

## IMPAIRMENT LOSS= CARRYING AMOUNT > RECOVERABLE SERVICE AMOUNT

## RECOVERABLE SERVICE AMOUNT = Higher of fair value less costs to sell and value in use

### Fair value less costs to sell

**Fair value** is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal

**Cost of disposal** are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses

**Value in use** is the present value of the asset's remaining service potential

**Depreciated replacement cost**  
 ▪ The replacement cost is the cost to replace the asset's gross service potential, and is depreciated to reflect the asset in its used condition

**Restoration cost approach**  
 ▪ Determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment

**Service units approach**  
 ▪ Determined by reducing the current replacement/reproduction cost to conform with the reduced number of service units expected from the asset in its impaired state

## WHEN TO TEST FOR IMPAIRMENT

When there is an indicator of impairment. Indicators are assessed at each reporting date.

Annual impairment test

- Recognise impairment immediately in surplus / deficit unless the asset is carried at revalued amount, which is treated as revaluation decrease
- Adjust the depreciation / amortisation based on revised carrying amount

## WHEN TO REVERSE IMPAIRMENT

- Recognise reversal impairment immediately in surplus / deficit unless the asset is carried at revalued amount, which is treated as revaluation increase
- Adjust the depreciation / amortisation based on revised carrying amount

External sources

Internal sources

- Cessation, or near cessation, of the demand or need for services provided by the asset
- L/T changes (with adverse effect) in technological, legal or government policy environment

- Evidence of obsolescence or physical damage
- Discontinuance, disposal or restructuring plans and idle assets
- Decision to halt construction of asset
- Declining asset service performance

- Compulsory for:
- Intangible assets with an indefinite useful life
  - Intangible assets not yet available for use

External sources

Internal sources

- Resurgence of the demand or need for services provided by the asset
- L/T changes (with favourable effect) in technological, legal or government policy environment

- Evidence of restored service potential of asset
- Decision to resume construction of the asset
- Evidence indicates that service performance of asset is, or will be, better than expected

**Principle:** GRAP 21 applies on an asset basis, an entity does not group assets together to form non-cash-generating units. The Standard also applies to assets that are measured applying a revaluation model to subsequent measurement

# GRAP 23 – Revenue from Non-exchange Transactions

Effective 1 April 2021

## DEFINITIONS

**Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange

**Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange

### Receipt of assets (other than taxes) in a non-exchange transaction

- Assets transferred will be recognised if and when the definition and recognition criteria of an asset are met

### Taxes

- An entity will recognise an asset in respect of taxes when the taxable event occurs, and the asset recognition criteria have been met
- The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation

### Services in-kind

- Except for financial guarantee contracts, an entity recognises services in-kind that are significant to its operations and/or service delivery objectives as assets when the definition and recognition criteria of an asset are met
- If the services in-kind are not significant to the entity's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the entity discloses the nature and type of services in-kind received during the reporting period

**Interest** levied is classified based on nature of the underlying transaction

## RECOGNITION

### NON-EXCHANGE REVENUE

- An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as non-exchange revenue, except to the extent that a liability is recognised for the same inflow
- As an entity satisfies the present obligation recognised as a liability, it will reduce the carrying amount of the liability recognised and recognise an equal amount to that reduction as non-exchange revenue

### PRESENT OBLIGATION

A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when all of the following conditions are met:

- Probable outflow of economic benefits or service potential will be required to settle the obligation, and
- A reliable estimate can be made of the amount

Conditions on a transferred asset gives rise to a present obligation on initial recognition

## MEASUREMENT

The **debit** leg of the transaction

The **credit** leg of the transaction

### Measurement of asset

Measured at fair value as at acquisition date

### Measurement of revenue

Measured at the amount of the increase in net assets recognised by the entity

### Measurement liability

Measured at best estimate of the amount required to settle the present obligation at the reporting date



# GRAP 24 – Presentation of Budget Information in the Financial Statements

Effective 1 April 2021

## DEFINITIONS

**Approved budget** means the expenditure authority derived from laws, appropriation bills, regulations and other decisions related to the anticipated revenue or receipts for the budgetary period

**Budgetary basis** means the accrual, cash or other basis of accounting adopted in the budget approved by the legislative body

**Comparable basis** means the actual amounts presented on the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget

**Final budget** is the approved budget adjusted for transfers, allocations, supplemental appropriations, and other changes applicable to the budget period

**Principle:** This Standard requires an entity to include a comparison of budget amounts and the actual amounts arising from the execution of the budget where the budget is made publicly available

### Publicly available budget

When they have been approved, and made available to the public at large by tabling in Parliament, legislatures or municipal councils

## PRESENTATION OF A COMPARISON OF BUDGET AND ACTUAL AMOUNTS

A comparison of budget and actual amounts is presented as:

- Additional columns in the primary statements when the financial statements and budget **are on a comparable basis**
- A separate statement of comparison when the budget and financial statements are **not on a comparable basis**

The comparison presents separately for each level of oversight (or aggregation):

- The approved and final budget amounts
- The actual amounts on a comparable basis, and
- An explanation of material differences (in the notes), unless included in other public documents issued in conjunction with the financial statements (with cross reference)
- An explanation of whether changes between the approved and final budget are a consequence of reallocations within the budget or other factors (in the notes or separate report)

The disclosure of comparative information in respect of the previous period is not required

## DISCLOSURES

Included in the notes to the financial statements:

- An explanation on the budgetary basis and classification basis adopted in the approved budget
- The period of the approved budget
- The entities included in the approved budget

## RECONCILIATION OF ACTUAL AMOUNTS ON A COMPARABLE BASIS AND ACTUAL AMOUNTS IN THE FINANCIAL STATEMENTS

Where the financial statements and the budget are not prepared on a comparable basis, a reconciliation to the actual amounts in the financial statements, identifying separately any basis, timing and entity differences for the following:

- If the accrual basis is adopted for the budget, total revenues, total expenses and net cash flows from operating activities, investing activities and financing activities, or
- If a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities and financing activities

The reconciliation is disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements

# GRAP 25 – Employee Benefits

Effective 1 April 2021

## DEFINITIONS

**Employee benefits** are all forms of consideration given by an entity in exchange for services rendered by employees or for termination of employment

## SHORT TERM EMPLOYEE BENEFITS

- Short term employee benefits are those expected to be settled wholly within the 12 months after the reporting period, in which the employee has rendered the related services
- If the entity's expectations of the timing of settlement change temporarily, it need not reclassify a short-term employee benefit
- Compensated absences
  - Accumulating – recognise expense when service that increases entitlement is rendered, e.g. leave pay
  - Non-accumulating – recognise expense when absence occurs
- All short-term benefits: recognise the undiscounted amount as an expense / liability e.g. wages, salaries, bonuses etc

## OTHER LONG TERM EMPLOYEE BENEFITS

These are employee benefits other than short-term employee benefits, post-employment benefits and termination benefits

- **Statement of financial position**
  - Carrying amount of liability = present value of obligation minus the fair value of any plan assets (if any)
- **Statement of financial performance**
  - Actuarial gain and losses are recognised immediately
  - Recognise current and past service costs, interest cost, expected return on any plan assets and on any reimbursement right recognised as an asset, the effect of any curtailments or settlement as revenue or expense except to the extent that another standard requires or permits the inclusion in the cost of an asset

## POST EMPLOYMENT BENEFITS

Employee benefits payable after the completion of employment (excluding termination and short term benefits), such as retirement benefits (e.g. pensions, lump sum payments) and other post-employment benefits (e.g. post employment life insurance, medical care)

## DEFINED BENEFIT PLANS

Defined benefit plans are post-employment benefit plans other than defined contribution plans

- **Statement of financial position**
  - Recognise net defined benefit liability (asset), being equal to the deficit (surplus) in the defined benefit plan and the possible effect of the asset ceiling
  - When an entity has a surplus, it measures the net defined benefit asset at the lower of: the surplus in the defined benefit plan and the asset ceiling
- **Statement of financial performance**
  - Recognise the net total of current service costs, interest costs, expected return on any plan assets and on any reimbursement rights, actuarial gains/losses, curtailments and effect of the asset ceiling in surplus for deficit, except to the extent that another standard requires or permits the inclusion in the cost of an asset

## OTHER LONG TERM EMPLOYEE BENEFITS

Are provided in exchange for the termination of an employee's employment, as a result of either (a) an entity's decision to terminate or (b) an employee's decision to accept an offer of benefits in exchange for the termination of employment

- Recognise a liability and an expense when, and only when, the entity has demonstrably committed to either (a) terminate the employment of an employee, or (b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy

## DEFINED CONTRIBUTION PLANS

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods

- **Financial statements**
  - Recognise contribution expense / liability when the employee has rendered the service

The accounting treatment of **multi-employer** and **state plans** depends on whether the entity has a legal or constructive obligation to pay future benefits

- Should these plans be recognised as a defined benefit plan then only the entity's proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan should be recognised
- However, if the entity is not able to identify its share of the underlying financial position and performance of the plan with sufficient reliability, then an entity accounts for the plan as if it is a defined contribution plan

# GRAP 26 – Impairment of Cash-generating Assets

Effective 1 April 2021

## DEFINITIONS

**Non-cash-generating assets** are assets other than cash-generating assets  
**Cash-generating assets** are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

- An entity determines the designation on initial recognition, based on the objective of using the asset (i.e. whether it is used to generate a commercial return for the entity).
- When it is not clear if the objective to use an asset is to generate commercial return, it is designated as non-cash-generating
- A redesignation occurs only when there is clear evidence that such redesignation is appropriate

**IMPAIRMENT LOSS = CARRYING AMOUNT > RECOVERABLE AMOUNT**

**RECOVERABLE AMOUNT = Higher of fair value less costs to sell and value in use**

### Fair value less costs to sell

**Fair value** is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal

**Cost of disposal** are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses

**Value in use** is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal

**Cash flows:**

- From continuing use and disposal
- Based on asset in its current form
- Exclude financing activities
- Pre-tax

**Discount rate:**

- Pre-tax
- Risks relating to value in use are reflected either in future cash flows or in the discount rate. The assumptions are otherwise double counted

## WHEN TO TEST FOR IMPAIRMENT

When there is an indicator of impairment. Indicators are assessed at each reporting date.

Annual impairment test

- Recognise impairment immediately in surplus / deficit unless the asset is carried at revalued amount, which is treated as revaluation decrease
- Adjust the depreciation / amortisation based on revised carrying amount

## WHEN TO REVERSE IMPAIRMENT

- Recognise reversal impairment immediately in surplus / deficit unless the asset is carried at revalued amount, which is treated as revaluation increase
- Adjust the depreciation / amortisation based on revised carrying amount

External sources

- Significant decline in market value
- Changes (with adverse effect) in technological, market, economic or legal environment
- Changes in interest rates

Internal sources

- Evidence of obsolescence or physical damage
- Discontinuance, disposal or restructuring plans
- Declining asset performance.
- Decision to halt construction of asset

- Compulsory for:
- Intangible assets with an indefinite useful life
  - Intangible assets not yet available for use

External sources

- Observable indications for significant increase in assets value
- Changes (with favourable effect) in technological, market, economic or legal environment
- Market interest rates have decreased.

Internal sources

- Changes in way asset is used or expected to be used
- Evidence from internal reporting indicates that economic performance of the asset will be better than expected
- Decision to resume construction of the asset

# GRAP 27 – Agriculture

Effective 1 April 2021

## DEFINITIONS

**Active market** exists when the items traded are homogenous, willing buyers and sellers can normally be found at any time and prices are available to the public

**Agricultural activity** is the management of the transformation and harvest of biological assets for sale; distribution at no charge or nominal charge; or conversion into agricultural produce or additional biological assets for sale or distribution at no charge or nominal charge

**Biological asset** is a living animal or plant

**Biological transformation** is the process of growth, degeneration, production, and procreation that can cause qualitative or quantitative changes in a biological asset

**Harvest** is the detachment of produce from a biological asset or the cessation of a biological asset's life processes

## RECOGNITION

Biological assets or agricultural produce are recognised when:

- The entity controls the asset as a result of past events
- It is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
- The fair value or cost of the asset can be measured reliably

### MEASUREMENT – BIOLOGICAL ASSETS

- At fair value less costs to sell (including assets received in a non-exchange transaction)
- When fair value cannot be measured reliably, the biological assets are stated at cost less accumulated depreciated and any accumulated impairment loss (until the fair value of such biological assets can be measured reliably)

### MEASUREMENT – AGRICULTURE PRODUCE

- Agricultural produce harvested from biological assets is measured at fair value less costs to sell
- Such measurement is the cost at the date when applying the Standard of GRAP on Inventories

## FAIR VALUE GAINS AND LOSSES

The gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in surplus or deficit for the period in which it arises

Once the fair value of the biological asset becomes reliably measurable, the fair value less costs to sell must be used to measure the biological asset

The gain or loss on initial recognition of agricultural produce at fair value less costs to sell shall be included in surplus or deficit for the period in which it arises

# GRAP 31 – Intangible Assets

Effective 1 April 2021

## DEFINITIONS

**Intangible assets** are identifiable, non-monetary assets, without physical substance

An asset is **identifiable** if it either:

- Is capable of being separated and sold, licensed, transferred, exchanged or rented separately, or
- Arises from binding arrangements (includes rights from contracts or other legal rights)

## INTERNALLY GENERATED INTANGIBLE ASSET

**Research phase** – expense costs as incurred

**Development phase** – capitalise if all criteria are met:

- Technical feasibility of completion of intangible asset
- Intention to complete
- Ability to use or sell the intangible asset
- Adequate technical, financial and other resources to complete
- Probable future economic benefits or service potential
- Expenditure measured reliably

## RECOGNITION AND MEASUREMENT

### SEPARATE ACQUISITION

- Probable that expected future economic benefits or service potential will flow to the entity, and
  - Cost can be measured reliably
- Recognise at **cost**

### NON-EXCHANGE TRANSACTION

- Probable that expected future economic benefits or service potential will flow to the entity, and
  - Fair value can be measured reliably
- Recognise at **fair value**

### TRANSFER OF FUNCTIONS (not under common control)

- Probable that expected future economic benefits or service potential will flow to the entity is always satisfied
- Fair value can be measured reliably
- Recognise at **fair value**

### EXCHANGE OF ASSETS

Measure acquired asset at its **fair value**. If not possible, at **carrying amount** of asset given up.

Internally generated goodwill is never recognised

## SUBSEQUENT ACCOUNTING

Finite useful life - Choose either amortised cost or revaluation model:

### Cost model

- Determine useful life
- Residual value –assumed zero unless active market exists or a commitment by third party to purchase the intangible asset at end of useful life
- Determine amortisation method
- Review above annually
- Amortisation method reflects the pattern in which future economic benefits or service potential expected to be consumed
- Amortisation begins when available

### Revaluation model

- Fair value at revaluation date
- Fair value determined by referring to active market
- If no active market, use cost model
- Revaluation done regularly
- The net carrying amount of the asset is adjusted to the revalued amount and-
  - The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortisation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
  - Accumulated amortisation is eliminated against the gross carrying amount
- Credit to revaluation surplus net of Deferred Tax where the carrying amount is increased
- Transfer to retained earnings on realisation
- Debit in surplus or deficit where carrying amount is decreased

Indefinite useful live

- No foreseeable limit to future expected economic benefits or service potential
- Not amortised
- Test for impairment annually or when an indication exists
- Review annually if events and circumstances still support indefinite useful life
- If no longer indefinite change to finite useful life.

# GRAP 32 – Service Concession Arrangements: Grantor

Effective 1 April 2021

## DEFINITIONS

**A service concession arrangement** is a contractual arrangement between a grantor and an operator in which:

- The operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time, and
- The operator is compensated for its services over the period of the service concession arrangement

**A grantor** is the entity that grants the right to use the service concession asset to the operator.

## SCOPE

Does the grantor control or regulate what services the operator must provide with the service concession asset, to whom it must provide them, and at what price?

Yes

Does the grantor control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the service concession asset at the end of the service concession arrangement? Or is the service concession asset used in the arrangement for its entire economic life?

Yes

Is the service concession asset constructed, developed or acquired by the operator from a third party for the purpose of the service concession arrangement, or it is an existing asset of the operator which becomes the service concession asset as part of the service concession arrangement?

Yes

No

**Apply GRAP 32**

Yes

Is the service concession asset is an existing asset of the grantor to which the operator is granted access for the purpose of the service concession arrangement?

## RECOGNITION AND MEASUREMENT OF A SERVICE CONCESSION ASSET

### New asset:

Recognise a new service concession asset at fair value, where the asset is constructed or developed apply relevant GRAP to account for costs

### Existing asset of grantor:

Reclassify existing asset as a service concession asset, clearly identified from owned and/or leased assets. Not remeasured

## RECOGNITION AND MEASUREMENT OF LIABILITIES

### New asset → recognise a liability

Initially measured at the same amount of the new asset, adjusted by the amount of any consideration from the grantor to the operator or from the operator to the grantor

### Existing asset of grantor → no liability

Where an existing asset of the grantor is reclassified, no liability except where additional consideration is provided by the grantor to the operator

The nature of the liability is based on the nature of the consideration exchanged between the grantor and the operator...

## FINANCIAL LIABILITY MODEL (grantor makes payments to the operator)

Where the grantor **has an unconditional obligation** to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset

- Liability is classified as a financial liability
- Grantor allocates the payments as a reduction in the liability, finance charges are recognised as an expense
- Separate payments between amounts for asset and services with reference to the relative fair value of the asset and service component (else use estimation technique)
- Service component of payments is ordinarily recognised evenly over the term of the arrangement
- Where specific expenses are separately compensated, they are recognised when incurred

If the grantor pays for the construction, development, acquisition or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, an entity accounts for each part separately

## GRANT OF A RIGHT TO THE OPERATOR MODEL (grantor makes no payments to the operator)

Where the grantor **does not have an unconditional obligation** to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue generating asset

- Liability represents unearned revenue from the exchange of assets between the grantor and the operator
- Revenue is recognised according to the substance of the service concession arrangement, and the liability is reduced as revenue is recognised

Grantor accounts for other revenues, liabilities, contingent liabilities and contingent assets in accordance with the relevant Standard of GRAP

Apply relevant Standard of GRAP



# GRAP 34 – Separate Financial Statements

Effective 1 April 2021

**Separate financial statements** are those presented in addition to consolidated financial statements, or in addition to the financial statements of an investor that does not have controlled entities but has investments in associates or joint ventures are accounted for using the equity method.

## DIVIDENDS OR SIMILAR DISTRIBUTIONS

Dividends or similar distributions are recognised in the separate financial statements of an entity when the entity's right to receive the dividend or similar distribution is established

The dividend or similar distribution is recognised in surplus or deficit unless the entity elects to use the equity method, in which case the dividend or similar distribution is recognised as a reduction from the carrying amount of the investment

## DEFINITION

**Separate financial statements** are those presented by an entity, in which the entity could elect, to account for its investments in controlled entities, joint ventures and associates either:

- at cost,
- in accordance with GRAP 104 on Financial Instruments or
- using the equity method

Where an entity:

- elects to measure its investments in associates or joint ventures at fair value\*; OR
- is required to measure its investment in a controlled entity at fair value\*

It also accounts for such in the same way in its separate financial statements

\*fair value in accordance with GRAP 104

## INVESTMENT ENTITIES

A controlling entity that is not itself a controlled investment entity measures its investment in a controlled investment entity:

- at cost,
- in accordance with GRAP 104 on Financial Instruments or
- using the equity method

## DEFINITION

**The equity method** is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets includes its share of changes in the investee's net assets that have not been recognised in the investee's surplus or deficit

# GRAP 35 – Consolidated Financial Statements

Effective 1 April 2021

**Consolidated financial statements** include all controlled entities of the controlling entity, i.e. those entities controlled by the controlling entity

## EXEMPTION FROM PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

- ✓ The controlling entity is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned controlled entity, all of its other owners have been informed about, and do not object to, the entity not presenting consolidated financial statements;
- ✓ The controlling entity's debt or equity instruments are not traded in a public market;
- ✓ The controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; AND
- ✓ The controlling entity's ultimate or any intermediate controlling entity produces financial statements that are available for public use and comply with the Standards of GRAP, in which controlled entities are consolidated or measured at fair value.

The controlling entity presents:

- Non-controlling interests in the consolidated statement of financial position within net assets, separately from net assets of the owners of the controlling entity
- Surplus or deficit attributable to owners and non-controlling interests
- Gains or losses recognised directly in net assets attributed to owners and non-controlling interests

## DEFINITION

**Consolidated financial statements** are the financial statements of an economic entity in which the assets, liabilities, net assets, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

## CONSOLIDATION PROCEDURES

- a) Combine like items of assets, liabilities, net assets, revenue, expenses and cash flows
- b) Offset (eliminate) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets of each controlled entity
- c) Eliminate in full intra-economic entity assets, liabilities, net assets, revenue, expenses and cash flows relating to transactions between entities of the economic entity (surpluses or deficits resulting from intra-economic entity transactions that are recognised in assets are eliminated in full)

## ISSUES

- An entity considers only substantive rights relating to another entity, i.e. the holder must have the practical ability to exercise that right
- Economic dependence, alone, does not give rise to power over an entity
- Potential voting rights are considered only if the rights are substantive
- The existence of statutory powers to operate independently does not, of itself, preclude an entity having the ability to direct the operating and financial policies of another entity with statutory powers so as to obtain benefits
- Regulatory control does not usually give rise to power over an entity
- Use uniform accounting policies for like transactions, balances and other events in similar circumstances
- Financial statements should be prepared for the same reporting date

## DEFINITION

**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 affect the nature or amount of those benefits through its power over the other entity.



Control for financial reporting purposes is a matter of judgment based on the definition of control and the facts and circumstances of each case. All three elements of the definition need to be considered:

- a) power over the entity → when it has existing rights that give it the current ability to direct the activities that significantly affect the nature or amount of the benefits from its involvement with the other entity
- b) exposure, or rights, to variable benefits from its involvement with the other entity → when the benefits that it seeks from its involvement have the potential to vary as a result of the other entity's performance AND
- c) the ability to use its power over the other entity to affect the nature or amount of benefits from its involvement with the other entity

## LOSS OF CONTROL

A controlling entity can lose control through a sale or distribution, or through some other transaction or event

- When control is lost, the controlling entity derecognises all assets, liabilities and non-controlling interests at their carrying amounts
- Any investment retained in the former controlled entity is recognised at fair value
- The controlled entity recognise any consideration received at its fair value and recognises any distribution of shares of the controlled entity to owners in their capacity as owners
- The controlling entity recognises any gain or loss associated with the loss of control attributable to the former controlling interest

# GRAP 35 – Consolidated Financial Statements (Control)

Effective 1 April 2021

RELEVANT ACTIVITIES	RIGHTS TO DIRECT RELEVANT ACTIVITIES	
<p><b>Relevant activities</b> include (but are not limited to):</p> <ul style="list-style-type: none"> <li>✓ Using assets and incurring liabilities to provide services to service recipients</li> <li>✓ Distributing funds to specified individuals or groups</li> <li>✓ Collecting revenue through non-exchange transactions</li> <li>✓ Selling and purchasing of goods or services</li> <li>✓ Managing physical assets</li> <li>✓ Managing financial assets during their life (including upon default)</li> <li>✓ Selecting, acquiring or disposing of assets</li> <li>✓ Managing a portfolio of liabilities</li> <li>✓ Researching and developing new services or processes</li> <li>✓ Determining a funding structure or obtaining funding</li> </ul> <p><b>Decisions on relevant activities</b> include but are not limited to:</p> <ul style="list-style-type: none"> <li>✓ Establishing operating and capital decisions of an entity, including budgets</li> <li>✓ Appointing and remunerating an entity's key management personnel or service providers and terminating their services of employment</li> </ul>	<p><b>Rights</b> that, either individually or in combination, can give an investor <b>power</b> include (but are not limited to):</p> <ul style="list-style-type: none"> <li>✓ Rights to give policy direction to board of directors or equivalent governing body of another entity that give the holder the ability to direct the relevant activities of the other entity</li> <li>✓ Rights in the form of voting rights (or potential voting rights) of another entity</li> <li>✓ Rights to appoint, reassign or remove members of another entity's key management personnel or another entity who have the ability to direct the relevant activities</li> <li>✓ Rights to approve or veto operating and capital budgets relating to the relevant activities of another entity</li> <li>✓ Rights to direct the other entity to enter into, or veto any changes to, transactions for the benefit of the entity</li> <li>✓ Rights to veto key changes to the other entity, such as the sale of a major asset or the other entity as a whole</li> <li>✓ Other rights (such as decision making rights specified in a management contract) that give the holder the ability to direct the relevant activities</li> </ul>	
<p><b>EXPOSURE, OR RIGHTS, TO VARIABLE RETURNS</b> (returns that are not fixed, and vary as a result of involvement)</p>	<p><b>Special relationships beyond a passive interest</b> – sometimes there may be indicators present that an investor has more than simply a passive interest. The following suggest that the entity has more than a passive interest:</p> <ul style="list-style-type: none"> <li>✓ The relationship between the entity and the other entity's operations is one of dependence (e.g. funding, guarantees, services, materials etc)</li> <li>✓ A significant portion of the other entity's activities either involve or are conducted on behalf of the other entity</li> <li>✓ The entity's exposure, or rights, to benefits from its involvement with the other entity is disproportionately greater than its voting or other similar rights</li> </ul>	<p><b>Voting rights</b></p> <p><b>Power with a majority of the voting rights, where:</b></p> <ul style="list-style-type: none"> <li>✓ Relevant activities are directed by vote</li> <li>✓ Majority of the members of the board of directors (or equivalent) are appointed by vote</li> </ul> <p><b>Majority of voting rights but no power, where:</b></p> <ul style="list-style-type: none"> <li>✓ Relevant activities not directed by vote</li> <li>✓ Such voting rights are not substantive</li> </ul>
<p>Based on substance of the arrangement assess whether returns are variable, how variable they are. Variable returns can be: only positive, only negative, or both positive and negative.</p>	<p><b>Substantive rights</b> – only these are considered in assessing power, factors to consider whether rights are substantive include (but are not limited to):</p> <ul style="list-style-type: none"> <li>✓ Whether there are barriers that prevent the holder from exercising (e.g. financial penalties, detrimental exercise conversion price, detrimental terms and conditions, laws and regulations)</li> <li>✓ Whether there is a practical mechanism to facilitate multiple parties exercising rights</li> <li>✓ Whether the party holding the rights would benefit from the exercise of those rights</li> <li>✓ Whether the rights are actually exercisable when decision about the relevant activities need to be made</li> </ul>	<p><b>De-facto control</b></p> <p><b>Power without a majority of the voting rights, where:</b></p> <ul style="list-style-type: none"> <li>✓ Power to appoint or remove majority of member of board (or equivalent) and control of the other entity is by the board (or equivalent)</li> <li>✓ Binding arrangement between entity and other vote holders</li> <li>✓ Rights arising from binding arrangements</li> <li>✓ Special voting rights (e.g. golden share)</li> <li>✓ Potential voting rights (if substantive)</li> <li>✓ A combination of above</li> </ul>
	<p><b>Protective rights</b> – are designed to protect the interest of the holder, but do not give the holder the power over the entity</p>	

# GRAP 36 – Investments in Associates and Joint Ventures

Effective 1 April 2021

Applies to all entities that are investors with joint control of, or significant influence over, an investee where the investment leads to the holding of a quantifiable ownership interest.

**Principle:** An entity with joint control of, or significant influence over, an investee accounts for its investment in an associate or joint venture using the **equity method**

## EXEMPTION FROM APPLYING THE EQUITY METHOD

If the entity is a controlling entity that is exempt from preparing consolidated financial statements, as set out in GRAP 35 or if all of the following apply:

- ✓ the entity itself is a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements, and, in the case of a partially owned entity, all its other owners, have been informed about, and do not object to, the entity not applying the equity method
- ✓ the entity's debt or equity instruments are not traded in a public market
- ✓ the entity did not file, nor is it in the process of filing, its financial statements with securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market
- ✓ The ultimate or any intermediate controlling entity of the entity produces financial statements available for public use that comply with the Standards of GRAP, in which controlled entities are consolidated or are measured at fair value in accordance with GRAP 35

## ASSOCIATE

An **associate** is an entity over which the investor has significant influence. **Significant influence** is the power to participate in financial and operating policy decisions of the investee but is not control or joint control over those policies.

## SIGNIFICANT INFLUENCE

Rebuttable presumption: 20% - 50% shareholding gives rise to significant influence

Evidenced in **one or more** of the following ways:-

- ✓ Representation on the board of directors or equivalent governing body of the investee
- ✓ Participation in policy-making processes, including participation in decisions about dividends or similar distributions
- ✓ Material transactions between the entity and its investee
- ✓ Interchange of managerial personnel
- ✓ Provision of essential technical information

## DISCONTINUING THE EQUITY METHOD

An entity is required to discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:

- If an investment becomes a controlled entity, the entity accounts for its investments in accordance with GRAP 105, GRAP 106, GRAP 107 and GRAP 35
- If the retained interest is a financial asset, the entity measures the retained interest at fair value or carrying value where permitted in terms of GRAP 104 and recognises any difference in value in surplus or deficit
- When the equity method is discontinued, the entity accounts for all amounts previously recognised in net assets on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities

## JOINT ARRANGEMENT

**Joint arrangement** is an arrangement of which two or more parties have joint control.

**Joint control** is the agreed sharing of control by way of a binding arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

**Joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

## ISSUES

- Potential voting rights are taken into account to determine whether significant influence exists, but equity accounting is based on present ownership interest
- Financial statements of the investor and investee used for equity accounting should not differ more than 3 months in terms of reporting date
- Use of uniform accounting policies for transactions and other events in similar circumstances
- The investors' share in the investee's surplus or deficit resulting from transactions with the investee are eliminated in the equity accounted financial statements of the controlling entity
- If an investor's share of deficit of an investee exceeds its interest in the investee, discontinue recognising share of further deficits. The interest in an investee is the carrying amount of the investment in the investee under the equity method, and any long-term interests that, in substance, form part of the investor's net investment in the investee.
- If ownership interest is reduced, but equity method remains, the entity reclassifies to accumulated surplus or deficits that portion of the gain or loss that had previously been recognised in net assets relating to that reduction in ownership interest if that gain or loss would be required to be transferred directly to accumulated surplus or deficits on the disposal of the related assets or liabilities

# GRAP 37 – Joint Arrangements

Effective 1 April 2021

## JOINT OPERATIONS

### Consolidated / individual financial statements

Financial statements of parties to a joint arrangement → joint operator recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its expenses, including its share of any expenses incurred jointly

The above are accounted for in accordance with the relevant Standards of GRAP

### Separate financial statements

Same treatment as for consolidated / individual financial statements detailed above

## JOINT VENTURES

### Consolidated / individual financial statements

Financial statements of parties to a joint ventures → joint venturer recognises in relation to its interest in a joint venture as an investment using the equity method, unless it is exempted from applying the equity method, in terms of GRAP 36

### Separate financial statements

Recognise interest either

- a) at cost,
- b) in accordance with GRAP 104 on Financial Instruments or
- c) using the equity method

## RECOGNITION AND MEASUREMENT: ENTITIES THAT PARTICIPATE, BUT DO NOT HAVE JOINT CONTROL ('NON-JOINT CONTROLLING PARTIES')

In some instances, there may be other parties who are investees in a joint arrangement but do not themselves have joint control of the joint arrangement

### JOINT OPERATIONS

(non-joint controlling party has contractual rights and obligations to assets, liabilities, revenues and expenses)

Account for its contractual share of assets, liabilities, expenses, and revenues in both its consolidated / individual financial statements and separate financial statements

### JOINT OPERATIONS

(non-joint controlling party does not have contractual rights and obligations to assets, liabilities, revenues and expenses)

### JOINT VENTURES

### Consolidated / individual financial statements

Assess for significant influence:

if present: apply the equity method (unless the entity is exempted from applying the equity method)  
If not present: treat as financial asset

### Separate financial statements

Assess for significant influence:

if present: either (i) at cost (ii) financial asset or (iii) equity method  
If not present: treat as financial asset

# GRAP 103 – Heritage Assets

Effective 1 April 2021

## DEFINITION

**Heritage assets** are assets that have cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations

If a heritage asset is **not recognised** (because it could not be measured reliably), relevant and useful information about the asset is disclosed in the notes

## RECOGNITION AND INITIAL MEASUREMENT

### Recognised when:

- It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- The cost or fair value of the item can be measured reliably

### Measurement:

- Initially recorded at cost
- Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition

### Cost comprises:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

## MEASUREMENT SUBSEQUENT TO INITIAL RECOGNITION

### Cost Model

The asset is carried at cost less accumulated impairment losses

### Impairment

A heritage asset is not depreciated, but is assessed at each reporting date whether there is an indication that it may be impaired

#### External sources of information:

- Market value has declined significantly more than would be expected as a result of the passage of time or normal use
- The absence of an active market for a revalued heritage asset

#### Internal sources of information:

- Evidence is available of physical damage or deterioration of a heritage asset
- A decision to halt the construction of the heritage asset before it is complete or in a usable form

### Revaluation Model

The asset is carried at a revalued amount, being its fair value at the date of the revaluation, less subsequent impairment losses, provided that the fair value can be measured reliably

- Revaluations should be carried out regularly (the carrying amount should not differ materially from its fair value at the reporting date)
- If an item is revalued, the entire class to which it relates is revalued
- An increase in value is credited to a revaluation surplus unless it represents the reversal of a revaluation decrease of the same asset previously recognised in surplus or deficit; in this case the increase in value is recognised in surplus or deficit

## OTHER MATTERS

### Derecognition

- ✓ Remove the asset from the statement of financial position on disposal / when no future economic benefits or service potential are expected from its use or disposal
- ✓ The gain or loss on derecognition is the difference between the net disposal proceeds, if any, and the carrying amount and should be recognised in surplus or deficit

### Dual purpose assets

Where a heritage asset has more than one purpose, the entity determines whether the significant portion of the asset meets the definition of the asset (may apply judgement)



# GRAP 104 – Financial Instruments

Effective 1 April 2021

## DEFINITIONS

A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A **financial asset** is:

- a) cash
- b) a residual interest of another entity, or
- c) a contractual right to:
  - i. receive cash or another financial asset from another entity
  - ii. exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity

A **financial liability** is any liability that is a contractual obligation to:

- a) deliver cash or another financial asset to another entity, or
- b) exchange financial assets or financial liabilities under conditions that are potentially favourable to the entity

A **residual interest** is any contract that manifest an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- a) equity instruments or similar forms of unitised capital
- b) a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution, or
- c) a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Best evidence of **fair value** is quoted prices in an active market. If the market for a financial instrument is not active, fair value is established using a valuation technique

## INITIAL RECOGNITION

Financial instruments are recognised in the statement of financial position when the entity becomes party to the contractual provisions of the arrangement

## INITIAL MEASUREMENT

All financial instruments are measured initially at fair value, directly attributable transaction costs are added to or deducted from the carrying value of those financial instruments that are not subsequently measured at fair value

## SUBSEQUENT MEASUREMENT

Subsequent measurement determined based on the definitions of..

### FINANCIAL INSTRUMENTS AT FAIR VALUE

Comprise financial assets or financial liabilities that are:

- ✓ derivatives
- ✓ contingent considerations in an acquirer in a transfer of functions (GRAP 106)
- ✓ combined instruments designated at fair value
- ✓ instruments held for trading
- ✓ non-derivative with fixed or determinable payments designated at fair value
- ✓ those that do not meet the definition for amortised cost or cost

**Measured at fair value** with all gains and losses recognised in surplus or deficit

### FINANCIAL INSTRUMENTS AT AMORTISED COST

Are non-derivatives that have fixed or determinable payments, excluding those instruments that:

- ✓ the entity designates as fair value on initial recognition
- ✓ are held for trading

**Measured at amortised cost** using the effective interest method, less impairment losses.

**Impair** financial asset if objective evidence of impairment loss.

- Amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted using the asset's original effective interest rate. Future credit losses that have not been incurred are excluded
- The carrying amount of the asset is reduced either directly or through the use of an allowance account
- The impairment loss (or reversals) is recognised in surplus or deficit
- Reversals cannot result in a carrying amount that exceeds what the amortised cost would have been had no impairment been recognised

### FINANCIAL INSTRUMENTS COST

Are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured

**Measured at amortised cost** less impairment losses.

**Impair** financial asset if objective evidence of impairment loss.

- Amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset

# GRAP 104 – Financial Instruments (Cont.)

Effective 1 April 2021

## DERECOGNITION OF FINANCIAL ASSETS

Consolidate all controlled entities (including special purpose entities)

Determine whether the derecognition principles below are applied to all or part of the asset

Have the rights to cash flows from the asset expired, been settled or waived?

No

Has the entity transferred substantially all of the risks and rewards of ownership of the asset?

No

Has the entity transferred control of the asset?

No

Continue to **recognise** asset in its entirety

Derecognise the asset

- If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or liability for that servicing contract
- If, as a result of a transfer, a financial asset is derecognised, but the entity obtains a new financial asset or assumes a new financial liability or servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value
- On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less new liability assumed)

## DERECOGNITION OF FINANCIAL LIABILITY

- A financial liability is derecognised only when extinguished i.e., when the obligation specified in the contract is discharged, cancelled or it expires
- An exchange between an existing borrower and lender of debt instruments with substantially different terms or substantial modification of the terms of an existing financial liability of part thereof is accounted for as an extinguishment
- The difference between the carrying amount of a financial liability extinguished or transferred to a 3rd party and the consideration paid is recognised in surplus or deficit

## OFFSETTING A FINANCIAL ASSET AND A FINANCIAL LIABILITY

A financial asset and a financial liability is offset and the net amount presented in the statement of financial position when, and only when and entity:

- Currently has a legally enforceable right to set off the recognised amounts, and
- Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

# GRAP 105 – Transfer of Functions Between Entities Under Common Control

Effective 1 April 2021

## DEFINITIONS

A **function** is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential

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

## IDENTIFY THE ACQUIRER AND TRANSFEROR

Must be identified for each transfer of functions

- An **acquirer** is the entity that obtains control of the transferor
- A **transferor** is the entity that relinquishes control of a function

## DETERMINE THE TRANSFER DATE

- The **transfer date** is the date on which the acquirer obtains control of the function and the transferor loses control of that function
- Evidenced in a binding arrangement

## IDENTIFY ASSETS ACQUIRED OR TRANSFERRED LIABILITIES ASSUMED OR RELINQUISHED

- Must be part of what had been agreed in terms of the binding arrangement, rather than as a result of separate or pre-existing arrangements
- Costs the acquirer expects, but not obligated to incur in future to effect its plan to exit an activity of the transferor or terminate employment – not part of liabilities at transfer date

## ACCOUNTING BY ACQUIRER

### INITIAL RECOGNITION AND MEASUREMENT

- Recognise the purchase consideration paid (if any) to the transferor and all assets acquired and liabilities assumed at carrying amounts (as recorded by the transferor on transfer date)
- Difference between carrying amounts and the consideration – recognised in accumulated surplus or deficit
- Acquisition related costs - expensed when incurred
- Costs incurred to issue debt or equity securities - recognised in accordance with GRAP 104
- Assets/liabilities are classified or designated in accordance with applicable Standards of GRAP

### SUBSEQUENT MEASUREMENT

- Account for assets and liabilities in accordance with relevant Standard of GRAP

## ACCOUNTING BY TRANSFEROR

- Derecognise all assets and liabilities at their carrying amounts on the transfer date
- Recognise consideration received at fair value in accordance with applicable Standard of GRAP
- The difference between the carrying amounts and consideration received recognised in accumulated surplus or deficit

If accounting is incomplete by end of reporting date, recognise provisional amounts. These are adjusted retrospectively to reflect new information obtained. Period to measure all assets and liabilities may not exceed 2 years from transfer date.

# GRAP 106 – Transfer of Functions Between Entities Not Under Common Control

Effective 1 April 2021

## DEFINITIONS

A **function** is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential

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

## IDENTIFY THE ACQUIRER

Must be identified for each transfer of functions

- An **acquirer** is the entity that obtains control of the acquiree
- An **acquiree** is the entity and/or the functions that the acquirer obtains control of in a transfer of functions

## DETERMINE THE ACQUISITION DATE

- The **acquisition date** is the date on which the acquirer obtains control of the acquiree
- Evidenced in a binding arrangement

The acquisition method...

## IDENTIFY ASSETS ACQUIRED AND LIABILITIES ASSUMED

- All assets must be identifiable, if it either:
  - ✓ Is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
  - ✓ Arises from contractual rights or other legal rights regardless of whether those rights are transferable or separable from the entity or from other rights and obligations
- Assets and liabilities must meet the definition thereof to be recognised as part of the acquisition
- Assets and liabilities are classified and designated as necessary to apply the standards of GRAP

## RECOGNISING AND MEASURING THE IDENTIFIABLE ASSETS ACQUIRED, LIABILITIES ASSUMED AND NON-CONTROLLING INTERESTS IN ACQUIREE

- The acquired assets and liabilities are required to be measured at their acquisition-date fair values
- There are certain exceptions to the recognition and/or measurement principles which cover contingent liabilities, employee benefits, indemnification assets, reacquired rights
- Non-controlling interests (NCI) that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation (e.g. shares) are measured at acquisition-date fair value or at the NCI's proportionate share in net assets
- All other components of NCI are required to be measured at their acquisition-date fair values

The difference between the assets acquired and liabilities assumed and the consideration transferred (if any) is recognised in surplus or deficit

## SUBSEQUENT MEASUREMENT

- In general, after the date of acquisition an acquirer measures and accounts for assets acquired and liabilities assumed or incurred in accordance with other applicable GRAPs
- However, GRAP 106 includes accounting requirements for reacquired rights, contingent liabilities, contingent consideration and indemnification assets

## DETERMINING WHAT IS PART OF THE TRANSFER

The acquirer should consider if the consideration includes amounts attributable to other transactions within the arrangement (pre-existing relationship, arrangements that remunerate employees etc.).

### Acquisition and other costs:

- Not capitalised - expensed in the period they are incurred
- Costs to issue debt or equity - recognised per GRAP 104

## TRANSFER OF FUNCTIONS ACHIEVED IN STAGES

- An acquirer sometimes obtains control of an acquiree in which it held an residual interest immediately before the acquisition date. This is known as a transfer of function achieved in stages or as a step acquisition
- Obtaining control triggers re-measurement of previous investments (residual interests)
- The acquirer remeasures its previously held residual interest in the acquiree at its acquisition-date fair value. Any resulting gain / loss is recognised in surplus / deficit

## MEASUREMENT PERIOD

- Applies when initial accounting is incomplete at the end of the reporting period in which the transfer occurs
- Measurement period ends when acquirer receives information it was seeking about facts and circumstances at acquisition date, not to exceed two years from acquisition date.

# GRAP 107 – Mergers

Effective 1 April 2021

## DEFINITIONS

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

## IDENTIFY THE COMBINED ENTITY AND COMBINING ENTITIES

Must be identified for each merger

- An **combined entity** is a new reporting entity formed from the combination of two or more entities
- A **combining entity** are the entities that are combined for the mutual sharing of risks and benefits in a merger

## DETERMINE THE MERGER DATE

- The **merger date** is the date on which entities are combined for the mutual sharing of risks and benefits and when the assets and liabilities are transferred to the combined entity
- Evidenced in a binding arrangement

## IDENTIFY ASSETS ACQUIRED OR TRANSFERRED LIABILITIES ASSUMED OR RELINQUISHED

- Must be part of what had been agreed in terms of the binding arrangement, rather than as a result of separate or pre-existing arrangements
- Assets and liabilities that qualify for recognition by the combined entity as set out in the binding arrangement must meet the definitions thereof and the recognition criteria per Standards of GRAP at the merger date

## ACCOUNTING BY THE COMBINED ENTITY

### INITIAL RECOGNITION AND MEASUREMENT

- Recognise assets acquired and liabilities assumed at carrying amounts (as recorded by the combining entities on merger date)
- Difference between carrying amounts of assets acquired and liabilities assumed – recognised in accumulated surplus or deficit
- Merger related costs - expensed when incurred
- Assets/liabilities are classified or designated in accordance with applicable Standards of GRAP
- Use uniform accounting policies for similar transactions and other events or similar circumstances

### SUBSEQUENT MEASUREMENT

- Account for assets and liabilities in accordance with relevant Standards of GRAP

## ACCOUNTING BY COMBINING ENTITIES

- Derecognise all assets and liabilities at their carrying amounts on the merger date
- The difference between the carrying amounts of assets transferred and liabilities de-recognised, recognised in accumulated surplus or deficit

If accounting is incomplete by end of reporting date, recognise provisional amounts. These are adjusted retrospectively to reflect new information obtained. Period to measure all assets and liabilities may not exceed 2 years from merger date.

# GRAP 108 – Statutory Receivables

Effective 1 April 2021

## DEFINITIONS

**Statutory Receivables** are receivables that:

- Arise from legislation, supporting regulations, or similar means, and
- Require settlement by another entity in cash or another financial asset

**Cost method** is the method that requires statutory receivables to be measured at their transaction amount, plus accrued interest or other charges and, less impairment losses and any amounts derecognised

**Nominal interest rate** is the interest rate and / or basis specified in legislation, supporting regulations or similar means

## RECOGNITION OF STATUTORY RECEIVABLES

Statutory receivables are recognised as follows:

- If the transaction is an exchange transaction, using GRAP 9
- If the transaction is a non-exchange transaction, using GRAP 23
- If the transaction is outside the scope of GRAP, recognise when definition of an asset is met and probable that the future economic benefits / service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably

## DERECOGNITION OF STATUTORY RECEIVABLES

Statutory receivables, or part thereof, are derecognised when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the entity transfers substantially all of the risks and rewards of ownership of the receivable; or
- the entity, despite retaining some significant risks and rewards of ownership, transferred control to another party and the other party has practical ability to sell the receivable in its entirety to an unrelated 3<sup>rd</sup> party, and can exercise the ability unilaterally without imposing additional restrictions on the transfer. In this case, the entity shall:
  - ✓ Derecognise the receivable; and
  - ✓ Separately recognise any rights and obligations created or retained in the transfer.

## MEASUREMENT OF STATUTORY RECEIVABLES

### INITIAL MEASUREMENT

Measured at their **transaction amount**, being the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means

### SUBSEQUENT MEASUREMENT

Measure using the cost method, which reflects any:

- ✓ Interest that may have accrued on the receivable (where applicable), calculated using the nominal interest rate
- ✓ Other charges accrued, such as penalties and fines
- ✓ Impairment losses, and
- ✓ Amounts derecognised

## IMPAIRMENT

Assessed at each reporting rate, **indications** include (as a minimum):

- ✓ Significant financial difficulty of a debtor
- ✓ Probable that debtor will enter sequestration, liquidation or other financial re-organisation
- ✓ A breach of the terms of the transaction, e.g. default or delinquency in principal and interest payments
- ✓ Adverse changes in international, national or local economic conditions, e.g. decline in growth, increase in debt levels, unemployment, changes in migration rates and patterns

- If indication of impairment, measure impairment loss as difference between the estimated future cash flows and carrying amount
- In estimating the future cash flows, consider both the amount and timing of the cash flows that will be received in future (adjust for time value of money where material, discount rate reflects the risk free rate, and if applicable, any risks specific to the statutory receivable(s) if not adjusted in cash flows
- Impairment reduces receivable directly or through an allowance account, amount recognised in surplus or deficit
- Impairment loss is reversed if there is a change in estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows



# GRAP 109 – Accounting by Principals and Agents

Effective 1 April 2021

## DEFINITIONS

An **agent** is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal

A **principal** is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on behalf, and for the benefit, of another entity (the principal)

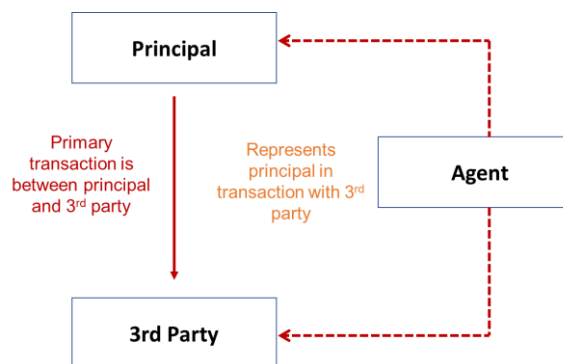
A **principal-agent arrangement** results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal)

**Principle:** Before accounting for an arrangement with another party, an entity should consider whether GRAP 109 should be applied. As GRAP 109 provides guidance on assessing the nature of an arrangement, it is considered before applying other Standards of GRAP.

## STEP 1: IDENTIFY THE BINDING ARRANGEMENT

A binding arrangement is any arrangement that confers enforceable rights and obligations on parties to the arrangement. These rights and obligations could arise from:

- contracts;
- legislation or similar means, and/or
- common law



## STEP 2: IDENTIFY THE TRANSACTIONS WITH THIRD PARTIES

Transactions with third parties includes the execution of a specific transaction with a third party, e.g. a sale or purchase transaction, but also includes interactions with third parties, e.g. when the agent is able to negotiate with third parties on the principal's behalf. A key characteristic of these transactions is often that the principal and the third parties are the counterparties to the transaction rather than the agent and the third parties (although there are exceptions).

## STEP 3: IDENTIFY PRINCIPAL AND THE AGENT IN THE ARRANGEMENT

An entity is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- a) It does not have the power to determine the significant terms and conditions of the transaction (not considered when an entity has been granted specific powers in legislation to direct the terms and conditions of a specific transaction)
- b) It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit
- c) It is not exposed to variability in the results of the transaction

## ACCOUNTING BY PRINCIPAL AND AGENT

### Principal

- Recognises revenue and expenses that arise from transactions that arises with third parties in a principal-agent arrangement
- Recognise any asset and liabilities arising from the principal-agent arrangement

### Agent

- Recognises only portion of the revenue and expenses it receives or incurs in executing the transaction on behalf of the principal
- Recognise any asset and liabilities arising from the principal-agent arrangement

# GRAP 110 – Living and Non-Living Resources

Effective 1 April 2021

## DEFINITIONS

**Living resources** are those resources that undergo biological transformation

**Non-living resources** are those resources, other than living resources, that occur naturally and have not been extracted

**Biological transformation** comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a living resource

## RECOGNITION

### NON-LIVING RESOURCES

- Non-living resources (other than land) are not recognised as assets
- Information thereon is disclosed in the notes to the financial statements

### LIVING RESOURCES

Living resources are recognised as assets if, and only if:

- It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- The cost or fair value of the asset can be measured reliably

- Control** of a living resource may be evidenced:
- By legislation or similar means, where the entity is granted control of an asset to meet its service delivery objectives
  - Through an acquisition
  - Due to a non-exchange transaction

## MEASUREMENT SUBSEQUENT TO INITIAL RECOGNITION

### Cost Model

The asset is carried at cost less accumulated depreciation and accumulated impairment

### Revaluation Model

The asset is carried at a revalued amount, being its fair value at the date of the revaluation, less subsequent depreciation and subsequent impairment, provided that the fair value can be measured reliably

## MEASUREMENT OF LIVING RESOURCES ON INITIAL RECOGNITION

### Measurement:

- Initially recognised at cost
- Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition

### Cost comprises:

- Its purchase price, including import duties and non-refundable purchase taxes; and
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The following indicators are considered individually, or in combination, to conclude if control exists:

- The intervention by an entity in the management of the physical condition of the living resource
- The ability to restrict the movement of the living resource
- The ability to direct the use of the living resource

- If living resource is managed but the entity cannot demonstrate control – disclose relevant information in notes to the financial statements
- If living resource controlled but cannot be recognised – disclose relevant information in the notes to the financial statements

### Depreciation

- The depreciable amount (cost less residual value) should be allocated on a systematic basis over the asset's useful life
- The residual value, the useful life and depreciation method of an asset should be reviewed at least each reporting date
- Change in residual value, depreciation method and useful life represent changes in estimates
- Depreciation is charged to surplus or deficit, unless it is included in the carrying amount of another asset
- Depreciation begins when the asset is available for use

- Revaluations should be carried out regularly (the carrying amount should not differ materially from its fair value at the reporting date)
- If an item is revalued, the entire group to which it relates is revalued
- Revalued assets are depreciated the same way as under the cost model
- An increase in value is credited to a revaluation surplus unless it represents the reversal of a revaluation decrease of the same asset previously recognised in surplus or deficit; in this case the increase in value is recognised in surplus or deficit

## DERECOGNITION

The carrying amount of a living resource is derecognised:

- On disposal (including through a non-exchange transaction)
- When no future economic benefits or service potential are expected from its use or disposal

Any gain or loss on derecognition is recognised in surplus or deficit