

What you need  
to know.

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# Welcome

Dear Colleagues

Welcome to our GRAP: What You Need to Know guide!

We have developed this publication for preparers, auditors and users of financial statements prepared under Generally Recognised Accounting Practice (GRAP) in order to provide a summary of the Standards of GRAP and the iGRAP Interpretations which have been issued by the Accounting Standards Board (ASB).

This guide does not provide all of the detail that is found in the actual GRAP Standards and Interpretations but we believe that it presents a useful high level summary, which will assist in the understanding of the requirements of GRAP.

We have also provided an overview of how the GRAP Standards are set and set out the Standards which must be applied by different public sector entities for financial periods beginning on or after 1 April 2010.

We hope that you find this guide valuable.

Kind Regards,

**Nita Ranchod**

Business Unit Leader  
Accounting & Auditing



# Background

In terms of section 89 of the Public Finance Management Act (PFMA), the Accounting Standards Board (ASB) is required to formulate standards of Generally Recognised Accounting Practice (GRAP) to be applicable to the following entities:

- National and Provincial Departments
- Public Entities as listed in the PFMA
- Certain constitutional institutions
- Municipalities and all entities under their ownership control
- Parliament and Provincial legislatures.

Generally entities within the public sector have a service delivery objective rather than a profit-orientated objective. The Standards of GRAP were therefore developed to reliably account for the service potential as opposed to the future economic benefits embodied in the entity.

As trading entities (as defined in the PFMA), major public entities (Schedule 2) and government business enterprises (Schedule 3B and 3D) provide goods and/or services in accordance with ordinary business principles with a profit objective, the ASB approved the application of South African Statements of Generally Accepted Accounting Practice (SA GAAP) as issued by the South African Institute of Chartered Accountants (SAICA) by these entities.

# ASB due process

In developing Standards of GRAP, the Board considers and makes use of pronouncements issued by the:

- International Public Sector Accounting Standards Board (IPSASB)
- International Accounting Standards Board (IASB) and IFRS Interpretations Committee (Interpretations Committee)
- Accounting Practices Board (APB)
- South African Institute of Chartered Accountants Accounting Practices Committee (SAICA APC).

In addition to the above, the ASB also takes into account other national and international accounting organisations that develop financial reporting, accounting and auditing standards in the public sector. The ASB is also required to take into account all relevant factors, such as best accounting practices (locally and internationally) and the capacity of the relevant entities to comply with the Standards.

Formal due process for the development of Standards of GRAP normally, but not necessarily, involves the following steps:

- Projects are identified by the ASB, which are then to the extent possible, included in the ASB's work programme
- Once a project has been added to the work programme, an ASB Board member is assigned to chair the project and as well as a secretariat staff member who will be responsible for leading the project
- Research is conducted, which includes the identification of the issues relating to the project, the application of the Framework and the consideration of standards, accounting practices and requirements of other standard setting bodies
- A project group is then formed, which may include auditors, legislators, preparers, regulators and users, to assist in the development of Standards of GRAP
- Where there is insufficient material, the project group will assist in the development of a discussion document to provide the basis for the development of a local Standard.

- Discussion papers are usually issued with a comment period of up to six months
- If necessary, discussion forums are held in order to obtain further opinions on issues identified by the exposure process
- The ASB issues exposure drafts (which have been developed using the information obtained from the discussion forums and comments received on the discussion papers) of all proposed Standards of GRAP for comment by interested parties. The Exposure Draft is then issued for public comment with a comment period of at least three months, which may be extended depending on the complexity of the project
- Details of the Exposure Draft and the comment period are published on the ASB website and a notice is included in the Government Gazette
- The draft of a Standard of GRAP is then developed from the exposure process, is submitted to the Board for approval
- A vote of at least 50% plus one is required for the Board to release an exposure draft, approve a Standard of GRAP, a guideline, interpretation or directive.

Comments on documents issued by the ASB and/or technical queries can be submitted electronically via the ASB website. Alternatively the ASB can be contacted at:

*The Accounting Standards Board  
International Business Gateway  
Cnr New Road and 6th Road  
Midridge Office Estate  
Ground Floor  
Building A  
Midrand*

**Telephone:** +27 11 697 0660  
**Fax:** +27 11 697 0666  
**Website:** [www.asb.co.za](http://www.asb.co.za)  
**Email:** [info@asb.co.za](mailto:info@asb.co.za)

# Compliance with GRAP

## **Constitutional institutions and Schedule 3A & 3C Public entities.**

In 2006, the Minister of Finance approved the first three Standards of GRAP for implementation by constitutional institutions and Schedule 3A and 3C public entities.

During May 2008, another 17 Standards of GRAP were approved for implementation for financial years starting from 1 April 2009 which resulted in a stable platform of Standards of GRAP.

Additional Standards have been developed for some of the more complicated transactions. Some of these Standards have been approved by the Minister of Finance and are effective for financial years beginning on or after 1 April 2012. Other standards have not yet received this approval. For these areas for 2011 financial years, entities are required to formulate an accounting policy using the following Standards:

- GRAP 21, GRAP 26, IPSAS 21 and IAS 36, or a combination of these standards for impairment of cash generating and non-cash generating assets
- GRAP 23 for revenue from non-exchange transactions
- GRAP 25 or IAS 19 for employee benefits
- GRAP 104, IAS 32, IAS 39 and IFRS 7 for financial instruments.

Entities may also choose to develop an accounting policy using GRAP 103 for heritage assets.

## **Municipalities**

Historically municipalities applied fund accounting in preparing their financial statements. This was a specialised basis of accounting with limited use outside local government.

During 1997, work started on developing an accounting framework specific to municipalities, which resulted in Statements of Generally Accepted Municipal Accounting Practice (GAMAP) based on SA GAAP. As a result of SA GAAP being harmonised with International Financial Reporting Standards (IFRS), a number of SA GAAP Statements on which GAMAP was based, were withdrawn or amended. Municipalities are now required to apply GRAP.

### Application of various accounting frameworks

The accounting frameworks (basis of preparation) applicable to the various entities for the 2011/2012 as well as the 2012/2013 financial years, are summarised below:

<b>Category of Entities</b>	<b>2011/2012 Financial Year</b>	<b>2012/2013 Financial Year</b>
National and provincial departments	Modified cash basis of accounting	Modified cash basis of accounting
Parliament and the provincial legislature	Standards of GRAP	Standards of GRAP
Constitutional institutions	Standards of GRAP	Standards of GRAP
Schedule 2 public entities	SA GAAP/IFRS	SA GAAP/IFRS
Schedule 3A & 3C public entities	Standards of GRAP	Standards of GRAP
Schedule 3B & 3D public entities	SA GAAP	SA GAAP
High capacity municipalities	Standards of GRAP	Standards of GRAP
<b>Category of Entities</b>	<b>2011/2012 Financial Year</b>	<b>2012/2013 Financial Year</b>
Medium capacity municipalities	Standards of GRAP	Standards of GRAP
Low capacity municipalities	Standards of GRAP	Standards of GRAP
Municipal entities	Standards of GRAP	Standards of GRAP

### The GRAP Reporting Framework

Directive 5 determines the GRAP reporting framework for a given financial year. The directive sets out which standards must be used by the entities for the year. Directive 5 is updated regularly to reflect new Standards, which become effective after having been approved by the Minister of Finance.

In the absence of a Standard of GRAP for a particular topic, the pronouncements of the following standard setting bodies should be used, in descending order, to develop an appropriate accounting policy:

- International Public Sector Accounting Standards Board (IPSASB)
- International Accounting Standards Board (IASB), including the Framework for the Preparation and Presentation of Financial Statements
- Accounting Practices Board (APB)
- Accounting Practices Committee (APC) of the South African Institute of Chartered Accountants (SAICA).

As a result, the reporting framework for a given financial year may consist of a combination of:

- Standards of GRAP issued by the ASB
- Interpretations of Standards of GRAP (iGRAP) issued by the ASB
- Directives issued by the ASB
- Guidelines of Standards of GRAP issued by the ASB
- International Public Sector Accounting Standards (IPSAS) issued by the IPSASB

- International Financial Reporting Standards (IFRS) issued IASB, which include IFRS Standards, IAS Standards, IFRIC Interpretations and SIC Interpretations.

Directives are issued by the ASB to deal with specific practical issues, which entities may encounter when applying Standards of GRAP, for example transitional provisions and the application of deemed cost by entities when adopting Standards of GRAP. Guidelines are also issued by the ASB and provide guidance on accounting for some of the public sector specific issues, for example, accounting for Public Private Partnerships.

We have summarised the provisions of all Standards and Interpretations of GRAP, which have been approved for implementation. We have also included summaries of those Standards that have been approved, but will only be effective for financial years beginning on or after 1 April 2012, those Standards which have been approved, but not required to be applied and those Standards which have not yet been approved but which can be used by entities in formulating an accounting policy in accounting for certain transactions.

These summaries are intended as general information only and are not a substitute for reading the entire Standard.

The following reporting framework must be applied by public entities, constitutional institutions, municipalities and municipal entities for financial periods beginning on or after 1 April 2010:

<b>Standards of GRAP</b>		<b>Page</b>
GRAP 1	Presentation of Financial Statements	24
GRAP 2	Cash Flow Statements	32
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors	36
GRAP 4	The Effects of Changes in Foreign Exchange Rates	40
GRAP 5	Borrowing Costs	42
GRAP 6	Consolidated and Separate Financial Statements	46
GRAP 7	Investments in Associates	49
GRAP 8	Interests in Joint Ventures	52
GRAP 9	Revenue from Exchange Transactions	55
GRAP 10	Financial Reporting in Hyperinflationary Economies	57
GRAP 11	Construction Contracts	59
GRAP 12	Inventories	62
GRAP 13	Leases	64
GRAP 14	Events After the Reporting Date	69
GRAP 16	Investment Property	71
GRAP 17	Property, Plant and Equipment	74
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets	79
GRAP 100	Non-Current Assets Held for Sale and Discontinued Operations	83
GRAP 101	Agriculture	86
GRAP 102	Intangible Assets	88

<b>Directives</b>		
Directive 1	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP	The directives relate to certain specific GRAP implementation issues. The directives can be obtained from the ASB website.
Directive 2	Transitional Provisions for the Adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions	
Directive 3	Transitional Provisions for the Adoption of Standards of GRAP by High Capacity Municipalities	
Directive 4	Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities	
Directive 5	Determining the GRAP Reporting Framework	
Directive 6	Transitional Provisions for Revenue Collected by the South African Revenue Service (SARS)	
Directive 7	The Application of Deemed Cost on the Adoption of Standards of GRAP	

<b>Interpretations of Standards of GRAP</b>		<b>Page</b>
IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue	97

<b>Guidelines</b>		
Guide 1	Guideline on Accounting for Public Private Partnerships	The directive deals with the specific considerations for accounting for Public Private Partnerships. The guideline can be obtained from the ASB website.

IPSAS Standards		Page
IPSAS 20	Related Party Disclosures	95

IFRS and IAS Standards, SIC and IFRIC Interpretations		
IFRS 3 (AC 140)	Business Combinations	These are used where there is no GRAP which deals with the specific topic. Summaries of the Standards and Interpretations can be obtained from <a href="http://www.iasplus.com">www.iasplus.com</a>
IFRS 4 (AS 141)	Insurance Contracts	
IFRS 6 (AS 143)	Exploration for and Evaluation of Mineral Resources	
IAS 12 (AC 102)	Income Taxes	
SIC 21 (AC 421)	Income Taxes – Recovery of Revalued Non-Depreciable Assets	
SIC 25 (AC 425)	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders	
SIC 29 (AC 429)	Service Concession Arrangements – Disclosures	
IFRIC 4 (AC 437)	Determining whether an Arrangement Contains a Lease	
IFRIC 12 (AC 445)	Service Concession Arrangements	
IFRIC 13 (AC 446)	Customer Loyalty Programmes	
IFRIC 15 (AC 448)	Agreements for the Construction of Real Estate	
IFRIC 17 (AC 450)	Distributions of Non-cash Assets for Customers	
IFRIC 18 (AC 451)	Transfers of Assets from Customers	

<b>Standards not yet approved but which may be used in developing an accounting policy</b>		<b>Page</b>
GRAP 21	Impairment of Non-cash Generating Assets	117
GRAP 23	Revenue from Non-Exchange Transactions	121
GRAP 25	Employee Benefits	123
GRAP 26	Impairment of Cash-Generating Assets	126
GRAP 103	Heritage Assets	131
GRAP 104	Financial Instruments	134

<b>Standards of GRAP that may be used to interpret requirements of other Standards of GRAP</b>		<b>Page</b>
GRAP 18	Segment Reporting	157



The following reporting framework must be applied by Parliament and the legislatures for financial periods beginning on or after 1 April 2010:

<b>Standards of GRAP</b>		<b>Page</b>
GRAP 1	Presentation of Financial Statements	24
GRAP 2	Cash Flow Statements	32
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors	36
GRAP 4	The Effects of Changes in Foreign Exchange Rates	40
GRAP 5	Borrowing Costs	42
GRAP 6	Consolidated and Separate Financial Statements	46
GRAP 7	Investments in Associates	49
GRAP 8	Interests in Joint Ventures	52
GRAP 9	Revenue from Exchange Transactions	55
GRAP 10	Financial Reporting in Hyperinflationary Economies	57
GRAP 11	Construction Contracts	59
GRAP 12	Inventories	62
GRAP 13	Leases	64
GRAP 14	Events After the Reporting Date	69
GRAP 16	Investment Property	71
GRAP 17	Property, Plant and Equipment	74
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets	79
GRAP 21	Impairment of non-cash generating Assets	117
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)	121
GRAP 24	Presentation of Budget Information in Financial Statements	123

GRAP 26	Impairment of Cash Generating Assets	<b>126</b>
GRAP 100	Non-Current Assets Held for Sale and Discontinued Operations	<b>83</b>
GRAP 101	Agriculture	<b>86</b>
GRAP 102	Intangible Assets	<b>88</b>
GRAP 103	Heritage Assets	<b>131</b>

<b>Directives</b>		
Directive 1	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP	The directives relate to certain specific GRAP implementation issues. The directives can be obtained from the ASB website.
Directive 5	Determining the GRAP Reporting Framework	
Directive 7	The Application of Deemed Cost on the Adoption of Standards of GRAP	
Directive 8	Transitional Provisions for Parliament	

<b>Interpretations of Standards of GRAP</b>		<b>Page</b>
IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue	<b>97</b>

<b>Guidelines</b>		
Guide 1	Guideline on Accounting for Public Private Partnerships	The directive deals with the specific considerations for accounting for Public Private Partnerships. The guideline can be obtained from the ASB website.

<b>IPSAS Standards</b>		<b>Page</b>
IPSAS 20	Related Party Disclosures	95

<b>IFRS and IAS Standards, SIC and IFRIC Interpretations</b>		
IFRIC 4 (AC 437)	Determining whether an Arrangement Contains a Lease	This is used where there is no GRAP which deals with the specific topic. Summaries of the Standards and Interpretations can be obtained from <a href="http://www.iasplus.com">www.iasplus.com</a> .

<b>Standards not yet approved but which may be used in developing an accounting policy</b>		<b>Page</b>
GRAP 25	Employee Benefits	134
GRAP 104	Financial Instruments	137

Please note that the summaries of the Standards in the guide have been included in the guide based on when they need to be applied by public entities, constitutional institutions, municipalities and municipal entities. However, where additional Standards need to be applied by Parliament and the legislatures, this has been indicated.

### Transitional provisions

Transitional provisions were previously included in each Standard of GRAP. However, during the initial phased-in implementation of GRAP, these were repealed and instead were separate directives issued for each category of entities. The transitional provisions are contained in the following directives:

- Directive 2: Transitional Provisions for the Adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions
- Directive 3: Transitional Provisions for the Adoption of Standards of GRAP by High Capacity Municipalities
- Directive 4: Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities
- Directive 6: Transitional Provisions for Revenue Collected by the South African Revenue Service (SARS)
- Directive 8: Transitional Provisions for Parliament.

The directives can be obtained from the ASB website.



# Standards and interpretations effective for financial periods commencing on or after 1 April 2010

## Framework for the preparation and presentation of financial statements

### 1. Objective

The objective of the framework is to set out the principles and concepts underlying the Standards of GRAP.

### 2. Key Concepts

#### *Users and their information needs*

Financial statements are used to satisfy various information needs of users, including parliament, the public who receive the services and pay taxes and levies, present and potential financiers, creditors, economists and employees.

#### *Stewardship*

Accountability for the use of public funds and the safekeeping of the entity's resources is of utmost importance. Financial reporting is an integral part of fulfilling the duty to be publicly accountable for the collection of taxation and other revenue and the use of such funds for the purpose of the rendering of public services. The accounting officer, accounting authority or municipal manager of an entity has the primary responsibility for the preparation and presentation of the financial statements of the entity.

#### *Accountability*

Financial reporting plays a major role in fulfilling an entity's duty to be publicly accountable in a democratic society. Citizens have a right to receive openly declared facts that may lead to public debate.

### 3. The objective of financial statements

The objective of financial statements is to assist users in:

- Fulfilling an entity's duty to be accountable and should enable users to assess that accountability
- Evaluating the operating results of the entity for the financial year
- Assessing the level of services that can be provided by the entity and its ability to meet its obligations as they become due.

#### **4. Financial position, financial performance and cash flows**

Information about the financial performance of an entity provides an account of stewardship of management and is useful in assessing the past and anticipated financial performance of the entity.

The financial position of an entity is affected by the resources it controls, its financial structure, its liquidity and sustainability and its capacity to adapt to changes in the environment in which it operates. Information about the resources controlled by the entity and its capacity in the past to modify these resources is useful in predicting the ability of the entity to sustain its service delivery in the future.

Information concerning changes in the cash flows of an entity is useful in order to assess its investing, financing and operating activities during the reporting period.

This information is useful in providing the user with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.

#### **5. Underlying assumptions**

##### ***Going concern***

Financial statements are prepared on the assumption that the entity is a going concern; that the entity will continue in operation and meet its statutory obligations for the foreseeable future. In the rare circumstance that an entity will cease to operate as a going concern, the financial statements will have to be prepared on another basis, and such basis must be disclosed.

##### ***Accrual basis***

The effect of transactions and other events are recognised when they occur and reported in the financial statements of the period to which they relate and not when cash is received or paid. The financial statements, except for the cash flow statement, are prepared using the accrual basis of accounting.

#### **6. Qualitative characteristics of financial statements**

The information provided in financial statements is required to be understandable, relevant, reliable and comparable in order to be useful to users.

### ***Understandability***

Information in financial statements must be readily understandable to users, who are assumed to have a reasonable knowledge of government, the entity's activities and environment, accounting and a willingness to study the information with reasonable diligence.

### ***Relevance***

Information is relevant to the decision-making needs of users, when it helps users to evaluate past, present or future events or confirm, or correct, their past evaluations. The relevance of information is affected by its nature and materiality. In some cases, the nature of information alone is sufficient to determine its relevance.

Information is material if its omission, misstatement, or non-disclosure could influence the decisions of users made on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission, misstatement, or non-disclosure in the financial statements. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

### ***Reliability***

Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent, or could reasonably be expected to represent.

To be reliable, information:

- Must faithfully represent transactions, which should be accounted for and presented in accordance with their substance and economic reality and not merely their legal form
- Must be neutral and therefore free from bias
- Must be complete
- Must be considered for inclusion in financial statements with a degree of caution, such that assets or revenue are not overstated and liabilities or expenses are not understated.

### ***Comparability***

The measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities.

## 7. Constraints on relevant and reliable information

### **Timeliness**

Undue delay in the reporting of information may cause the information to lose its relevance. This constraint is to some extent mitigated by the timeframes for the preparation and completion of financial statements prescribed by legislation.

### **Balance between benefit and cost**

The benefit of providing information should exceed the cost of providing it.

### **Balance between qualitative characteristics**

The aim is to achieve a balance between the characteristics in order to meet the objective of financial reporting.

## 8. The elements of financial statements

### **Assets**

*“An asset is a resource controlled by the entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity.”*

Assets provide a means for entities to achieve their objectives. The future economic benefit or service potential embodied in an asset is the potential to contribute directly or indirectly, to the flow of cash and cash equivalents of the entity or to the rendering of services by the entity.

### **Liabilities**

*“A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.”*

An essential characteristic of a liability is that the entity has a present obligation. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement, i.e. the entity has no realistic alternative to avoid the outflow of economic resources or service potential.



### **Net assets**

Net assets are the residual measure in the statement of financial position (assets less liabilities).

### **Revenue**

*“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.”*

Revenue encompasses both revenue and gains. Revenue is the inflow of economic benefits or service potential from the ordinary operating activities of the entity. Gains represent increases in economic benefits or service potential and as such are no different in nature from revenue.

### **Expenses**

*“Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.”*

Expenses encompass losses as well as expenses that arise in the course of the operating activities of the entity. Losses represent decreases in economic benefits or service potential and as such, they are no different in nature from other expenses.

## **9. Recognition of the elements of financial statements**

General recognition criteria applied to the elements of the financial statements can be summarised as follows:

- Assets and liabilities are recognised when it is probable that future economic benefits or service potential will flow to or from the entity and the items has a cost or value that can be measured reliably
- Revenue and expenses are recognised when an increase or decrease in future economic benefits or service potential related to an increase or decrease in an asset or liability has arisen that can be measured reliably.

The framework does not use the notion of matching as the main driver of the recognition process and therefore does not allow the recognition of items which do not meet the definition and recognition criteria.

## 10. Measurement of the elements of financial statements

This involves the selection of the particular basis of measurement. The Standards of GRAP will specify the appropriate measurement basis to use for a specific element. The measurement bases permitted by GRAP are:

- Historical cost
- Current replacement cost
- Realisable (settlement) value
- Present value
- Market value
- Fair value.

When choosing the measurement basis, the objective of financial statements, the qualitative characteristics of financial information, the nature of the assets and liabilities and the particular circumstances need to be taken into account in selecting the most appropriate basis.

## 11. Discounting

Historical cost and current replacement cost are both market prices and generally take into account the time value of money. Therefore no adjustment is made for the time value of money when using historical cost, current replacement cost and realisable value, while present value does take time value of money into account.

# GRAP 1: Presentation of financial statements

## 1. Objective

The objective of the Standard is to prescribe the basis for presentation of general purpose financial statements and to ensure comparability both with the entity's financial statements of prior periods and with the financial statements of other entities.

## 2. Scope

The Standard applies to all general purpose financial statements prepared under the accrual basis of accounting.

## 3. Components of Financial Statements

A complete set of Financial Statements comprises:

- Statement of financial position (a balance sheet)
- Statement of financial performance (an income statement)
- Statement of changes in net assets (the old statement of changes in equity)
- Cash flow statement
- Notes, comprising a summary of significant accounting policies and other explanatory notes.

Entities are encouraged to present the following additional information:

- Details about the entity's outputs and outcomes
- Statements of service performance and programme reviews
- Other reports by management about the entity's achievements over the reporting period
- Information about compliance with legislative, regulatory or other externally imposed regulations.

## 4. Overall considerations

### *Fair presentation*

Fair presentation means the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. Inappropriate accounting treatments are not rectified by disclosure of the accounting policies used, or by notes or explanatory material.

### *Going concern*

Assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern.

***Accrual basis of accounting***

An entity is required to prepare its financial statements, except for cash flow information, by applying the accrual basis of accounting. This means that transactions are required to be recognised when they satisfy the definitions and recognition criteria.

***Consistency of presentation***

The presentation and classification of items in the financial statements shall be retained from one period to the next unless another method would provide information that is reliable and more relevant or the change is required by a Standard of GRAP.

***Materiality and aggregation***

Each material class of similar items shall be presented separately. Items of dissimilar nature or function shall be presented separately, unless they are immaterial.

***Offsetting***

Assets and liabilities, revenue and expenses, shall not be offset unless required or permitted by a Standard of GRAP. Offsetting, except when it reflects the substance of the transaction or event, detracts from users' ability to understand the transactions, events or conditions that have occurred and to assess the entity's future cash flows.

***Comparative information***

Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current financial statements. Except when a Standard of GRAP permits or requires otherwise, comparative information shall be disclosed for all amounts reported in the financial statements.

## 5. Identification of financial statements

It is important that users are able to distinguish information that is prepared using Standards of GRAP from other information.

Each component of the financial statements shall be identified clearly. The following information shall also be displayed prominently:

- Name of the reporting entity
- Whether the financial statements cover the individual entity or the economic entity
- Reporting date or the period covered by the financial statements
- Presentation currency
- Level of rounding used.

## 6. Reporting period

Financial statements shall be presented at least annually. When an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year certain disclosures should be provided, including the reason for using a longer or shorter period, and the fact that comparative amounts for certain statements such as the statement of financial performance, changes in net assets, cash flows and related notes are not entirely comparable.

## 7. Statement of financial position

### *Current/non-current distinction*

Current and non-current assets and current and non-current liabilities are presented as separate classifications on the face of the statement of financial position, unless presentation based on liquidity provides information that is reliable and more relevant.

An asset shall be classified as current when it satisfies any of the following criteria:

- It is expected to be realised in, or is held for sale or consumption in, the entity's normal operating cycle
- It is held primarily for the purpose of being traded
- It is expected to be realised within twelve months after the reporting date
- It is cash or a cash equivalent asset (as defined in the Standard of GRAP on Cash Flow Statements) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current.

A liability shall be classified as current when it satisfies any of the following criteria:

- It is expected to be settled in the entity's normal operating cycle
- It is held primarily for the purpose of being traded
- It is due to be settled within twelve months after the reporting date
- The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

***Information to be presented on the face of the statement of financial position.***

The statement of financial position presents an entity's financial position at the reporting date. Management may use its judgement regarding the form of presentation in many areas, depending on the nature and liquidity of assets and their function within the entity, as well as the amounts, nature and timing of liabilities.

As a minimum, the following amounts should be presented on the face of the statement of financial position:

- Assets – property, plant and equipment, investment property, intangible assets, financial assets, investments accounted for using the equity method, inventories, receivables from non-exchange transactions, receivables from exchange transactions and cash and cash equivalents
- Liabilities – taxes and transfers payable, provisions and financial liabilities
- Net assets – contributed capital, accumulated surpluses or deficits, reserves and minority interest.

## 8. Statement of financial performance

The statement of financial performance presents an entity's financial performance. It shows all items of revenue and expense in relation to a specific period of time, except where these items are permitted or required to be presented directly in net assets.

### *Information to be presented on the face of the statement of financial performance.*

As a minimum, the face of the statement of financial performance shall include the following:

- Revenue
- Finance costs
- Share of the surplus or deficit of associates and joint ventures accounted for using the equity method
- Surplus or deficit for the period.

Additional line items, headings and sub-totals can also be presented when such presentation is relevant to an understanding of the entity's financial performance. No items of revenue and expense shall be presented as extraordinary items, either on the face of the statement of financial performance or in the notes.

### *Material items*

Where items of revenue and expense are material, their nature and amount is disclosed separately. Disclosure may be on the face of the statement of financial performance or in the notes.

### *Classification of expenses*

An analysis of expenses using a classification based on either the nature of expenses or their function within the entity should be presented, depending on what format provides information that is reliable and more relevant to the activities of the entity. Entities classifying expenses by function shall disclose additional information on the nature of expenses.

### *Dividends*

Where an entity pays a dividend the amount of dividends recognised during the period, and the related amount per share are disclosed either on the face of the statement of financial performance, the statement of changes in net assets or in the notes.

## 9. Statement of changes in net assets

An entity shall present a statement of changes in net assets, showing on the face of the statement:

- Surplus or deficit for the period; each of the items of revenue or expense recognised directly in net assets and their total; total revenue/expense for the period (the sum of the first two items); the effects of changes in accounting policies and corrections of material prior-period errors
- Amounts of transactions with equity holders; the balance of each reserve; and accumulated surplus or deficit at the beginning and end of the reporting period and the changes during the period.

## 10. Cash flow statement

GRAP 2 sets out requirements for the presentation and disclosure of the cash flow statement.

## 11. Notes

The notes are an integral part of the financial statements. Notes provide additional information to the amounts disclosed on the face of the financial statements. They include accounting policies and critical accounting estimates and judgements. Notes shall be presented in a systematic manner, with each item on the face of the various components of the financial statements cross-referenced to any related information in the notes.

## 12. Disclosure of accounting policies

An entity is required to disclose in the summary of the significant accounting policies:

- Measurement basis (or bases) used in preparing the financial statements
- Other accounting policies that are relevant to an understanding of the financial statements.

### 13. Key sources of estimation uncertainty

An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### 14. Recent Amendments

The following amendments have been made to GRAP 1:

- Departures from the requirements of a Standard of GRAP in order to comply with statutory or legislative reporting requirements do not constitute departures that conflict with the objective of financial statements set out in this Standard.
- The face of the statement of financial position should also, as a minimum, disclose:
  - Total assets classified as held for sale, the assets included in disposal groups classified as held for sale, and the liabilities included as disposal groups classified as held for sale
  - Heritage assets
  - Biological assets that form part of an agricultural activity
  - Current and deferred tax assets and liabilities

- The following should also be presented on the face of the statement of financial performance:
  - Tax expense
  - A single amount comprising the post-tax surplus or deficit of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation
- Any reference to dividends, will also include “other distributions to owners”
- Disclosure of the extent to which the entity has applied any transitional provisions to the Standards of GRAP is required
- Certain other minor amendments have been made which do not affect the principles of this Standard.

The amended Standard is applicable for periods beginning on or after 1 April 2012.



# GRAP 2: Cash flow statements

## 1. Objective

The cash flow statement identifies the sources of cash inflows, the items on which it was expended during the financial year and the cash balance at the reporting date.

## 2. Scope

For financial statements prepared under the accrual basis of accounting, a cash flow statement in accordance with the requirements of this Standard forms an integral part of the financial statements. The cash flows during the period are classified as operating, investing and financial activities.

## 3. Cash and cash equivalents

Cash and cash equivalents are assets held for the purpose of meeting short-term cash commitments rather than for investment purposes or other purposes. The asset must therefore be readily convertible into a known amount of cash and be subject to an insignificant risk of changes in value, therefore often having a short maturity at inception of, for example, three months or less.

Borrowings from a bank are generally considered to be financing activities, with bank overdrafts repayable on demand being considered instead as cash and cash equivalents.

## 4. Presentation of a cash flow statement

The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.

## 5. Operating activities

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded by way of non-exchange revenue or from the recipients of goods and services provided by the entity.

The amount of the net cash flows also assists in showing the ability of the entity to maintain its operating capability, repay obligations, make distributions to owners and make new investments without recourse to external sources of financing.

Cash flows from operating activities are mainly derived from the principal cash-generating activities of the entity, for example, cash receipts from taxes, levies and fines, charges for goods and services, grants and transfers, as well as cash payments to suppliers for goods and services and to employees. Cash flows from operating activities must be reported using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Entities should further provide a reconciliation of the surplus/deficit with the net cash flow from operating activities, either as part of the cash flow statement or in the notes to the financial statements.

### 6. Investing activities

Cash flows from investing activities represent cash outflows for resources which are intended to contribute to the entity's future service delivery, for example cash payments to acquire, as well as cash receipts from the disposal of, property, plant and equipment, intangible assets or other non-current assets.

### 7. Financing activities

Cash flows from financing activities are useful in predicting claims on future cash flows by providers of capital to the entity, for example, proceeds from taking up short- or long-term borrowings, repayment of amounts borrowed or payments for the reduction of the outstanding liability relating to a finance lease.

### 8. Reporting cash flows on a net basis

Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

- Cash receipts collected and payments made on behalf of customers, taxpayers or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity
- Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

Cash flows arising from each of the following activities of a public financial institution may be reported on a net basis:

- Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date
- Placement of deposits with and withdrawal of deposits from other financial institutions
- Cash advances and loans made to customers and the repayment of those advances and loans.

## **9. Investing and financing cash flows**

Major classes of gross cash receipts and gross cash payments arising from investing and financing activities should be reported separately. Investing and financing transactions that do not require the use of cash must be excluded from the cash flow statement. Such transactions must be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these activities.

## **10. Foreign currency cash flows**

Cash flows arising from transactions in a foreign currency are recorded in the entity's functional currency, translated at the date of the cash flow.

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in order to reconcile cash and cash equivalents at the beginning and the end of the period. It is presented separately from cash flows from operating, investing and financing activities.

## **11. Interest and dividends or similar distributions**

Cash flows from interest and dividends or similar distributions received and paid are disclosed separately and classified in a consistent manner from period to period as operating, investing or financing activities.

## **12. Taxes on surplus**

Where there is a surplus, cash flows arising from taxes shall be separately disclosed and shall be classified as cash flows from operating activities, unless the cash flows can be linked to specific investing or financing activities.

## **13. Acquisitions and disposals of controlled entities and other operating units**

The aggregate cash flows arising from acquisitions and from disposals of controlled entities and other operating units shall be presented separately and classified as investing activities.

## **14. Components of cash and cash equivalents**

The components of cash and cash equivalents as well as a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position are disclosed in the notes to the financial statements. The accounting policy adopted in determining the components of cash and cash equivalents is also disclosed.

### 15. Other disclosures

The following information is disclosed in the financial statements:

- Amount of undrawn borrowing facilities, indicating any restrictions on the use of these facilities
- Amounts of cash flows from operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation
- Amount and nature of restricted cash balances.

### 16. Recent Amendments

Certain minor amendments have been made to GRAP 2, which do not affect the principles of the Standard.

These amendments are applicable for financial periods beginning on or after 1 April 2012.



# GRAP 3: Accounting policies, changes in accounting estimates and errors

## 1. Objective

The objective is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

## 2. Scope

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard.

## 3. Materiality

An omission or misstatement is material if it could influence decisions of users, who are assumed to have:

- A reasonable knowledge of the public sector, economic activities and accounting
- A willingness to study the information with reasonable diligence.

## 4. Accounting policies

### *Selection and application of accounting policies*

If a Standard of GRAP specifically applies to a transaction, event or condition, the accounting policies applied to that item shall be determined by applying that Standard and considering any relevant Interpretations issued by the ASB for the Standard.

In the absence of a particular Standard of GRAP that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is relevant and reliable. The hierarchy to be applied by management is as follows:

- Requirements and guidance in other Standards of GRAP dealing with similar and related issues
- Definitions, recognition criteria and measurement concepts for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements
- Most recent pronouncements of other standard-setting bodies and accepted public or private sector practices to the extent that these are consistent with the sources above, for example, IPSAS IFRS or SA GAAP.

### *Consistency of accounting policies*

An entity shall select and apply its accounting policies for a period consistently for similar transactions, other events and conditions, unless a Standard of GRAP specifically requires or permits categorisation of items, in which case an appropriate accounting policy shall be selected and applied consistently to each category.

### ***Changes in accounting policies***

An entity will only change an accounting policy if the change is required by a Standard of GRAP or will result in the financial statements providing reliable or more relevant information.

The first-time application of an accounting policy to transactions or events that differ substantially from those that occurred previously or are occurring for the first time (or were previously regarded as being immaterial), is not a change in accounting policy.

### ***Applying changes in accounting policies***

A change in accounting policy resulting from the initial application of a Standard will be applied in accordance with the transitional provisions of that Standard. In the case of a voluntarily change or when no transitional provisions are specified, the change is applied retrospectively except if it is impracticable. Applying a change retrospectively entails adjusting the opening balance of each affected component of net assets and other comparative amounts disclosed for each period presented as if the new policy has always been applied.

### ***Disclosure***

When retrospectively applying a Standard of GRAP for the first time, the entity will disclose:

- Title of the Standard and the nature of the change
- Whether the transitional provisions are applied together with a description thereof
- Amount of the adjustment to each financial statement line item affected for each period presented
- Adjustments that relate to periods before those presented
- If retrospective application is impracticable, the circumstances surrounding that condition and a description of how the accounting policy has been applied.

Upon a voluntary change in accounting policy the following are disclosed in the financial statements:

- Nature of the change and reasons why it provides reliable and more relevant information
- Amount of the adjustment to each financial statement line item affected for each period presented
- Amount of the adjustment relating to periods before those presented
- If retrospective application is impracticable, the circumstances that led to that condition and a description of how and from when the change in accounting policy has been applied.

When a Standard of GRAP has been issued but is not yet effective, the entity will disclose this fact as well as a reasonable estimate of the possible impact it will have on future periods.

#### **4. Changes in accounting estimates**

As a result of the uncertainties inherent in delivering service and conducting other business activities, many items in financial statements cannot be measured with precision but require estimation. An estimate may need revision if changes occur in the circumstances on which the estimate was based, or as a result of new information or more experience.

A change in an accounting estimate is recognised prospectively by including the effects in surplus or deficit in the period that is effected (current and/or future) except if the change in estimate gives rise to changes in assets, liabilities or net assets. In this case, it is recognised by adjusting the carrying amount of the related asset, liability or net asset in the period of the change.

An entity is required to disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in the future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

#### **5. Errors**

Errors may arise from mistakes and oversights or misinterpretation of available information. Material prior-period errors are adjusted retrospectively (that is, by restating comparative figures), unless this is impracticable.

The nature of the prior period error and the amount of the correction on each of the financial statement line items affected are required to be disclosed.

#### **6. Impracticability in respect of retrospective restatement**

Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been or estimating the amounts recognised, measured or disclosed in a prior period.

## 7. Recent Amendments

The following amendments have been made to GRAP 3:

- Inclusion of two examples of situations that would be regarded as a change in accounting policy:
  - A change from one basis of accounting to another basis of accounting is change in accounting policy
  - A change in the accounting treatments, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.
- Certain other minor amendments have been made which do not affect the principles of the Standard.

The amended Standard is applicable for periods beginning on or after 1 April 2012.

# GRAP 4: The effects of changes in foreign exchange rates

## 1. Objective

To prescribe the accounting treatment for foreign currency transactions and foreign operations in the financial statements.

## 2. Scope

GRAP 4 deals with the:

- Presentation of revenue, expenses, liabilities and assets arising from foreign currency transactions
- Translation of the financial statements of foreign operations for consolidation purposes, proportionate consolidation purposes or by the equity method
- Translating an entity's financial performance and financial position into a presentation currency.

## 3. Functional currency

When preparing financial statements, each entity determines its functional currency. Functional currency is described as the primary economic environment in which an entity operates which is usually the environment it generates and expends cash.

Indicators of the functional currency include the currency:

- In which entity generates revenue
- That influences the cost of providing goods and/or services
- The country whose competitive forces and regulations mainly determine the sales price of its goods and services.

The functional currency faithfully represents the economic effect of the underlying assets, transactions and circumstances.

## 4. Monetary items

The essential feature of a monetary item is the right to receive or pay a fixed or determinable number of units of currency.

## 5. Initial measurement of foreign currency transactions

Foreign currency transactions are initially recognised on the date that they occur using the transaction-date exchange rate (spot rate).

## 6. Subsequent measurement

On each subsequent reporting date:

- Monetary items are retranslated using the closing rate
- Non-monetary items carried at historical cost continue to be measured using the transaction-date exchange rate
- Non-monetary items carried at fair value are measured at the valuation-date exchange rates.

Exchange differences arising on settlement of monetary items and on the translation of monetary items at a rate different from that used when initially recognised are included in surplus or deficit, with one exception.

In the consolidated financial statements, exchange differences arising on an entity's net investment in a foreign operation are recognised in net assets as a separate component. Such differences are reclassified from net assets to surplus or deficit on disposal of the net investment.

### **7. Difference between functional and presentation currency**

An entity may present its financial statements in any currency. If the presentation currency differs from the functional currency, an entity will translate its financials into the presentation currency using the following procedures:

- Assets and liabilities are translated at the closing rate at the reporting date
- Revenue and expenses are translated using the exchange rates at the dates of the transactions (for practical reasons an average rate for the period is often used).

All resulting exchange differences are recognised in a separate component of net assets.

### **8. Disposal of a foreign operation**

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in net assets that relate to that foreign operation should be recognised in surplus or deficit when the gain or loss is recognised.

### **9. Disclosure**

The financial statements disclose the following information:

- Amount of exchange differences recognised in surplus or deficit
- Exchange differences recognised in net assets, with a reconciliation of the amount at the beginning and end of the period
- If necessary, a statement that the functional currency is different from the presentation currency together with an explanation for the difference.

### **10. Recent amendments**

Minor amendments have been made which do not affect the principles of the Standard.

The amended Standard is applicable for periods beginning on or after 1 April 2012.

# GRAP 5: Borrowing costs

## 1. Objective

To prescribe the accounting treatment for borrowing costs.

## 2. Scope

GRAP 5 applies to all interest and other costs incurred in relation to the borrowing of funds, except for:

- Actual or imputed cost of net assets
- Those relating to a qualifying asset carried at fair value
- Inventories manufactured, or otherwise produced, in large quantities on a repetitive basis.

## 3. Borrowing costs

The following costs/expenses are encompassed by the term 'borrowing cost':

- Interest on bank overdrafts and long- and short-term borrowings
- Amortisation of discounts/premiums relating to borrowings
- Finance charges relating to finance leases
- Exchange differences on foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

## 4. Qualifying assets

A qualifying asset is one that requires a substantial period of time to make it ready for its intended use or sale. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

## 5. Recognition of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset but only when it is probable that these costs will result in future economic benefits or service potential and it can be measured reliably. All other borrowing costs that do not satisfy the conditions for capitalisation are expensed when incurred.

To the extent that there is clear evidence that it is difficult or not possible to link borrowing requirement to the nature of the expenditure to be funded, borrowing costs are recognised in surplus or deficit.

## 6. Measurement

When funds are borrowed specifically to acquire or construct a qualifying asset, the amount of borrowing costs eligible for capitalisation is limited to the actual borrowing costs incurred less any investment income earned on the temporary investment of the borrowed funds.

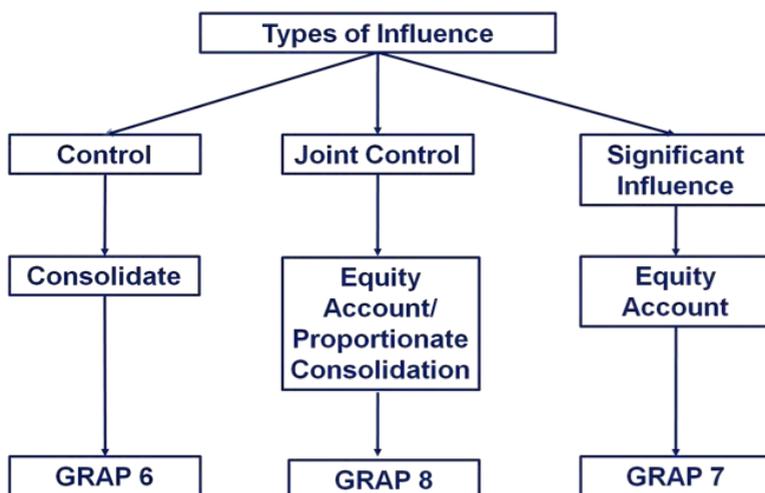
If funds are borrowed generally and used for the purpose of obtaining the qualifying asset, a capitalisation rate (weighted average of borrowing costs applicable to the general outstanding borrowings during the period) is applied to expenditure incurred during the period, to determine the amount of borrowing costs eligible for capitalisation.

The capitalisation of borrowing costs will commence on the date that the entity incurred expenditure relating to the qualifying asset, borrowing costs are incurred and activities related to getting the asset ready for use has been initiated.

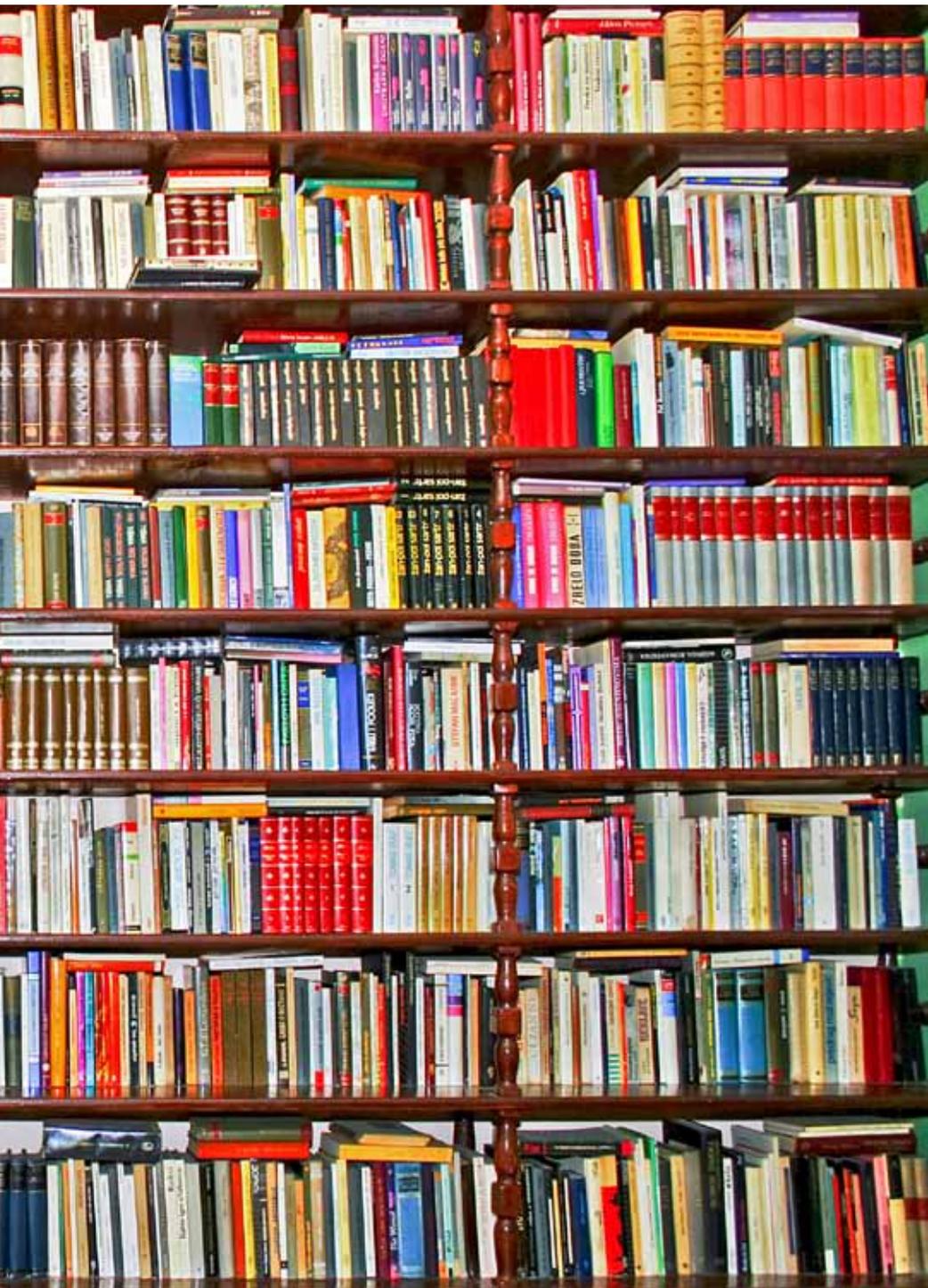
Similarly, the capitalisation of borrowing costs will cease when substantially all the activities involved in getting the qualifying asset ready to be used, are completed. The capitalisation of borrowing costs will be suspended during extended periods in which the entity suspends active development of a qualifying asset.

### 7. Disclosure

Together with the accounting policy adopted for borrowing costs, the financial statements disclose the amount of borrowing costs capitalised during the year as well as the capitalisation rate applied to determine the amount of eligible borrowing cost.







# GRAP 6: Consolidated and separate financial statements

## 1. Objective

To prescribe the requirements for preparing and presenting consolidated financial statements, as well as the requirements for accounting for investments in controlled entities, associates and joint ventures in the separate financial statements.

## 2. Scope

GRAP 6 applies to the accounting for controlled entities in the consolidated financial statements as well as the accounting for controlled entities, associates and joint ventures in the separate financial statements of the controlling entity. This Standard does not deal with the accounting for transfers of functions or mergers.

A controlled entity is an entity controlled by another entity, the controlling entity.

Control is the power to govern the operating and financial policies of another entity in order to benefit from its activities.

Consolidated financial statements are financial statements of an economic entity presented as those of a single entity.

## 3. Presentation of consolidated financial statements

Apart from the exemptions listed below, a controlling entity has to present consolidated financial statements incorporating its investments in all controlled entities. An entity is only exempted from presenting consolidating financial statements if all of the following conditions are met:

- The controlling entity is itself a controlled entity
- The debt or equity instruments of the controlling entity are not listed
- The controlling entity is not in the process of filing its financial statements with any regulatory organisation or securities commission
- The ultimate controlling entity presents consolidated financial statements in accordance with GRAP 6.

## 4. Establishing control for financial reporting purposes

In establishing whether one entity controls another entity both elements of control being power (power to govern financial and operating policies) and benefit (ability of controlling entity to benefit from activities of controlled entity), should be presently exercisable. Control does not necessarily require an entity to hold a majority shareholding or other net asset interest in the other entity.

Regulatory and purchase powers do not constitute control over an entity.

## 5. Consolidation procedures

Consolidated financial statements combine the financial statements of the controlling entity with its controlled entities on a line-by-line basis. In order to present the financial statements of the economic entity as a single set, the following procedures are followed:

- Eliminating the carrying amount of its investment in the controlled entity against its portion of the net assets of the controlled entity
- Reporting minority interest as a separate category of net assets. Minority interests are measured based on present ownership interests and do not reflect the possible exercise or conversion of potential voting rights
- Eliminating all intragroup balances, transactions, revenue and expenses in full
- The reporting date of a controlled entity cannot be more than three months different from that of the controlling entity
- Uniform accounting policies are applied.

From the date that an entity ceases to be a controlled entity, it is accounted for as either, an associate, joint venture or investment. The carrying amount of the investment on that date is deemed the cost on initial recognition of the investment.

Losses attributed to the minority may not be reduced below zero, unless the losses are guaranteed by the minority. The excess losses and recoupment thereof are absorbed by the controlling entity.

## 6. Accounting in the separate financial statements

An investment in a controlled entity, an associate or a joint venture is accounted for in the separate financial statements of the controlling entity either at cost or as a financial asset.

The same accounting policy is applied for each category of investments.

Investments in controlled entities, joint ventures and associates held for disposal are accounted for in accordance with GRAP 100.

## 7. Disclosure

The following information is disclosed in the consolidated financial statements;

- A list of significant controlled entities
- Nature of relationships where voting power does not correlate with the conclusion of the controlled entity
- Nature and extent of significant restrictions on controlled entities to transfer resources to the controlling entity
- Surpluses or deficits recognised on the disposal of interest in controlled entities.

The following information is disclosed in the separate financial statements;

- The fact that it is the separate financial statements of the entity
- A list of significant investments in controlled entities, joint ventures and associates, including the nature of their activities as well as the proportion ownership interest
- A description of the methods used to account for these investments.

The following information is disclosed in the separate financial statements when there is an exemption for consolidation:

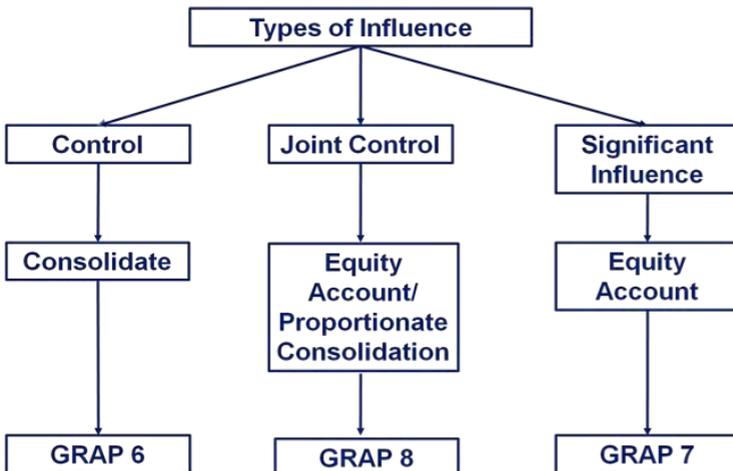
- The fact that the exemption from consolidated financial statements was applied

- A list of significant investments in controlled entities, joint ventures and associates and the proportion of ownership interest
- A description of the methods used to account for these investments.

### 8. Interpretations

The following GRAP Interpretations have been issued relating to consolidated and separate financial statements:

- iGRAP 4: Rights to Interests Arising from Rehab Funds (Page 102)
- iGRAP 11: Consolidation – Special Purpose Entities (Page 111)



# GRAP 7: Investments in associates

## 1. Objective

To prescribe the accounting treatment for investments in associates over which the entity has significant influence.

## 2. Scope

GRAP 7 applies to investments in which an entity has significant influence unless the entity is a venture capital firm, mutual fund or unit trust, and it elects to measure such investments at fair value through surplus or deficit.

Interests in associates that are classified as held for sale in accordance with GRAP 100 are accounted for in accordance with that Standard.

Significant influence is described as the ability/power to participate in the financial and operating policy decisions of another entity without controlling that entity. There is a rebuttable presumption that if an entity holds, directly and/or indirectly more than 20% of the voting power or currently exercisable voting rights of another entity, it has significant influence.

## 3. Equity method of accounting

Investments in associates are accounted for using the equity method of accounting, whereby the investment is initially recorded at cost and subsequently adjusted by:

- The entity's share of the surpluses or deficits
- Changes in the investee's net assets that have not been included in the statement of financial performance (e.g. revaluation of property, plant and equipment)
- Additional depreciation or impairment losses arising from attributed excess fair values at the date of acquisition (refer below)
- Dividends received from the associate.

When potential voting rights exist, the investor's share of surpluses or deficits of the investee and of changes in the investee's net assets is determined on the basis of present ownership interests

The reporting date of the associate cannot be more than three months different from the entity's reporting date. Where uniform accounting policies are not applied, adjustments are made to align the accounting policies in the associate's financial statements when using the equity method.

Surpluses and deficits resulting from 'upstream' and 'downstream' transactions between an investor (including its consolidated controlled entities) and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the investor. 'Downstream' transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's surpluses and deficits resulting from these transactions is eliminated.

On acquisition of the investment any difference (whether positive or negative) between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with GRAP 105, 106 and 107. Therefore:

- Goodwill relating to an associate is included in the carrying amount of the investment
- Any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included in the investor's share of the associate's surplus or deficit in the period in which the investment is acquired.

Equity accounting is discontinued when:

- The investor's share of losses equals the investor's interest in the associate (the excess losses and recoupment thereof are absorbed by the controlling entity)
- When the investor ceases to have significant influence over the associate.

#### **4. Impairment losses**

Impairment of the investment in both the separate and consolidated financial statements is assessed in accordance with GRAP 21 or GRAP 26.

#### **5. Separate financial statements**

When an entity is preparing separate financial statements, an investment in associate is accounted for at cost less impairment or in accordance with the requirements of GRAP 6.

Where an entity is not preparing consolidated financial statements due to the exemptions granted in GRAP 6 (e.g. the entity has no controlled entities), the equity method of accounting is still applied.

## 6. Disclosure

The following information pertaining to an entity's investments in associates is disclosed in the financial statements:

- A list of significant associates, their legal names and countries of origin
- Nature of relationships where voting power does not correlate with investors assessment of significant influence
- Carrying amount and fair value (if available) of the investment
- Summarised financial information, including aggregated assets, liabilities, revenue and surplus or deficit
- Nature and extent of restrictions on the associate's ability to transfer resources to the entity
- Unrecognised deficits of an associate, where applicable.

An entity also discloses the following information on an aggregate basis:

- Movements in carrying value between the beginning and end of the financial period
- Liabilities for which the entity is jointly responsible
- Amount of goodwill included as part of the investment at the end of the period, as well as any amounts written-off during the year
- Financial effects of subsequent events and commitments that may have a material effect on the financial position or financial performance of the associate.

## 7. Interpretations

The following GRAP Interpretations have been issued relating to investments in associates:

iGRAP 4: Rights to Interests Arising from Rehab Funds (Page 102)

# GRAP 8: Interests in joint ventures

## 1. Objective

To prescribe the accounting treatment for interests in joint ventures regardless of the structure or legal form of the activities.

## 2. Scope

GRAP 8 is applied in accounting for joint ventures when consolidated financial statements are presented in accordance with GRAP 6, unless the entity is a venture capital firm, mutual fund or unit trust and it elected to measure such investments at fair value through surplus or deficit.

The key characteristic of a joint venture is a binding arrangement to share control. Joint ventures may be classified as jointly controlled operations, jointly controlled assets or jointly controlled entities.

## 3. Jointly controlled operations

A jointly controlled operation involves the combination of two or more entities' operations, resources and expertise to deliver goods or services, rather than the establishment of a separate entity. The entity (investor) recognises the assets it controls, the expenses and liabilities it incurs and its share of revenue earned in both its separate and consolidated financial statements.

## 4. Jointly controlled assets

A joint venture achieved through jointly controlled assets involves the joint control and possible joint ownership of assets dedicated to the purpose of the joint venture. Each investor may be entitled to a proportionate share of the output from the jointly controlled assets, but also has to proportionately bear the expenses relating to these assets.

The entity (investor) recognises its share of the joint assets, any liabilities that it has incurred directly as well as its share of any liabilities incurred jointly with the other investors, revenue from the sale or use of its share of the output, its share of expenses incurred by the joint venture and expenses incurred directly in respect of its interest in the joint venture. These rules apply to both the consolidated and separate financial statements.

## 5. Jointly controlled entities

The establishment of a separate legal entity through a binding arrangement that shares control between the investors, is described as a jointly controlled entity.

An interest in a jointly controlled entity is accounting for either by way of proportionate consolidation or by applying the equity method described in GRAP 7.

Under the proportionate consolidation method, the entity's (investor) statement of financial position includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. Its statement of financial performance includes its share of the revenue and expenses of the jointly controlled entity.

Proportionate consolidation ceases when the entity no longer jointly controls the joint venture.

Even when consolidated financial statements are not prepared, proportionate consolidation or equity method accounting is used for jointly controlled entities. However, when separate financial statements are prepared in accordance with GRAP 6, interests in joint ventures are accounted for either at cost or at fair value.

## **6. Transactions between the entity and joint venture**

Transactions between the investor and the joint venture are accounted for in a way that reflects the substance of the transactions. Surpluses on the transfer of assets to the joint venture are recognised only to the extent of the other investors' interest, whereas deficits are recognised fully if they represent an impairment of the transferred asset.

## **7. Non-monetary contributions to joint ventures**

When an entity makes a non-monetary contribution to a joint venture, the investor only recognises the portion of the surplus or deficit attributable to the interests of the other investors.

## **8. Disclosures**

The financial statements disclose a listing and description of interests in significant joint ventures together with the proportion of ownership of each investment. Furthermore, the entity discloses the method of accounting applied as well as aggregate information on the current and non-current assets, current and non-current liabilities, revenue and expenses related to its interest in joint ventures.

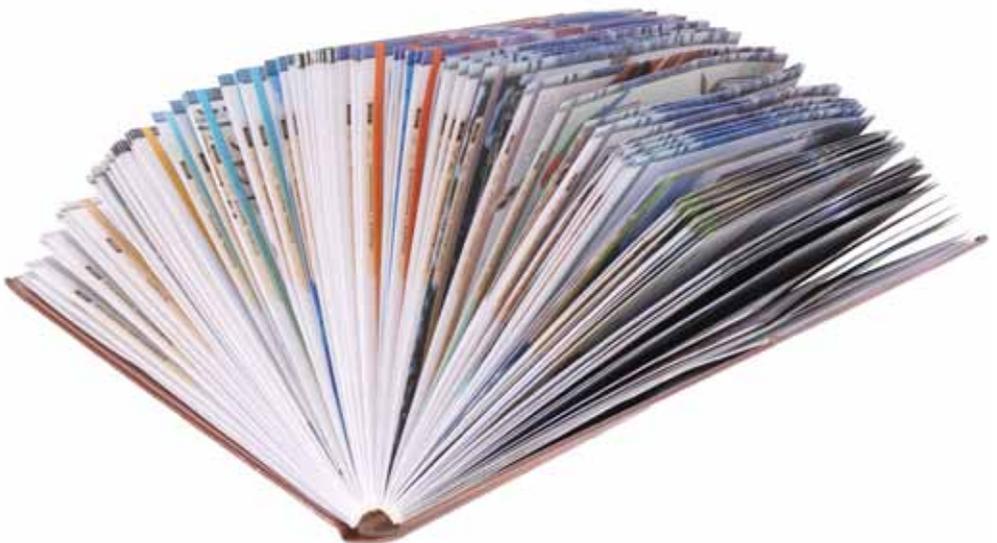
The financial statements also provide information on:

- Principal activities of joint ventures and their reporting dates if different from the entity's
- Amounts relating to significant unadjusted subsequent events and commitments
- Nature and extent of restrictions on the joint venture's ability to transfer resources to the entity
- Contingent liabilities and contingent assets in accordance with GRAP 19.

## 9. Interpretations:

The following interpretations have been issued relating to interests in joint ventures:

- iGRAP 4: Rights to Interests Arising from Rehab Funds (Page 102)
- iGRAP 12: Jointly Controlled Entities Non-Monetary Contributions (Page 112)



# GRAP 9: Revenue from exchange transactions

## 1. Objective

To prescribe the accounting treatment for revenue arising from exchange transactions.

## 2. Scope

GRAP 9 only deals with revenue arising from exchange transactions, being the sale of goods, rendering of services, interest, royalties and dividends. This Standard does not address revenue arising from non-exchange transactions (for example grants, fines and donations) or revenue that is addressed by another Standard of GRAP.

The term revenue encompasses both revenue and gains.

Exchange transactions are described as transactions in which the entity receives approximately equal value in exchange for goods and services.

## 3. Measurement

Revenue is measured at the fair value of the consideration received or receivable, including trade discounts and volume rebates.

## 4. Recognition

### *Rendering of services*

Revenue from the rendering of services is recognised by reference to the stage of completion method when the outcome of the transaction can be determined reliably.

The principles surrounding the recognition of revenue and expenses involving the rendering of services are stipulated in GRAP 11.

When the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent that expenditures are recoverable.

### *Sale of goods*

Revenue from the sale of goods are recognised when:

- Significant risks and rewards have been transferred to the purchaser
- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods
- The amount of revenue and costs relating to the transaction can be reliably measured
- It is probable that future economic benefits/service potential will flow to the entity.

### *Interest, royalties and dividends*

Interest is recognised using the effective interest method.

Royalties are recognised on an accrual basis in accordance with the substance of the agreement.

Dividends are recognised when the entity's rights to receive payment is established.

## 5. Disclosure

The entity discloses the following information in relation to revenue from exchange transactions in the financial statements:

- Accounting policies applied in the recognition and measurement of revenue
- Amount of revenue recognised during the year for each significant category of revenue
- Amount of revenue recognised from the exchange of goods.

## 6. Recent amendments

Minor amendments have been made which do not affect the principles of the Standard. Certain of the illustrative examples have also been removed.

The amended Standard is applicable for periods beginning on or after 1 April 2012.

## 7. Interpretations

The following interpretations relating to exchange revenue have been issued:

- iGRAP 1: Probability of Revenue (Page 97)
- iGRAP 6: Loyalty Programmes (Page 106)
- iGRAP 15: Revenue – Barter Transactions Involving Advertising Services (Page 116)

# GRAP 10: Financial reporting in hyperinflationary economies

## 1. Objective

To prescribe specific principles for entities reporting in the currency of a hyperinflationary economy so that the financial information provided is meaningful.

## 2. Scope

This Standard applies to the financial statements (including consolidated financial statements) of an entity whose functional currency is that of a hyperinflationary economy.

There is no absolute rate at which hyperinflation is deemed to arise, since it is a matter of judgement. It is important to consider the characteristics of the economic environment and various indicators of hyperinflation are provided in this Standard.

## 3. Restatement of financial statements

The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period. Comparative figures for prior periods are restated into the same current measuring unit. Differences resulting from presenting prior period amount in a different presentation currency are accounted for in accordance with GRAP 4.

Items in the statement of financial position not already expressed in terms of the current measuring unit at the end of the reporting date are restated by applying a general price index.

Items in the statement of financial performance are restated by applying the change in the general price index from the dates when the items were initially recorded.

The surplus or deficit on the net monetary position is disclosed separately in the statement of financial performance.

When an economy ceases to be hyperinflationary, the amounts expressed in the measuring unit current at the end of the previous reporting period are used as basis for the carrying amounts in subsequent financial statements.

#### **4. Consolidated financial statements**

The financial statements of a controlled entity that reports in the currency of a hyperinflationary economy are restated by applying a general price index of the country in whose currency it reports, before including them in the consolidated financial statements. A general price index must reflect changes in the general purchasing power, and it is preferable that the same index is used by all entities reporting in the currency of the same economy.

#### **5. Disclosures**

An entity discloses the fact that the financial statements and comparative amounts are restated for changes in the general purchasing power of the functional currency as well as the identify and level of the price index at the reporting date and the movement during the period.

#### **6. Recent amendments**

Minor amendments have been made which do not affect the principles of the Standard.

The amended Standard is applicable for periods beginning on or after 1 April 2012.

#### **8. Interpretations**

The following interpretations have been issued relating to financial reporting in hyperinflationary economies:

- iGRAP 5: Applying the Restatement Approach under GRAP 10 (Page 104).

# GRAP 11: Construction contracts

## 1. Objective

To prescribe the accounting treatment for revenue and costs associated with construction contracts in the financial statements of the contractor.

## 2. Scope

GRAP 11 applies to the financial statements of a contractor that is engaged in construction activities and hence does not apply to the construction of assets for own use. These assets are accounted for by applying the relevant Standard of GRAP.

A construction contract is described as a binding arrangement for the construction of an asset and includes contracts for the rendering of services that are directly related to the asset as well as contracts for the destruction or restoration of the asset and/or environment.

The Standard is usually applied to a separate construction contract; however, depending on the substance of the binding arrangement, it may be necessary to apply the Standard to separately identifiable segments of a single contract or to a group of contracts as a single unit.

## 3. Contract revenue

Contract revenue comprises the amount agreed in the initial contract together with variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. It is measured at the fair value of the consideration receivable.

## 4. Contract costs

Contract costs comprise costs that relate directly to the specific contract, costs that are attributable to the general contract activity and that can be reasonably allocated to the contract, together with such other costs that are specifically chargeable to the customer under the terms of the contract.

## 5. Recognition of contract revenue and costs

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of contract activity (the percentage of completion method of accounting). The outcome of a project can be estimated reliably when all of the following conditions are met:

- Total contract revenue can be measured reliably
- It is probable that the economic benefit or service potential associated with the contract will flow to the entity
- Both the contract costs and the stage of contract completion can be measured reliably
- Contract costs attributable to the contract can be clearly identified and measured reliably.

If the outcome cannot be estimated reliably, no surplus is recognised. Instead, contract revenue is recognised only to the extent that contract costs incurred are expected to be recovered and contract costs are expensed as incurred.

If it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately.

The stage of completion method is applied on a cumulative basis in each reporting period and is accounted for as a change in accounting estimate.

## 6. Disclosure

The following information pertaining to construction contracts is disclosed in the financial statements:

- Amount of contract revenue recognised during the period together with the methods used to determine the revenue and the stage of completion
- Aggregate amount of contract costs incurred and surpluses recognised to date
- Amount of advances received as well as the amount of retentions
- Gross amount due from customers and the gross amount due to customers for contract work.

## 7. Recent amendments

The following amendments have been made:

- Additional guidance given on whether a contract is a construction contract
- Certain other minor amendments which do not affect the principles of the Standard.

The amended Standard is applicable for periods beginning on or after 1 April 2012.

## 8. Interpretations

The following interpretations have been issued relating to construction contracts:

- iGRAP 8: Agreements of the Construction of Assets from Exchange Transactions (Page 107)
- iGRAP 10: Assets Received from Customers (Page 110).

# GRAP 12: Inventories

## 1. Objective

To prescribe the accounting treatment for inventories, including cost determination and subsequent expense recognition.

## 2. Scope

GRAP 12 applies to all inventories, except work-in-progress relating to construction contracts, financial instruments, biological assets and work-in-progress for services to be provided at no cost.

Inventories are defined as material or supplies to be consumed in the production process or during the rendering of services, held for sale in the ordinary course of operations or in the process of production for sale or distribution.

## 3. Recognition

Inventories are recognised as assets when the cost of the inventory can be reliably estimated and it is probable that future economic benefits or service potential will flow to the entity.

## 4. Measurement

Inventories are initially recognised at cost however when it is acquired for a nominal value or at no cost, it is recognised at fair value.

Subsequent to initial recognition, inventories are measured at the lower of cost or net realisable value. When inventories are held for distribution at no cost or for a nominal value, it is subsequently measured at the lower of cost or current replacement cost.

Net realisable value refers to the amount an entity expects to realise from the sale or use of inventory in the ordinary course of business less the estimated costs necessary to make that sale. Current replacement cost refers to the cost an entity would incur to acquire the inventory at the reporting date.

## 5. Cost of inventories

Inventory costs include purchase costs, conversion costs (materials, labour and overheads) and other costs to bring inventory to its present location and condition.

## 6. Cost formulas

For inventory items that are not interchangeable and those that are produced for specific projects, specific costs are attributed to the specific individual items of inventory.

The cost of all other inventory items is determined using either the first-in-first-out (FIFO) or weighted average basis.

## 7. Recognition as an expense

When inventories are sold, consumed or distributed, the carrying amount is recognised as an expense in the period in which the related revenue is recognised, goods are distributed or services rendered.

Write-downs to net realisable value or current replacement cost are recognised as an expense in the period of the write-down. Reversals arising from an increase in net realisable value or current replacement cost are recognised as a reduction of the inventory expense in the period in which they occur.

## 8. Disclosures

The following information is disclosed in the financial statements:

- Accounting policies adopted in accounting for inventories
- Total carrying amount of inventories and the carrying amount for each category
- Carrying amount of inventory carried at fair value less cost to sell
- Amount recognised as an expense, as well as any write-downs or reversals of write-downs during the period
- Circumstances that led to the write-down
- Carrying amount of inventories pledged as security for liabilities.

## 9. Recent amendments

Minor amendments have been made which do not affect the principles of the Standard.

The amended Standard is applicable for periods beginning on or after 1 April 2012.

# GRAP 13: Leases

## 1. Objective

To prescribe, for lessees and lessors, the appropriate accounting policies and disclosures for finance and operating leases.

## 2. Scope

A lease is described as an agreement that transfers the right to use an asset for an agreed period of time in exchange for a series of payments. This includes both operating and finance leases.

GRAP 13 is applied when accounting for all leases, except the following:

- Leases to explore or use mineral or natural resources
- Licensing agreements
- Property held by lessees that is accounted for as investment property and investment property provided by lessors under operating leases
- Leases pertaining to biological assets for both lessees and lessors.

## 3. Incremental borrowing rate of interest

Where an entity's borrowings are guaranteed by its government, the incremental borrowing rate of interest reflects the existence of the guarantee and related fees, which will normally lead to a lower incremental borrowing rate.

## 4. Classification of leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

An assessment of the classification of a lease depends on the substance of the transaction rather than its legal form.

The lease of both land and buildings is split into the land and buildings element. The land element is generally an operating lease, whereas the building element is either an operating or financial lease based on the criteria in GRAP 13. However, separate measurement of the land and buildings element is not required if the lessees' interest in both land and buildings is classified as an investment property under GRAP 16 and the fair value model is adopted.

## 5. Finance leases

### *In the financial statements of the lessee*

At the inception of the lease, the asset and finance lease liability are recognised at the lower of the present value of minimum lease payments and the fair value of the asset. The interest rate used to calculate the present value of minimum lease payments is interest rate implicit in the lease, if available or the incremental borrowing rate of the interest rate implicit in the lease is not available. Any initial direct costs to the lessee are added to the amount recognised as an asset.

The asset is depreciated in accordance with the depreciation policy for owned assets and the asset is depreciated over the shorter of the lease term or useful life.

Finance lease payments are apportioned between finance charges and the outstanding liability.

The following information is disclosed in the financial statements:

- Net carrying amount of finance lease assets per asset category
- A reconciliation between the total future minimum lease payments at the end of the period and their present value
- Total future minimum lease payments and their present value for each of the following periods:
  - Not later than one year
  - Later than one but not later than five years
  - Later than five years
- Contingent rents expensed during the period
- Total future minimum sublease payments to be received
- A general description of material leasing arrangements
- Depreciation and finance charges included in the statement of financial performance.

### *In the financial statements of the lessor*

Finance lease payments receivable are recognised in the statement of financial position at an amount equal to the net investment in the lease. Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the lessor's net investment.

The following information is disclosed in the financial statements:

- A reconciliation between the gross investment in the lease and the present value of minimum lease payments receivable at the reporting date
- Gross investment in the lease and present value or minimum lease payments receivable at the reporting date for the following periods:
  - Not later than one year
  - Later than one but not later than five years
  - Later than five years
- Unearned finance revenue
- Unguaranteed residual value accruing to the lessor
- Accumulated allowance for uncollectible minimum lease payments receivable
- Contingent rent recognised as revenue
- A general description of material lease arrangements.

## 6. Operating leases

### *In the financial statements of the lessee*

Lease payments are recognised as an expense in surplus or deficit on a straight-line bases over the lease term, unless another systematic basis is more representative of the time pattern of benefit.

The following information is disclosed:

- Total future minimum lease payments payable on non-cancellable operating leases for each of the following periods:
  - Not later than one year
  - Later than one but not later than five years
  - Later than five years
- Total future minimum sublease payments receivable
- Lease, contingent rent and sublease payments recognised during the period
- A general description of significant lease arrangements.

***In the financial statements of the lessor***

Assets subject to operating leases are recorded in the statement of financial position according to their nature. Lease revenue is recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of benefits.

Initial direct costs incurred by the lessor in arranging the lease agreement are added to the cost of the leased asset and recognised as expense over the lease term.

Depreciation of leased asset continues in accordance with the lessor's depreciation policy.

The following information is disclosed in the financial statements:

- Total future minimum lease payments receivable on non-cancellable operating leases for each of the following periods:
  - Not later than one year
  - Later than one but not later than five years
  - Later than five years
- Total contingent rent recognised during the period
- A general description of significant leasing arrangements.



## 7. Sale and leaseback transactions

The accounting for a sale and leaseback transaction depends on the nature of the lease involved.

If the transaction results in a finance lease, any gain on the sales transaction is deferred and recognised over the lease term. Where the transaction results in an operating lease and is established at fair value, any gain is recognised immediately. If the sales price is below fair value but is compensated for by below-market lease payments, the gain or loss is deferred, otherwise it is recognised immediately. Where the sales price is above fair value, the excess above fair value is deferred.

## 8. Recent amendments

The following amendments have been made:

- Clarification that the Standard does not apply to lease agreements to explore for or use mineral or natural resources
- The guidance that a lease of land is usually classified as an operating lease has been removed and now entities are required to assess whether leases of land and buildings are finance or operating leases in accordance with the requirements of the Standard
- The guidance on the substance and legal form of a transaction has been removed
- Assets held under finance leases, which are classified as held for sale, are to be accounted for in accordance with GRAP 100
- Certain other minor amendments have been made, which do not affect the principles of the Standard.

The amended Standard is applicable for periods beginning on or after 1 April 2012

## 9. Interpretations

The following interpretations relating to leases have been issued:

- iGRAP 3: Determining whether an Arrangement Contains a Lease (Page 100)
- iGRAP 13: Operating Leases Incentives (Page 113)
- iGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease (Page 114).

# GRAP 14: Events after the reporting date

## 1. Objective

To prescribe when an entity should adjust its financial statements for events after the end of the reporting date as well as disclosures about the date when the financial statements were authorised for issue and about events after the end of the reporting date.

## 2. Scope

GRAP 14 applies to accounting for and disclosure of events after the reporting date.

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

## 3. Authorising the financial statements for issue

The date of authorisation for issue is the date on which the financial statements have been approved by management to be issued to the executive authority or municipal council. Usually the audit opinion is provided on those financial statements.

## 4. Adjusting events after the reporting date

The financial statements are adjusted to reflect those events that provide evidence of conditions that existed at the reporting date.

## 5. Non-adjusting events after the reporting date

The financial statements are not adjusted to reflect events that arose after the reporting date. The nature and impact of such events are disclosed.

## 6. Dividends/Distributions

Dividends or other similar distributions proposed or declared after the reporting date are not recognised as a liability at the reporting date.

## 7. Going concern

When management determines after the reporting date but before the date the financial statements were authorised for issue, that the entity has no realistic alternative than to cease operating, the financial statements are not prepared on the going concern basis.

## 8. Disclosure

The financial statements disclose the date that they were authorised for issue as well as the identity of the person that granted the authorisation.

The entity discloses for each material category of non-adjusting events the nature of the event and an estimate of its financial effect where appropriate.

## 9. Recent amendments

Certain minor amendments were made to GRAP 14 but the principles contained in the Standard have remained unchanged. The new Standard is effective for periods on or after 1 April 2011.



# GRAP 16: Investment property

## 1. Objective

To prescribe the accounting treatment for investment property and related disclosure requirements.

## 2. Scope

Investment property is defined as property held to earn rentals or for capital appreciation rather than for the supply of services, administrative purposes or sale in the ordinary course of operations.

GRAP 16 applies to the recognition, measurement and disclosure of investment property. The following are not addressed in this Standard:

- Matters relating to leases
- Biological assets
- Mineral rights
- Property intended for sale in the ordinary course of operations
- Property being constructed or developed on behalf of third parties
- Owner-occupied property
- Property that is being constructed or developed for use as investment property
- Property held to provide a social service and which also generates cash inflows
- Property held for strategic purposes.

A property held under an operating lease may be classified as an investment property if it would otherwise meet the definition and the fair value model is applied. The lease is then accounted for as a finance lease.

## 3. Recognition

Investment property is recognised in the statement of financial position when the cost can be estimated reliably and it is probable that future economic benefits will flow to the entity.

## 4. Measurement

Initially investment property is recognised at cost, including transaction costs. Where investment property is acquired in a non-exchange transaction, it is initially recognised at fair value.

Subsequent to initial measurement, an entity chooses either the fair value model or the cost model and applies the same policy to all investment property.

### *Fair value model*

Investment property is measured at fair value (reflecting market conditions at the reporting date), with changes in fair value recognised in surplus or deficit.

If an entity elects to apply the fair value model, but if on initial recognition, there is clear evidence that the fair value of that property will not be

determinable on a continuous basis the cost model (with a residual value of zero) is applied to the property until its disposal.

If an entity elects to account for property held under an operating lease as investment property if it would otherwise meet the definition of investment property and the fair value model is applied, then all investment property is carried at fair value.

### **Cost model**

Investment property is measured at depreciated cost less any accumulated impairment losses, in accordance with GRAP 17. Fair value of the investment property is disclosed.

### **5. Transfers**

Transfers to and from investment property will only be made if there is a change in use. For investment property carried at fair value, the fair value on the date of the transfer will be the deemed cost going forward.

The difference between the carrying value and fair value on the date of transfer for assets transferred to investment property is treated similar to a revaluation surplus in accordance with GRAP 17.

### **6. Disposals**

Investment property is derecognised either on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its use.

### **7. Disclosure**

#### **General disclosures:**

- Accounting model applied in accounting for investment property
- Circumstances under which operating leases are classified as investment property
- Where classification is difficult, the criteria used to distinguish investment property from owner occupied property and property held for use in the ordinary course of business
- Methods and assumptions applied in determining the fair value
- Extent to which fair value is based on valuation performed by a professional independent valuer
- Amounts included in surplus or deficit relating to rental revenue, direct operating expenses and cumulative changes in fair value recognised on the sale of investment property accounted for under the cost method
- Restrictions on the sale of investment property
- Contractual obligations to acquire investment property.

***Disclosures where the fair value model is used:***

- Reconciliation between the carrying amount at the beginning and end of the period
- Reconciliation between the valuation obtained and adjusted valuation used in the financial statements, if difference is significant
- When applying the cost model as an exception for investment property, the financial statements disclose a description of the investment property, an explanation of why fair value cannot be determined, possible ranges for fair value as well as certain disclosures on disposal of the investment property.

***Disclosures where the cost model is used:***

- Depreciation methods, useful lives and depreciation methods applied
- Gross carrying amount and accumulated depreciation at the beginning and end of the period
- Reconciliation between the carrying amount at the beginning and end of the period
- Fair value of the investment property unless undeterminable, in which case the facts and circumstances are disclosed.

## **8. Recent Amendments**

The following amendments have been made to GRAP 16:

- Clarification that rent earned from a property does not have to be on a commercial basis for the property to be classified as an investment property
- Property that is being constructed or developed for future use as investment property is now accounted for as investment property instead of property, plant and equipment and how the cost or fair value model should be applied to such property
- Removal of the separate measurement category of investment property, which is held to back liabilities which pay a return linked to the fair value of the investment property
- Clarification that investment property which is held under the cost model is measured in accordance with the cost model requirements of GRAP 17
- Certain other minor amendments have been made which do not affect the principles of the Standard.

The amended Standard is applicable for periods beginning on or after 1 April 2012.

# GRAP 17: Property, plant and equipment

## 1. Objective

To prescribe the principles for the recognition of assets, determination of carrying amounts, depreciation charges and impairment losses for property, plant and equipment.

## 2. Scope

Property, plant and equipment is defined as tangible items held for use in the supply of goods or services, for administrative purposes or rental to others that are expected to be used during more than one financial period.

This Standard is applied in accounting for property, plant and equipment, except when it is:

- Accounted for in terms of another Standard of GRAP
- Classified as held for sale in terms of GRAP 100
- Biological assets related to agricultural activities
- Mineral rights and other non-regenerative resources.

GRAP 17 is applied to property under construction for future use as investment property. This Standard does not require the recognition of heritage assets. However, if an entity elects to recognise heritage assets, it has to comply with the disclosure requirements of GRAP 17 although compliance with the measurement requirements is optional.

## 3. Recognition

Items of property, plant and equipment are recognised as assets when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the cost thereof can be measured reliably. Property, plant and equipment may include infrastructure assets.

## 4. Measurement

Property, plant and equipment is initially recognised at cost, which includes all costs necessary to get the asset ready for its intended use. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the credit period.

If an item of property, plant and equipment is acquired for no cost or at a nominal amount, it is initially recognised at fair value.

Subsequent to initial recognition, GRAP 17 allows a choice between the cost model and revaluation model as the accounting policy for each class of property, plant and equipment.

### ***Cost model***

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

Carrying amount
=
Cost
-
Impairments
-
Depreciation

### ***Revaluation model***

The asset is carried at a revalued amount, which is the fair value at the revaluation date less subsequent depreciation and impairment.

Revaluations are carried out regularly and all items of a given class are revalued.

Revaluation increases are credited to a revaluation surplus in the statement of changes in net assets. Decreases in the revalued amount are charged first against the revaluation surplus related to the specific asset and any excess is charged against surplus or deficit.

Carrying amount
=
Fair value
-
Impairments
-
Depreciation



## 5. Depreciation

Depreciation is charged systematically over the asset's useful life. The depreciation method reflects the pattern of benefit consumption. The residual value is reviewed at least annually and is the amount the entity would receive currently if the asset were already of the age and condition expected at the end of its useful life. Useful life is also reviewed annually.

Each part of an item with a cost that is significant in relation to the total cost of the asset is depreciated separately. Components of an asset with differing useful lives are depreciated separately.

If the operation of an item of property, plant and equipment requires regular major inspections, the cost of each major inspection is recognised in the carrying amount of the asset as a replacement, if the recognition criteria are satisfied. This may also result in a previously recognised component being derecognised.

The depreciation charge for each financial period is recognised in surplus or deficit for the year.

## 6. Impairment

GRAP 21 Impairment of Non-Cash Generating Assets and GRAP 26 Impairment of Cash Generating Assets provide guidance on accounting for the impairment of property, plant and equipment. Where these Standards are not yet effective, the principles in these Standards should be considered in developing an accounting policy for impairment.

Compensation received from third parties for impairment is included in surplus or deficit when the compensation becomes receivable.

## 7. Derecognition

An item of property, plant and equipment is derecognised from the financial statements when no further economic benefits or service potential is expected from its continuing use or on disposal. The difference between the proceeds received and the carrying amount on the date of derecognition is recognised as a gain or loss in the surplus or deficit.

## 8. Disclosure

The following information is disclosed for each class of property, plant and equipment:

- Measurement bases used
- Depreciation methods, useful lives and depreciation rates used
- Gross carrying amount and accumulated depreciation at the beginning and end of the period
- Reconciliation between the carrying amount at the beginning and end of the period
- Property, plant and equipment pledged as security for liabilities and other restrictions on title
- Amount of expenditures recognised as part of the carrying amount of an asset under construction
- Amount of contractual commitments for the acquisition of property, plant and equipment
- Compensation from third parties recognised in surplus or deficit for the loss of an item
- Carrying amount of temporarily idle items of property, plant and equipment
- Gross carrying amount of fully depreciated property, plant and equipment still in use
- Carrying amount of property, plant and equipment retired from active use and held for disposal.

In the addition to the above, the following information is disclosed for classes of property, plant and equipment carried at revalued amounts:

- Effective date of revaluation and whether an independent valuer was used
- Methods and assumptions applied in determining fair value
- Extent to which fair value was determined by reference to observable market prices
- Carrying amount that would have recognised if the cost model was applied
- Revaluation surplus including the movement for the year.

## 9. Recent amendments

The following amendments have been made:

- Additional scope exclusion for the recognition and measurement of exploration assets, these assets should be accounted for in accordance with IFRS 6
- Removal of the scope inclusion for property which is being constructed or developed for future use as investment property, such property is now accounted for under GRAP 16
- Clarification that reviewing the useful life of an asset on an annual basis will not necessarily result in a change in accounting estimate unless expectations differ from previous estimates
- Clarification that depreciation of an asset ceases at the earlier of when the asset is derecognised or classified as held for sale in accordance with GRAP 100
- Entities which in the ordinary course of its activities sell items of property, plant and equipment that is held for rental to others are required to transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale
- Certain other minor amendments have been made, which do not affect the principles of the Standard.

The amended Standard is applicable for periods beginning on or after 1 April 2012.

## 10. Interpretations

The following interpretations relating to property, plant and equipment have been issued:

- iGRAP 2: Changes in Existing Decommissioning Restoration and Similar Liabilities (Page 98)
- iGRAP 9: Distributions of Non-cash Assets to Owners (Page 108)
- iGRAP 10: Assets Received from Customers (Page 110)

# GRAP 19: Provisions, contingent liabilities and contingent assets

## 1. Objective

To prescribe the criteria for the recognition and measurement of provisions, and to ensure that sufficient information is disclosed in the notes to the financial statements on provisions, contingent liabilities and contingent assets to enable users to understand their nature, timing and amount.

## 2. Scope

GRAP 19 is applied when accounting for all provisions, contingent liabilities and contingent assets. Specifically excluded from the scope of this Standard are provisions and contingent liabilities arising from social benefits (goods, services or other benefits provided in pursuit of social policy objectives of the government) for which the entity does not receive consideration approximately equal to the value of goods and services provided directly in return from the recipients of those benefits.

Also excluded are provisions and contingent liabilities resulting from executory contracts other than those that are onerous, or those addressed by another Standard of GRAP.

Where another Standard of GRAP deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard.

## 3. Provisions

Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required to settle the obligation.

### *Recognition*

A provision is recognised only when a past event has created a legal or constructive obligation, an outflow of economic resources or service potential is probable and the amount of the obligation can be estimated reliably. If these conditions are not met, a provision is not recognised.

### *Measurement*

The amount recognised as a provision is the best estimate of the settlement amount at the reporting date. Where the effect of the time value of money is material, the amount recognised is the present value of the expenditures required to settle the obligation. The discount rate is calculated to be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. To avoid duplication, the discount rate does not reflect risks for which future cash flow estimates have been adjusted.

Provisions can only be utilised for their original purposes and are reviewed at each reporting date to adjust the amount for changes in estimate.

Gains from the expected disposal of assets are not taken into account in measuring a provision.

Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that the event will occur. Provisions are never recognised for future operating deficits.

Reimbursements for the expenditure required to settle a provision are recognised as separate assets only when it is virtually certain that it will be received. The expense relating to the provision may be presented net of the amount recognised for the reimbursement.

Provisions for decommission, restoration and similar liabilities are adjusted for changes in the estimated outflow of economic resources or service potential, changes in the market-based discount rate and changes relating to the passage of time.

### ***Disclosure***

The financial statements disclose the following information for each class of provision:

- Brief description of the obligation and expected timing of outflow of economic benefits or service potential
- Indication of the uncertainties of the amount or timing of the outflows
- Carrying amount at the beginning and end of the period
- Additional provisions made during the period
- Reduction in carrying amount due to payments made
- Reduction in carrying amount due to remeasurement of the provision
- Reversal of unused amounts
- Increase in the discounted amount due to the passage of time
- Expected amount of any reimbursements.

If an entity elects to recognise provisions pertaining to social benefits, the above disclosure requirements will be applied to those provisions as well.

#### 4. Contingent liabilities

In terms of this Standard, a liability is contingent, if it is not recognised because the existence thereof will only be confirmed by the occurrence or non-occurrence of an uncertain future event not wholly within the control of the entity. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria.

A contingent liability therefore arises when:

- There is a possible obligation to be confirmed by a future event that is outside the control of the entity; or
- It is not probable that a present obligation will require an outflow of economic resources or service potential
- A sufficiently reliable estimate of the amount of a present obligation cannot be made.

Contingent liabilities are not recognised and require disclosure only. If the possibility of an outflow of economic resources or service potential is remote, then no disclosures are made.

#### *Disclosure*

The financial statements disclose a brief description of each class of contingent liability at the reporting date and where practicable:

- An estimate of its financial effect
- An indication of the uncertainties relating to the amount or timing of any outflows
- The possibility of any reimbursements.

#### 5. Contingent assets

A contingent asset is described as a possible asset whose existence will be confirmed only by a future event not within the control of the entity.

Contingent assets arise when the inflow of economic benefits or service potential is probable but not virtually certain and are only disclosed in the financial statements.

#### *Disclosure*

The financial statements disclose a brief description of any contingent assets at the reporting date as well as an estimate of its financial effect where practicable.

## 6. Onerous contracts

An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it, which includes amounts recoverable. If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract shall be recognised and measured as a provision.

## 7. Restructuring

A constructive obligation to restructure arises only when an entity has a detailed formal plan for the restructuring, and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The detailed formal plan must identify at a minimum, the activity/operating unit or part of an activity/operating unit concerned, the principal locations affected, the location, function, and approximate number of employees who will be compensated for their services being terminated, the expenditures that will be undertaken, and when the plan will be implemented.

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding arrangement.

A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both necessarily entailed by the restructuring; and not associated with the ongoing activities of the entity.

## 8. Recent amendments

The following amendments have been made to GRAP 19:

- The specific guidance on the accounting for obligations to make additional contributions to a decommissioning, restoration, and environmental rehabilitation fund has been removed from the Standard
- Certain other minor amendments have been made, which do not affect the principles of the Standard.

The amended Standard is applicable for periods beginning on or after 1 April 2012.

## 9. Interpretations

The following Interpretations have been issued relating to provisions, contingent liabilities and contingent assets:

- iGRAP 2: Changes in Existing Decommissioning Restoration and Similar Liabilities (Page 98)
- iGRAP 4: Rights to Interests Arising from Rehab Funds (Page 102)

# GRAP 100: Non-current assets held for sale and discontinued operations

## 1. Objective

To prescribe the accounting for non-current assets held for sale and the presentation and disclosure of discontinued operations.

## 2. Scope

GRAP 100 applies to all non-current assets held for sale and discontinued operations. However, the measurement provisions of this Standard do not apply to the following:

- Deferred tax assets in accordance with IAS 12 (in the absence of a Standard of GRAP)
- Assets arising from employee benefits in accordance with GRAP 25
- Financial assets in accordance with GRAP 104
- Assets accounted for in accordance with fair value model in GRAP 16
- Assets measured at fair value less point-of-sale costs in accordance with GRAP 101
- Contractual rights under insurance contracts in accordance with IFRS 4 (in the absence of a Standard of GRAP).

## 3. Classification

Non-current assets whose carrying amount will be recovered principally through the sale thereof rather than through continuing use, are classified as non-current assets held for sale.

In order to qualify for this classification, the assets should be available for sale immediately (subject only to terms that are usual and customary for such sales of assets) and the disposal within 12 months of the reporting date should be highly probable.



Non-current assets that are to be abandoned are not classified as held for sale in terms of this Standard.

#### 4. Measurement

Non-current assets held for sale are measured at the lower of their carrying amounts (measured in accordance with the relevant Standard of GRAP) or their fair value less costs to sell. Such non-current assets held for sale are not depreciated.

When a non-current asset previously classified as held for sale no longer meets the criteria for classification, it is reclassified from this category and measured at the lower of its carrying prior to classification as held for sale less depreciation for the period so classified and its recoverable amount or recoverable service amount.

#### 5. Disclosure

Non-currents assets held for sale and the assets and liabilities of a disposal group held for sale are presented separately from other assets and liabilities. Major classes of such assets and liabilities are disclosed either in the statement of financial position or the notes. These assets and liabilities are not offset and comparative amounts for prior periods are not restated to reflect the classification in the current period.

In addition to the above, the following information is also disclosed:

- Description of the assets (or disposal group) as well as the facts and circumstances of the sale
- Gains or losses on the subsequent remeasurement of non-current assets held for sale
- If there has been a change in the plan to sell the non-current asset, the facts and circumstances surrounding the change.

#### 6. Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and:

- Represents a separate major line of business or major geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area.

The financial statements disclose the following information:

- A single amount in the statement of financial performance comprising the post-tax surplus or deficit of discontinued operations and the gains or loss recognised on remeasurement to fair value less cost to sell or disposal

- An analysis of the above amount either in the notes or on the face of the statement of financial performance separate from continuing operations, consisting of:
  - Revenue, expenses and pre-tax surplus or deficit on discontinued operations
  - Related income tax expense as required by IAS 12 (in the absence of a Standard of GRAP)
  - Gain or loss recognised on remeasurement or disposal
- Net cash flows from operating, investing and financing activities relating to discontinued operations.

The information required above is represented for prior periods presented in the financial statements.

## 7. Recent amendments

The following amendments have been made:

- Clarification that generally, disclosures in other Standards of GRAP do not apply to those assets which have been classified as held for sale in accordance with GRAP 100
- A description of a distinguishable activity has been introduced where a distinguishable activity is a significant operating activity within the entity
- Should an entity be committed to a plan of sale involving the loss of control in a controlled entity, all assets and liabilities of the controlled entity are classified as held for sale when the classification criteria are met and should provide the required disclosures
- Certain other minor amendments have been made which do not affect the principles of the standard.

The amended Standard is applicable for periods beginning on or after 1 April 2012.



# GRAP 101: Agriculture

## 1. Objective

To prescribe the accounting treatment, presentation and disclosures relating to agricultural activities.

## 2. Scope

GRAP 101 applies to the recognition, measurement and disclosure of agricultural activities relating to biological assets and agricultural produce at the point of harvest. This Standard however does not apply to land, intangible assets or non-exchange revenue related to agricultural activities or biological assets. Once the agricultural produce has been harvested it is no longer in the scope of this Standard.

Agricultural activities are described as the management of the biological transformation of biological assets for sale, being a living animal or plant. Agricultural produce is the harvested product of biological assets. Biological transformation comprises the growth, degeneration, production and procreation that lead to qualitative and quantitative changes in the biological assets.

Animals or plants that are used primarily for non productive purposes such as recreational parks or game farms are outside the scope of this Standard.

## 3. Recognition and measurement

A biological asset or agricultural produce should be recognised when the entity controls the assets as a result of past events, it is probable 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.

All biological assets are measured on initial recognition and at each reporting date at fair value less estimated point-of-sale costs, unless fair value cannot be measured reliably. If there is no active market at the time of recognition in the financial statements and no other reliably measurement method exists, then the cost model is used for the specific biological asset only. The biological asset is then measured at cost, less accumulated depreciation and impairment losses.

Agricultural produce is measured at fair value at the point of harvest less estimated point-of-sale costs, which amount is deemed the cost when applying another Standard of GRAP, e.g. inventories.

Any change in the fair value of biological assets during the period is reported in surplus or deficit. Quoted market prices in an active market generally represent the best measure of the fair value of a biological asset or agricultural produce.

If an active market does not exist, GRAP 101 provides guidance for choosing another measurement basis.

#### 4. Disclosure

The following information is disclosed in the financial statements relating to agricultural activities:

- Gain or loss arising on initial recognition of agricultural produce and the changes in fair value recorded in surplus or deficit
- Description of each group of biological assets and the nature of activities involving each group
- Non-financial measures or estimates of physical quantities of each group at the reporting date as well as the output of agricultural produce during the period
- Methods and assumptions applied in determining fair value
- Fair value less estimated point-of-sale costs of agricultural produce harvested during the period
- Carrying amounts of biological assets pledged as security and any other restrictions on title or ability to dispose of
- Commitments for the development or acquisition of biological assets
- The entity's financial risk management strategies relating to agricultural activities
- Reconciliation between the carrying amount at the beginning and end of the period.

#### ***Additional disclosures where fair value cannot be measured reliably***

Where an entity has measured a biological asset at its cost less accumulated depreciation and impairment losses, the following information is disclosed:

- Description of the biological asset and an explanation why fair value cannot be measured reliably
- Range in which fair value is likely to be, if possible
- Depreciation method, useful life and depreciation rates used
- Gross carrying amount and accumulated depreciation at the beginning and end of the period
- Gains or losses recognised on the disposal of such biological assets
- Reconciliation between the carrying amount at the beginning and end of the period.

# GRAP 102: Intangible assets

## 1. Objective

To prescribe the accounting treatment for all intangible assets that are not specifically dealt with in another Standard of GRAP.

## 2. Scope

GRAP 102 applies to the recognition, measurement and disclosure of all intangible assets except the following:

- Those that are within the scope of another Standard
- Financial assets
- Exploration and evaluation assets
- Expenditure relating to the development and extraction of mineral or natural resources.

## 3. Definition

An intangible asset is defined as an identifiable non-monetary asset without physical substance. An intangible asset is identifiable when it:

- Is capable of being separated or divided from the entity either individually or together with a related contract, asset or liability; or
- Arises from contractual or legal rights.

Some intangible assets may be contained in a physical substance (e.g. a compact disc). To determine whether an asset that incorporates both intangible and tangible elements is within the scope of this Standard, rather than GRAP 17, will require judgement to assess which element is more significant.

Entities may regulate certain activities, for example, fishing and mining. These regulatory rights and the power to transfer, license, rent or execute such rights, does not meet the definition of an intangible asset when these rights are granted in terms of statute. These rights, once issued, are usually an intangible asset of those individuals or entities that acquired each right. Furthermore, a municipality's right to levy taxes is granted in terms of a statute and therefore will not qualify for recognition as an intangible asset.

## 4. Recognition and measurement

Intangible assets that are separately acquired are initially recognised at cost only if:

- It is probable that future economic benefits or service potential embodied in the asset will flow to the entity
- The cost of the asset can be measured reliably.

An entity shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

An intangible asset is to be initially measured at its cost. Where an intangible asset has been acquired for no cost or at a nominal amount, its fair value on the date of acquisition is deemed to be its cost. When an intangible asset has been acquired in exchange for a non-monetary asset, the intangible asset will be initially measured at fair value, unless it is not possible to reliably measure either the fair value of the asset acquired or the asset given up. In this case, the cost of the intangible asset acquired is measured at the carrying value of the asset given up.

Due to the nature of intangible assets, in many cases, there are no additions to or replacements of part of the intangible asset and most subsequent expenditures are likely to maintain the expected future economic benefits or service potential embodied in an existing intangible asset rather than qualify for recognition in terms of this Standard.

## 5. Internally generated goodwill and intangible assets

Internally generated goodwill shall not be recognised as an asset.

In order to assess whether an internally generated intangible asset meets the recognition criteria of GRAP 102, the generation of the asset is classified into a research and a development phase.

Expenditure incurred during the research phase is recognised as an expense when incurred.

Development costs are capitalised only if all of the following can be demonstrated by an entity:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale
- Intention to complete the intangible asset and use or sell it
- Ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits or service potential. (Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.)

- Ability to measure reliably the expenditure attributable to the intangible asset during its development
- Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

Subsequent expenditure that relates to an in-process research or development project acquired separately and recognised as an intangible asset; that is incurred after the acquisition of that project is accounted for as follows:

- Those relating to research as well as development expenditure that do not meet the recognition criteria, are recognised as an expense
- Those relating to development that satisfies the recognition criteria are added to the carrying amount of the in-process research and development cost project.

Internally generated goodwill, brands, mastheads, publishing titles, customer lists, start-up costs, training costs, advertising costs and relocation costs are not recognised as assets.

Internally generated intangible assets that are able to be included in the statement of financial position, will include all directly attributable costs necessary to create, produce and prepare the asset so as to be capable of operating in the manner intended by management.

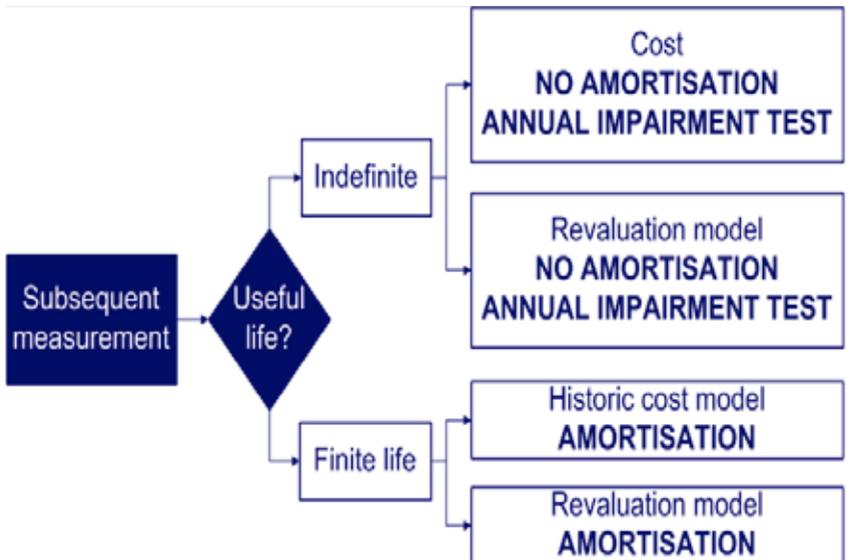
Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

## 6. Measurement subsequent to recognition

Intangible assets are accounted for using either the cost model or the revaluation model. Under the cost model, assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

In accordance with the revaluation model, the asset is carried at a revalued amount, which is fair value (determined by reference to an active market) at revaluation date less any subsequent depreciation and any subsequent impairment losses.

Revaluations are carried out regularly. All items of a given class are revalued (unless there is no active market for a particular asset). Revaluation increases are recognised in the revaluation surplus accumulated in net assets.



Revaluation decreases are charged first against the revaluation surplus related to the specific asset and any excess is recognised in surplus or deficit. When the revalued asset is disposed of, the revaluation surplus remains in net assets and is not reclassified to surplus or deficit.

For the purpose of accounting subsequent to initial acquisition, the useful lives of intangible assets are classified as either:

- Indefinite where there is no foreseeable limit to the period over which the asset is expected to general net cash inflows or service potential for the entity
- Finite where there is a limited useful life to the entity.

### ***Intangible assets with finite useful lives***

The depreciable amount (cost less residual value) of an intangible asset with a finite useful life is amortised over that life on a systematic basis that reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. The residual value of an intangible asset with a finite useful life is assumed to be zero unless there is commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset by reference to which the residual value can be determined, and it is probable that the market will continue to exist at the end of the useful life.

Amortisation commences when the asset is available for use, and shall cease at the earlier of the date that the asset is classified as held for sale (in terms of GRAP 100) and the date that the asset is derecognised.

The useful life of an intangible asset that arises from contractual rights or other legal rights (excluding rights granted by statute) shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.

If there is a possibility of renewal, then the period must take into account any renewal periods only if there is evidence to support renewal by the entity without significant cost.

The amortisation charge for each period shall be recognised in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

Impairment testing under the Standards of GRAP on impairment of assets is required whenever there is an indication that the carrying amount exceeds the recoverable amount of the intangible asset.

The amortisation method and rate are reviewed at least at each reporting date.

### ***Intangible assets with indefinite useful lives***

Intangible assets with indefinite useful lives are not amortised but are tested for impairment on an annual basis. If the recoverable amount or recoverable service amount is lower than the carrying amount, an impairment loss is recognised. The entity also considers whether the intangible asset continues to have an indefinite life.

## 7. Derecognition

An intangible asset is recognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss as a result of derecognition of an intangible asset shall be determined as the difference between the net proceeds on disposal.

## 8. Disclosure

The following information is disclosed in the financial statements:

- Whether the useful lives are finite or indefinite and where applicable the amortisation periods and methods applied
  - Gross carrying amount and accumulated amortisation amount at the beginning and end of the period
  - Line items in the statement of financial performance in which amortisation is included
  - Reconciliation of the carrying amount at the beginning and end of the period
  - Carrying amount of intangible assets with indefinite useful lives and the reasons supporting that
  - Carrying amount and remaining amortisation period of individual intangible assets that are material to the financial statements
- Existence and carrying amount of intangible assets pledged as security or subject to other restrictions on title
  - Amount of contractual commitments for the acquisition of intangible assets.

If intangible assets are accounted for using the revaluation model, the following additional information is disclosed by class of intangible assets:

- Effective date of the revaluation
- Carrying amount of revalued intangible assets
- Carrying amount that would have been recognised using the cost model
- Aggregate amount of revaluation surplus at the beginning and end of the period, indicating any changes during the period
- Methods and assumptions applied in determining fair values.

# IPSAS 20: Related parties

## 1. Objective

The objective of the Standard is to provide guidance on the required disclosure of existence of related parties and the disclosure of information about transactions between related parties.

## 2. Definitions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity
- Associates
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual
- Key management personnel and their close family members
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person who has significant influence over the entity or a member of key management personnel.

A related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.

## 3. Related parties in the public sectors

Related parties in the public sector as administrative units are subject to the overall direction of the same executive government, government departments often conduct activities through controlled entities in order to fulfil their mandate and ministers and other elected officials can exert significant influence over the operations of a department.

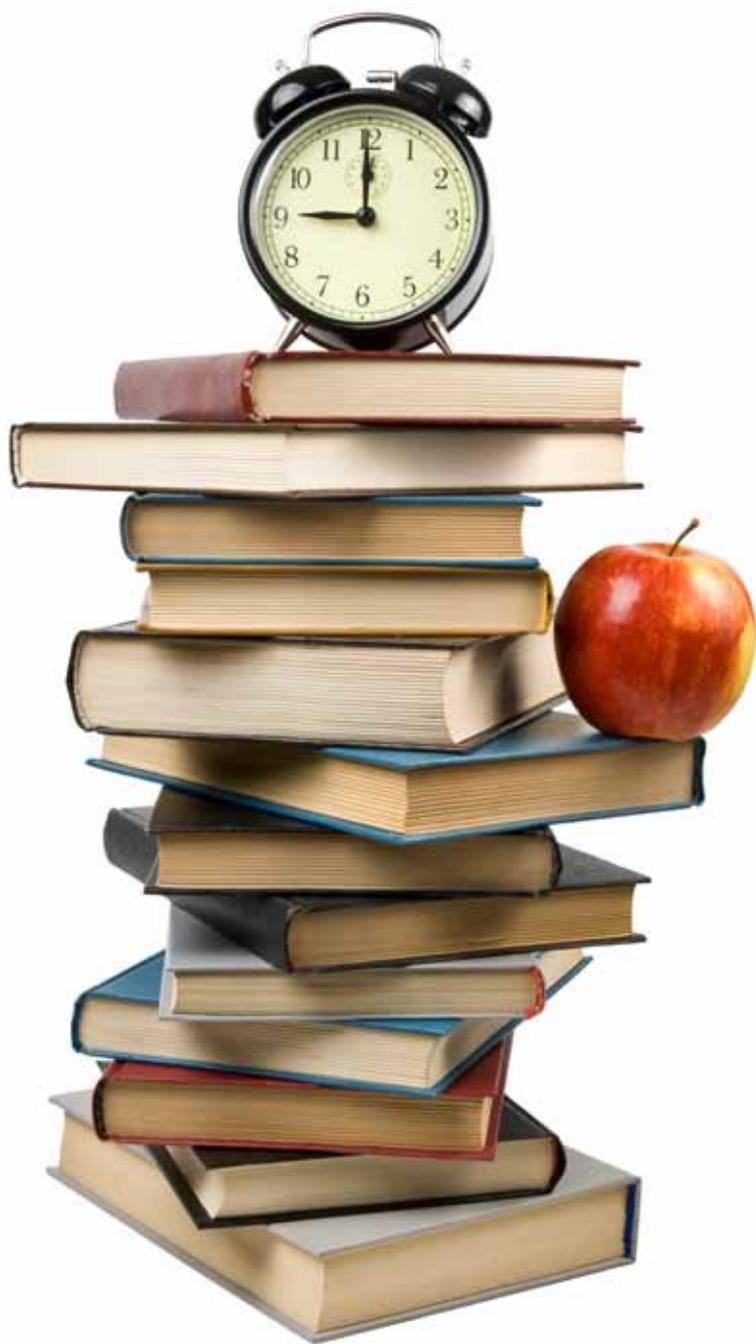
Disclosure of certain related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes and enables users to better understand the financial statements of the reporting entity. As key management personnel hold positions of responsibility within an entity they are able to influence the flow of benefits to them or to parties related to them.

Materiality should be taken into consideration when assessing related party disclosures.

#### 4. Disclosures

The following disclosures should be made:

- Related party relationships where control exists, irrespective of whether there have been transactions between the related parties
- For related party transactions, other than where the transaction occurs on normal client/recipient relationship terms:
  - Nature of the related party relationship
  - Type of transaction
  - Information to be able to clarify the significance of the transactions to the entity's operations
- For remuneration of key management personnel:
  - Aggregate remuneration and number of individuals
  - Total amount provided to close family members of key management personnel
  - Amount of loans advanced, the amount of loans repaid and the amount outstanding at the end of the period for each individual member of key management personnel and close family members.



# iGRAP 1: Applying the probability test on initial recognition of exchange revenue

## 1. Objective

To provide guidance on how an entity applies the probability test on initial recognition of exchange revenue that arises on the provision of goods or services provided on credit when there is uncertainty that the revenue will eventually be collected.

## 2. Scope

This interpretation should only be applied to initial recognition on exchange revenue.

## 3. Issue

Entities are required to provide goods and services in accordance with their legislative mandate. At the time of invoicing a customer, there may be uncertainty that the revenue will be collected. Should the probability of not collecting the receivable be included in the measurement of revenue at initial recognition?

## 4. Consensus

At the time of recognising the revenue the collectability of the amount should not be taken into account. The entity has an obligation to collect all revenue. The decision not to enforce these rights is a subsequent decision.

Any impairment that is recorded subsequently should be reflected as an expense.

# iGRAP 2: Changes in decommissioning, restoration and similar liabilities

## 1. Background

Many entities have obligations to dismantle, remove and restore items of property, plant and equipment. In terms of GRAP 17, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. GRAP 19 provides guidance on how to measure such liabilities.

## 2. Scope

The Interpretation applies to changes in measurement of a decommissioning, restoration or similar liability that is recognised as part of the cost of an item of property, plant and equipment in accordance with GRAP 17 and recognised as a liability in accordance with GRAP 19.

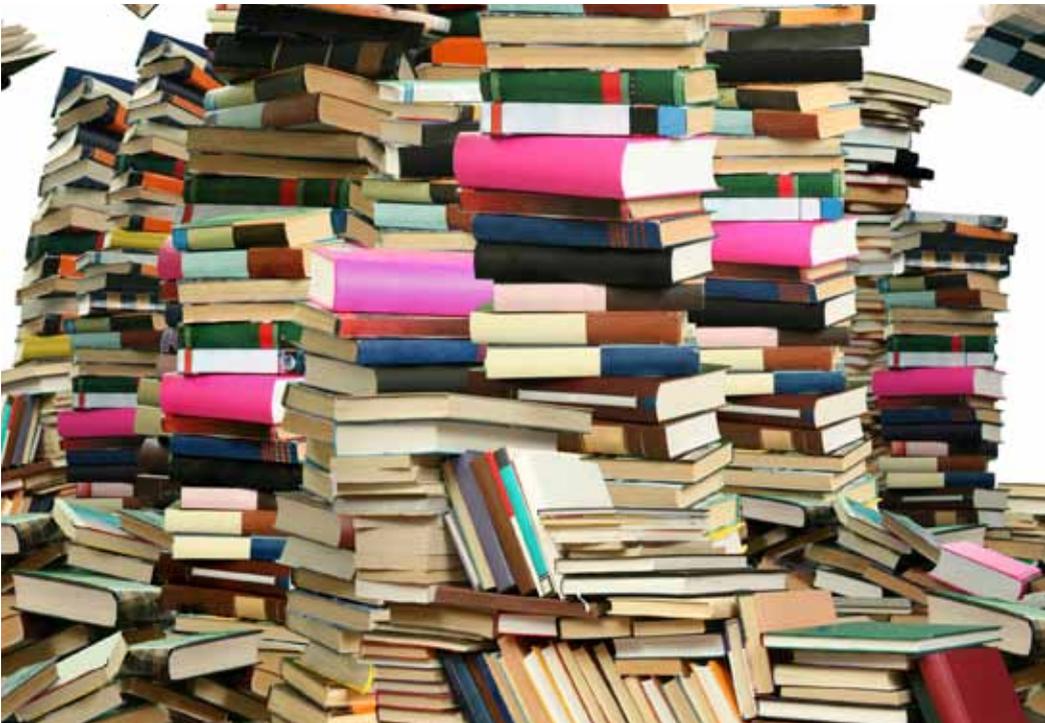
## 3. Consensus

If the asset is measured under the cost model, changes in the measurement of the liability are accounted for as follows:

- Changes in the liability are added to or deducted from the cost of the related asset in the current period provided that the amounts deducted cannot exceed the carrying amount of the asset
  - If the deduction does exceed the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit
  - If the adjustment results in an addition to the cost of an asset, consideration shall be given as to whether the asset is impaired.
- If the asset is measured using the revaluation model, changes in the measurement of the liability are accounted for as follows:
- Decreases in the liability are recognised directly in net assets except to the extent that it reverses a previous revaluation decrease which was previously recognised in surplus or deficit in which case the decrease in the liability is recognised in surplus or deficit
  - Increases in the liability are recognised in surplus or deficit except to the extent that there is a remaining revaluation credit balance in which case in the increase in the liability is recorded in the revaluation surplus
  - If the decrease in the liability exceeds the carrying amount that would have been recognised under the cost model, the excess is recognised immediately in surplus or deficit
  - A change in the liability may indicate that the asset should be revalued so that the carrying amount of the asset does not differ significantly from its fair value.

The adjusted depreciable amount is then depreciated over the asset's remaining useful life. Once the asset has reached the end of its useful life, all subsequent changes to the liability are recognised in surplus or deficit when they occur.

Any changes in the liability resulting from the unwinding of the discount are recognised in surplus or deficit as a finance charge.



# iGRAP 3: Determining whether an arrangement contains a lease

## 1. Background

An entity may enter into an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments. This Interpretation provides guidance for determining whether such arrangements are, or contain, leases that should be accounted for in accordance with GRAP 13.

## 2. Issue

The issues addressed in this Interpretation are:

- How to determine whether an arrangement is, or contains, a lease
- When the assessment or a reassessment of an arrangement should be made
- If an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

## 3. Consensus

Determining whether an arrangement is a lease shall be based on the substance of the arrangement and requires an assessment of whether:

- Fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset)
- The arrangement conveys a right to use the asset.

### *Fulfilment of the arrangement is dependent on the use of a specific asset or assets*

Where the fulfilment of the arrangement is subject to the use of interchangeable assets, then the arrangement does not contain a lease.

An asset has been implicitly specified if, for example, the supplier owns or leases only one asset with which to fulfil the obligation and it is not economically feasible or practicable for the supplier to perform its obligation through the use of alternative assets.

### *Arrangement conveys a right to use the asset*

The right to control the use of the underlying asset is conveyed if any one of the following conditions is met:

- The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset
- The purchaser has the ability or right to control physical access to the underlying asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset

- Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

The assessment of whether an arrangement contains a lease shall be made at the inception of the arrangement and reassessed when there is a change in the contractual terms including the subsequent inclusion and exercise of an extension or renewal option.

The payments under the arrangement should be separated between the lease and other elements on the basis of their relative fair values.

If a purchaser concludes that it is impracticable to separate the payments reliably, it shall:

- In the case of a finance lease, recognise an asset and a liability at an amount equal to the fair value of the leased asset
- In the case of an operating lease, treat all payments under the arrangement as lease payments and:
  - Disclose those payments separately from minimum lease payments of other arrangements that do not include payments for non-lease elements,
  - State that the disclosed payments also include payments for non-lease elements in the arrangement.

# iGRAP 4: Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds

## 1. Background

The purpose of decommissioning, restoration and environment rehabilitation funds (decommissioning funds) is to segregate assets to fund some or all of the costs of decommissioning plant or in undertaking environmental rehabilitation. Contribution to decommissioning funds may be voluntary or required by law or regulation. Decommissioning funds may also be set up with only one contributor or with multiple contributors.

Decommissioning funds are usually set up with independent trustees as administrators and the contributions received are invested in assets in order to generate a return, which is used to fund the decommissioning expenses. The contributors may have restricted access to any surplus of assets in the fund over those used to meet the decommissioning costs.

## 2. Scope

This Interpretation applies to the accounting by a contributor for interests in a decommissioning fund where the fund assets are administered separately and the contributor's right to the assets is restricted.

## 3. Consensus

The contributor recognises its obligation to pay decommissioning costs as a liability and recognise its interest in the fund separately unless the contributor has no obligation to pay the decommissioning costs even if the fund fails. In addition, the contributor needs to assess whether it has control, joint control or significant influence over the fund and, if it does, account for the fund in accordance with the relevant Standard of GRAP.

If the contributor does not have control, joint control or significant influence over the fund, it shall account for the right to receive reimbursement from the fund at the lower of the amount of the decommissioning obligation and its share of the fair value of the net assets of the fund attributable to contributions.

If the contributor has the obligation to make additional potential contributions to the fund, this obligation is a contingent liability and is accounted for in accordance with GRAP 19. A liability is recognised only if it is probable additional contributions shall be made.

#### 4. Disclosure

The following disclosures shall be made:

- Nature of the interest in the fund and restrictions on access to the assets in the fund
- Disclosures required by GRAP 19 for potential additional contributions which are contingent liabilities and for interests in the fund where there is no control, joint control or significant influence.



# iGRAP 5: Applying the restatement approach under the Standard of GRAP on financial reporting in hyperinflationary economies

## 1. Background

This Interpretation provides guidance on how to apply the requirements of GRAP 10 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements.

## 2. Issues

The issues addressed in this Interpretation of the Standards of GRAP are:

- How the requirement to state the financial statements of an entity in terms of the measuring unit current at the reporting date should be interpreted
- Where applicable, how an entity should account for opening deferred tax items in its restated financial statements.

## 3. Consensus

In the reporting period in which an entity identifies the existence of hyperinflation of its functional currency, not having been hyperinflationary in the prior period, the entity shall apply the requirements of GRAP 10 as if the economy had always been hyperinflationary.

Therefore, in relation to non monetary items measured at historical cost, the entity's opening statement of financial position at the beginning of the earliest period presented shall be restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed until the reporting date.

For non-monetary items carried in the opening statement of financial position at amounts current at dates other than those of acquisition or incurrence, that restatement shall reflect instead the effect of inflation from the dates those carrying amounts were determined until the reporting date.

At the reporting date, deferred tax items are recognised and measured in accordance with IAS 12, where applicable.

However, where applicable, the deferred tax figures in the opening statement of financial position for the reporting period shall be determined as follows:

- The entity remeasures the deferred tax items in accordance with IAS 12, after it has restated the nominal carrying amounts of its non-monetary items at the date of the opening statement of financial position of the reporting period by applying the measuring unit at that date
- The remeasured deferred tax items are restated for the change in the measuring unit from the date of the opening statement of financial position of the reporting period to the end of that reporting date.

The entity applies this approach in restating the deferred tax items in the opening statement of financial position of any comparative periods presented in the restated financial statements for the reporting period in which the entity applies GRAP 10.

After an entity has restated its financial statements, all corresponding figures in the financial statements for a subsequent reporting period, including deferred tax items, where applicable, are restated by applying the change in the measuring unit for that subsequent reporting period only to the restated financial statements for the previous reporting period.

# iGRAP 6: Loyalty programmes

## 1. Objective

To provide guidance on how an entity should account for loyalty programmes. These are generally incentives to customers to buy goods or services or to encourage early settlement of their accounts. The customer earns award credits which can be redeemed for free or discounted goods or services.

## 2. Issue

The issue addressed in the interpretation is whether the entity's obligation to provide free or discounted services in the future should be recognised by allocating some of the consideration received from the original sale to the award credits and deferring the recognition of revenue or providing for the estimated future costs of supplying the award.

## 3. Consensus

An entity should account for award credits as a separately identifiable component of the initial transaction and allocate the fair value of the initial transaction between the award credits and other components of the transaction. The award credits are deemed to be an exchange transaction.

The consideration allocated to the award credits shall be measured by reference to their fair value. When the award credits are redeemed, the consideration allocated to the award credits should be recognised as revenue.

# iGRAP 8: Agreements for the construction of assets from exchange transactions

## 1. Objective

Entities may undertake the construction of assets and may enter into agreements with buyers before the construction is complete. This interpretation applies to the accounting for revenue and expenses by entities that enter into these arrangements.

## 2. Scope

The construction of assets entered into by entities where funding to support these activities will be provided by an appropriation, aid or grant funds are excluded from the scope of this interpretation.

## 3. Issue

Should revenue from these types of construction activities be accounted for under GRAP 9 or GRAP 11 and when should the revenue be recognised?

## 4. Consensus

To determine whether the agreement falls into the scope of GRAP 9 or GRAP 11 is matter of facts and circumstances and judgement should be applied in each circumstance.

When the buyer is able to specify the major structural elements of the design of the asset before construction begins and while construction is in progress GRAP 11 applies. If the outcome can be estimated reliably the entity should recognise revenue by the stage of completion method.

In contrast if the buyer only has limited influence to design the asset or only specify minor variations to the asset, the construction activity is in the scope of GRAP 9. It needs to be determined if the entity is providing goods or rendering a service. If a service is being rendered, i.e. the entity is not required to acquire and supply construction materials or provide a technical service, the revenue should be recognised by reference to the stage of completion method.

If the entity is required to provide services together with construction materials in order to perform its contractual obligation to deliver the asset to the buyer, the agreement is for the sale of goods and should be recognised when significant risk and rewards of ownership have transferred, which may be on a continuous basis.

# iGRAP 9: Distributions of non-cash assets to owners

## 1. Background

An entity may sometimes distribute non-cash assets to its owners acting in their capacity as owners in the form of dividends or similar distributions. Standards of GRAP do not provide guidance on how an entity should measure dividends or similar distributions to owners.

## 2. Scope

This Interpretation applies to the following types of non-reciprocal distributions of assets by an entity to its owners, acting in their capacity as owners, where all owners of the same class of residual interests are treated equally:

- Distributions of non-cash assets
- Distributions that give owners the choice of receiving either non-cash assets or a cash alternative.

Specifically excluded from the scope are distributions of non-cash assets that are ultimately controlled by the same party or parties before and after the distribution. Furthermore, where an entity distributes some of the ownership interests in a controlled entity, but retains control of the controlled entity, this transaction is outside the scope of this Interpretation of the Standards.

## 3. Issues

When an entity declares a dividend or similar distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend or similar distribution payable.

The liability to pay a dividend or similar distribution shall be recognised when the dividend or similar distribution is appropriately authorised and is no longer at the discretion of the entity, which is the date when the dividend or similar distribution is declared by management. An entity shall measure a liability to distribute non-cash assets as a dividend or similar distribution to its owners at the fair value of the assets to be distributed. If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend or similar distribution payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.

At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend or similar distribution payable, with any changes in the carrying amount of the dividend or similar distribution payable recognised in net assets as adjustments to the amount of the distribution.

When an entity settles the dividend or similar distribution payable, it shall recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend or similar distribution payable in surplus or deficit.

#### 4. Disclosures

An entity must disclose the carrying amount of the dividend or similar distribution payable at the beginning and end of the period, and the increase or decrease in the carrying amount recognised in the period, as a result of a change in the fair value of the assets to be distributed.

If, after the end of a reporting period but before the financial statements are authorised for issue, an entity declares a dividend or similar distribution to distribute a non-cash asset, it shall disclose:

- Nature of the asset to be distributed
- Carrying amount of the asset to be distributed as of the end of the reporting period
- Estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount and the information about the method used to determine that fair value required by the GRAP 104.

# iGRAP 10: Assets received from customers

## 1. Background

An entity may receive from customers' items of property, plant and equipment that must be used to connect those customers to a network and provide them with ongoing access to a supply of goods or services such as electricity, gas or water. An entity may also received cash from customers for the construction of such items.

## 2. Scope

This Interpretation applies to the accounting for the receipt of items of property, plant and equipment or cash by entities that receive these assets from customers. The Interpretation does not apply to agreements in which revenue is received as part of a non exchange transaction or assets received in a transfer of functions.

## 3. Consensus

When an asset is received, the entity first needs to consider whether the definition of an asset in the Framework is met. If the definition is met, the asset is initially measured in accordance with GRAP 17. The transaction will also give rise to revenue from an exchange transaction (which may include separately identifiable services) which should be accounted for in accordance with GRAP 9.

When cash is received from a customer, it needs to be assessed whether the agreement is within the scope of the Interpretation. If it is the entity shall assess whether the item of constructed property, plant and equipment meets the definition of an asset. If it does, the entity shall recognise an item of property, plant and equipment and revenue.

# iGRAP 11: Consolidation – special purpose entities

## 1. Background

An entity may be created to accomplish a narrow and well-defined objective. Special purpose entities (“SPE”) often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE (they operate on so-called ‘autopilot’).

In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE’s activities, even though it may own little or none of the SPE’s net assets.

## 2. Issue

The issue addressed in this Interpretation is under what circumstances an entity should consolidate an SPE.

## 3. Consensus

An SPE shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

The following circumstances, for example, may indicate a relationship in which an entity controls an SPE and consequently should consolidate the SPE:

- The activities of the SPE are being conducted on behalf of the entity according to its specific operational needs so that the entity obtains benefits from the SPE’s operation
- The entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an ‘autopilot’ mechanism, the entity has delegated these decision-making powers
- The entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE
- The entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

# iGRAP 12: Jointly controlled entities – non-monetary contributions by venturers

## 1. Issue

There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities (JCEs).

Contributions to a JCE are transfers of assets by venturers:

- In exchange for an interest in the net asset in the JCE
- Other consideration that does not depend on future cash flows of the JCE (additional consideration).

The issues addressed are:

- When the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit
- How additional consideration should be accounted for by the venturer and how any unrealised gain or loss should be presented in the consolidated financial statements of the venturer.

## 2. Consensus

A venturer shall recognise in surplus or deficit for the period the portion of a gain or loss (realised gains and losses) attributable to the interest in the net assets of the other venturers except when:

- Significant risks and rewards of ownership of the contributed non-monetary asset(s) have not been transferred to the JCE or
- The gain or loss on the non-monetary contribution cannot be measured reliably.

Unrealised gains or losses on non-monetary assets contributed to JCEs shall be eliminated against the underlying assets under the proportionate consolidation method or against the investment under the equity method. Such unrealised gains or losses shall not be presented as deferred gains or losses in the venturer's consolidated statement of financial position.

# iGRAP 13: Operating lease - incentives

## 1. Issue

In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

## 2. Consensus

All incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

The incentives shall be included in measurement of lease payments to be realised on a straight-line basis over the lease term unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.



# iGRAP 14: Determining the substance of transactions involving the legal form of a lease

## 1. Issue

An entity may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an investor) that involves the legal form of a lease.

When an arrangement with an investor involves the legal form of a lease, the issues are:

- How to determine whether a series of transactions is linked and should be accounted for as one transaction
- Whether the arrangement meets the definition of a lease and, if not
  - Whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the entity
  - How the entity should account for other obligations resulting from the arrangement
  - How the entity should account for a fee it might receive from an investor.

## 2. Consensus

Indicators that individually demonstrate that an arrangement may not, in substance, involve a lease include:

- An entity retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement
- The primary reason for the arrangement is to achieve a particular tax result, where applicable, and not to convey the right to use an asset
- An option is included on terms that make its exercise almost certain (for example, a put option that is exercisable at a price sufficiently higher than the expected fair value when it becomes exercisable).

A series of transactions that involve the legal form of a lease is linked and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole.

Indicators that collectively demonstrate that, in substance, a separate investment account and lease payment obligations do not meet the definitions of an asset and a liability and shall not be recognised by the entity include:

- The entity is not able to control the investment account in pursuit of its own objectives and is not obligated to pay the lease payments
- The entity has only a remote risk of reimbursing the entire amount of any fee received from an investor and possibly paying some additional amount
- Other than the initial cash flows at inception of the arrangement, the only cash flows expected under the arrangement are the lease payments that are satisfied solely from funds withdrawn from the separate investment account established with the initial cash flows.

### 3. Disclosure

An entity shall disclose the following in each period that an arrangement exists:

- Description of the arrangement including:
  - Underlying asset and any restrictions on its use
  - Life and other significant terms of the arrangement
  - Transactions that are linked together, including any options; and
- The accounting treatment applied to any fee received, the amount recognised as revenue in the period, and the line item of the statement of financial performance in which it is included.

# iGRAP 15: Revenue-barter transactions involving advertising services

## 1. Objective

An entity may enter into a barter transaction to provide advertising services in exchange for receiving other services from its customer. The interpretation only applies if the services exchanged are dissimilar.

## 2. Issue

In what circumstances can a seller reliably measure revenue at fair value of advertising services received or provided in a barter transaction?

## 3. Consensus

Revenue from a barter transaction involving advertising cannot be reliably measured as the fair value of the advertising services received.

However a seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction by reference to non barter transactions that involved:

- Advertising similar to the service provided in the barter transaction
- These transactions occur frequently
- Represent a predominant number of transactions
- Involve cash and or another form of consideration that has a reliable fair value
- Do not involve the same counterparty as in the barter transaction.

# GRAP 21: Impairment of non-cash generating assets\*

## 1. Objective

The Standard prescribes the procedures that an entity applies to determine whether a non-cash generating asset is impaired and the recording of impairment losses.

## 2. Scope

Cash generating assets are assets which are held with the primary objective of generating a commercial return. Non-cash generating assets are assets other than cash generating assets.

The Standard applies to non-cash generating assets except for:

- Inventories
- Assets arising from construction contracts
- Financial assets
- Investment property measured at fair value
- Biological assets
- Non-current assets classified as held for sale
- Cash generating assets.

## 3. Identification of an asset that may be impaired

At each reporting date an entity shall assess whether there is an indication that an asset may be impaired. Irrespective of whether an indication of impairment exists, intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment annually.

The following external and internal sources of information are used at a minimum to assess whether an asset is impaired:

- A significant decrease in the demand or need for services provided by the asset
- Significant adverse changes with long term effects in the technological, legal or government policy environment in which the entity operates
- Physical damage to the asset
- Significant adverse changes with long term effects in the manner in which the asset is used
- Cessation of construction of the asset before its completion
- The service performance of an asset is or is expected to be significantly worse than anticipated.

\* Note that these Standards are effect for Parliament and the legislatures for financial periods beginning on or after 1 April 2010.

#### 4. Recognising and measuring an impairment loss

If the recoverable service amount is less than the carrying amount of an asset, an impairment loss is recognised to reduce the carrying amount of an asset to the recoverable service amount.

An impairment loss is recognised immediately in surplus or deficit unless it has previously been revalued in which case the impairment is treated as a revaluation decrease. After the recognition of the impairment loss, the future depreciation charge is adjusted to reflect the decrease in the carrying amount.

The recoverable service amount of an asset is the higher of an asset's fair value less costs to sell and its value in use. Should either of these amounts exceed the carrying amount, the asset is not impaired.

The best evidence of an asset's fair value less costs to sell is a price in a binding arm's length sale agreement adjusted for incremental disposal costs. Fair value less costs to sell could also be obtained from market prices if there is an active market for the asset.

Value in use is the present value of the asset's remaining service potential. This can be determined using one of the following approaches:

- Depreciated replacement cost approach where the cost to replace the asset's gross service potential is determined and then depreciated to reflect the asset in its used condition
- Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level
- Service units approach where the current cost of the asset before impairment is reduced to conform with the reduced number of service units expected from the asset in its impaired state.

The choice of the approach use depends on the availability of data and the nature of the impairment.

## 5. Reversing an impairment loss

At each reporting date an entity assesses whether there is any indication that an impairment loss recognised in previous periods may no longer exist or may have decreased.

The following external and internal sources of information are used at a minimum to assess whether an asset is no longer impaired:

- Resurgence of the demand or need for the services provided by the asset
- Significant favourable changes with long term effects in the technological, legal or government policy environment in which the entity operates
- Significant favourable changes with long term effects in the manner in which the asset is used
- Resumption of construction on an asset that was previously halted
- Service performance of an asset is or is expected to be significantly better than anticipated.

The increase in the carrying amount of an asset attributable to a reversal of an impairment loss shall not result in the carrying amount of the asset exceeding the carrying amount that would have been recorded had there been no impairment.

A reversal of an impairment loss will be recognised immediately in surplus or deficit unless the asset is carried at revalued amount in which case the reversal is treated as a revaluation increase. After recognition of the reversal, the future depreciation charge is adjusted to reflect the increase in the carrying amount.

## 6. Redesignation of assets

The redesignation of assets from cash generating to non-cash generating or vice versa only occurs when there is clear evidence that such a redesignation is appropriate. A redesignation in itself does not necessarily trigger an impairment but the impairment indicators should be considered.

## 7. Disclosure

The following disclosures should be made:

- Criteria used to distinguish between cash generating and non-cash generating assets
- Amount of impairment losses and reversals of impairment losses recognised in surplus or deficit by class of assets
- Amount of impairment losses and reversals of impairment losses recognised directly in net assets by class of assets
- Amount of impairment losses and reversals of impairment losses for each segment if the entity applies GRAP 18
- For material impairment losses and reversals of impairment losses the events that led to the impairment or reversal, the amount of the loss or reversal, the segment to which the asset belongs and details of the recoverable service amount
- Key assumptions that have a significant risk of causing a material adjustment to the carrying amount of the assets.



# GRAP 23: Revenue from non exchange transactions\* (taxes and transfers)\*

## 1. Objective

To prescribe the accounting treatment for revenue arising from non-exchange transactions.

## 2. Scope

Exchange transactions are described as transactions in which the entity receives approximately equal value in exchange for goods and services.

\* Note that these Standards are effect for Parliament and the legislatures for financial periods beginning on or after 1 April 2010.

GRAP 23 addresses the revenue received by entities from non exchange transactions such as taxes, transfers, grants and fines. Revenue received from exchange transactions (exchanges that are done for approximately the same value) is dealt with in GRAP 9. It specifically excludes from its scope transactions that give rise to entity combinations.

Stipulations relate to assets that may be transferred with the expectation and or understanding that they will be used in a particular way and therefore the recipient entity will act or perform in a particular way. These can take two forms: restrictions on transferred assets or conditions on transferred assets. Substance over form should be considered when making this distinction.

## 3. Measurement

An asset acquired through a non-exchange transaction will be measured at its fair value at the date of acquisition. These assets should subsequently be measured in accordance with the standard on GRAP that deals with that type of asset. In some cases where there is a condition attached to the asset a liability should be recognised at the best estimate of the amount required to settle the present obligation at the reporting date.

The corresponding entry of the asset recognised is recognised as revenue. If a liability is recognised at the same time, revenue shall be decreased by the value of the liability recognised.

\* Note that these Standards are effect for Parliament and the legislatures for financial periods beginning on or after 1 April 2010.

#### 4. Recognition

An entity will recognise an asset arising from a non exchange transaction when it gains control of the resources that meet the definition of an asset and satisfy the recognition criteria that it is probable future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

##### *Taxes*

An entity will recognise an asset when the taxable event occurs and the asset recognition criteria are met.

##### *Transfers*

An entity shall recognise an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the recognition criteria as an asset. Transfers include grants, debt forgiveness, fines, gifts and donations.

The Standard does not require entities to measure service in kind received however disclosure on this is strongly encouraged.

#### 5. Disclosure

An entity is required to disclose either on the face or notes of the financial statements:

- Amount of revenue from non exchange transactions showing separately the major classes of taxes and major classes of transfer revenue
- Amount of receivables recognised in respect of non exchange revenue
- Amount of liabilities recognised for transferred asset or refunds due
- Amount of assets recognised that are subject to restrictions and the nature of these restrictions
- Existence and amounts of advance receipts
- Amount of any liabilities forgiven.

Also required is an accounting policy for recognition of non exchange transactions and for the methods used to determine the fair value of the assets recognised.

# GRAP 24: Presentation of budget information in the financial statements\*

## 1. Scope

Entities which are required to make publicly available their approved budget(s) and for which they are held accountable, are required in terms of this Standard to provide a comparison of the budget amounts and the actual amounts in their financial statements.

## 2. Approved and final budgets

An approved budget reflects the forecasted revenues or receipts expected to arise in the annual or multi-year budget period based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by a legislative body, being Parliament, the legislatures, municipal councils or other relevant authority.

The final budget is the most recently approved budget, adjusted for changes made to the budget by the entity, approved by the relevant authority. If an entity is required to have the budget(s) approved again for any subsequent adjustments, the final budget will be the most recently approved budget.

## 3. Presentation of a comparison of budget and actual amounts

An entity will disclose the comparison between the actual amounts and the budgeted amounts either in a separate additional financial statement or as separate columns in the current financial statements (only where the budget and the financial statements are prepared on a comparable basis). For example, where budgets are prepared on the accrual basis and encompass the full set of financial statements, additional budget columns can be added to all the primary financial statements required by Standards of GRAP.

The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- Approved and final budget amounts
- Actual amounts on a comparable basis and
- An explanation of material differences between the budget and actual amounts.

\* Note that these Standards are effect for Parliament and the legislatures for financial periods beginning on or after 1 April 2010.

Where approved budgets are only made available for certain entities or activities included in the financial statements, the requirements in this Standard will only apply to the entities or activities reflected in the approved budget.

To avoid information overload, financial information included in approved budgets may need to be aggregated for presentation in financial statements. The level of aggregation must be determined by applying professional judgement.

#### **4. Changes from approved to final budget**

Where there are changes between the approved and the final budget, an explanation of the cause of these changes must be included as a note in the financial statements or in a report issued before or at the same time as the financial statements (with a cross reference in the financial statements to the report).

## 5. Note disclosure

An explanation of the budgetary basis and the classification basis adopted for the preparation and presentation of approved budgets is required to be included in the notes to the financial statements and will assist users to better understand the relationship between the budget and accounting information disclosed in the financial statements. In addition, the period of the approved budget and the entities included in the approved budget must be disclosed.

## 6. Reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements

Where the budget and the financial statements are not prepared on a comparable basis, the actual amounts used as a comparison to the budget must be reconciled to the following actual amounts presented in the financial statements, identifying separately any basis, timing or entity differences:

- 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
- 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 must be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.

# GRAP 26: Impairment of cash generating assets\*

## 1. Objective

The Standard prescribes the procedures that an entity applies to determine whether a cash generating asset is impaired and the recording of impairment losses.

## 2. Scope

Cash generating assets are assets which are held with the primary objective of generating a commercial return. Non-cash generating assets are assets other than cash generating assets.

The Standard applies to non-cash generating assets except for:

- Inventories
- Assets arising from construction contracts
- Financial assets
- Investment property measured at fair value
- Deferred tax assets
- Assets arising from employee benefits
- Biological assets
- Assets arising from insurance contracts
- Non-current assets classified as held for sale
- Non-cash generating assets.

## 3. Identification of an asset that may be impaired

At each reporting date an entity shall assess whether there is an indication that an asset may be impaired. Irrespective of whether an indication of impairment exists, intangible assets with an indefinite useful life and intangible assets not yet available for use, are tested for impairment annually.

The following external and internal sources of information are used at a minimum to assess whether an asset is impaired:

- Significant decrease in the market value of the asset
- Significant adverse changes with long term effects in the technological, legal or government policy environment in which the entity operates
- Market interest rates or other market rates of return have increased and the increase is likely to significantly affect the calculation of the asset's value in use
- Physical damage to the asset
- Significant adverse changes with long term effects in the manner in which the asset is used
- Economic performance of an asset is or is expected to be significantly worse than anticipated.

\* Note that these Standards are effect for Parliament and the legislatures for financial periods beginning on or after 1 April 2010.

#### 4. Recognising and measuring an impairment loss

If the recoverable amount is less than the carrying amount of an asset, an impairment loss is recognised to reduce the carrying amount of an asset to the recoverable amount. An impairment loss is recognised immediately in surplus or deficit unless it has previously been revalued in which case the impairment is treated as a revaluation decrease. After the recognition of the impairment loss, the future depreciation charge is adjusted to reflect the decrease in the carrying amount.

The recoverable amount of an asset is the higher of an asset's fair value less costs to sell and its value in use. Should either of these amounts exceed the carrying amount, the asset is not impaired. Recoverable amount is usually determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets.

The best evidence of an asset's fair value less costs to sell is a price in binding arm's length sale agreement adjusted for incremental disposal costs. Fair value less costs to sell could also be obtained from market prices if there is an active market for the asset.

Value in use determined using the following elements:

- Future estimated cash flows (and possible variations in those cash flows) the entity expects to derive from the asset
- Time value of money represented by the current market risk-free interest rate
- Price for bearing the uncertainty inherent in the asset
- Other factors that market participants would take into consideration.

The future cash flows should be determined as follows:

- Using reasonable and supportable assumptions, which represent management's best estimate of the cash flows
- Using the most recent approved financial budgets/forecasts where the maximum period of the budget/forecast period is five years
- Extrapolating beyond the five year period using a steady or declining growth rate.

Estimates of future cash flows include cash inflows from continuing use of the asset, cash outflows to generate the cash inflows and the net cash flows from the disposal of the asset. Estimates of future cash flows exclude future restructurings to which the entity is not committed, improvements to the asset, financing activities, income tax payments or receipts.

The discount rate used should be a

pre-tax discount rate that reflects the current market assessment of the time value of money using the current risk free rate and risks specific to the asset for which the cash flow estimates have not been adjusted.

### 5. Cash generating units

If it is not possible to determine the recoverable amount for an individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined. A cash generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets.

An impairment loss for a cash generating unit shall be recognised only if the recoverable amount of the cash generating unit is less than the carrying amount of the unit. The impairment loss is allocated pro-rata to the assets within the cash generating unit but shall not reduce the carrying amount of individual assets below the highest of the assets fair value less costs to sell (if determinable), value in use (if determinable) and zero.

If a non-cash generating asset contributes to a cash generating unit, a proportion of the carrying amount of that non-cash generating asset shall be allocated to the carrying amount of the unit prior to the estimation of the recoverable amount of the cash generating unit. The non-cash generating asset is assessed for impairment in accordance with GRAP 21.

### 6. Reversing an impairment loss

At each reporting date an entity assesses whether there is any indication that an impairment loss recognised in previous periods may no longer exist or may have decreased.

The following external and internal sources of information are used at a minimum to assess whether an asset is no longer impaired:

- Significant increase in the market value of the asset
- Significant favourable changes with long term effects in the technological, legal or government policy environment in which the entity operates
- Market interest rates or other market rates of return have decreased and the increase is likely to significantly affect the calculation of the asset's value in use
- Significant favourable changes with long term effects in the manner in which the asset is used
- The economic performance of an asset is or is expected to be significantly better than anticipated.

The increase in the carrying amount of an asset attributable to a reversal of an impairment loss shall not result in the carrying amount of the asset exceeding the carrying amount that would have been recorded had there been no impairment. A reversal of an impairment loss will be recognised immediately in surplus or deficit unless the asset is carried at revalued amount in which case the reversal is treated as a revaluation increase. After recognition of the reversal, the future depreciation charge is adjusted to reflect the increase in the carrying amount.

A reversal of an impairment loss for a cash generating unit is allocated pro-rata to the cash generating assets within the unit. The reversal should not result in the carrying amount of the individual assets being increased above the lower of the asset's recoverable amount (if determinable) and the carrying amount that would have been recognised had no impairment loss been recognised for the asset in prior periods.

## 7. Redesignation of assets

The redesignation of assets from cash generating to non-cash generating or vice versa only occurs when there is clear evidence that such a redesignation is appropriate. A redesignation in itself does not necessarily trigger an impairment but the impairment indicators should be considered.



## 8. Disclosure

The following disclosures should be made:

- Criteria used to distinguish between cash generating and non-cash generating assets
- Amount of impairment losses and reversals of impairment losses recognised in surplus or deficit by class of assets
- Amount of impairment losses and reversals of impairment losses recognised directly in net assets by class of assets
- Amount of impairment losses and reversals of impairment losses for each segment if the entity applies GRAP 18
- For material impairment losses and reversals of impairment losses the events that led to the impairment or reversal, the amount of the loss or reversal, the segment to which the asset belongs and details of the recoverable amount
- For material impairment losses and reversals of impairment losses for cash generating units, a description of the cash generating unit, the segment to which the unit belongs, changes in the composition of the cash generating unit
- Key assumptions that have a significant risk of causing a material adjustment to the carrying amount of the assets
- Details of estimates used to measure the recoverable amount of cash generating units, which include intangible assets with indefinite useful lives.

# GRAP 103: Heritage assets\*

## 1. Objective

To prescribe the accounting treatment and disclosure requirements for heritage assets.

## 2. Scope

An entity shall apply this Standard in the recognition, measurement and disclosure of heritage assets, except heritage assets classified as held for sale.

## 3. Heritage assets

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

## 4. Recognition

A heritage asset shall be recognised as an asset if:

- It is probable that future economic benefits or service potential associated with the asset will flow to the entity,
- Cost or fair value of the asset can be measured reliably.

The entity is still required to apply the disclosure requirements where a heritage asset does not meet the recognition criteria because it cannot be reliably measured.

Day-to-day operating costs of the heritage asset or the costs to maintain or to hold the heritage asset are recognised in surplus or deficit as incurred.

\* Note that these Standards are effect for Parliament and the legislatures for financial periods beginning on or after 1 April 2010.

## 5. Measurement subsequent to recognition

A heritage asset shall be measured at its cost unless it is acquired in a non-exchange transaction whereby its cost shall be measured at its fair value as at the date of acquisition.

Subsequent to initial recognition, the Standard allows an accounting policy choice between the cost model and revaluation model.

### *Cost model*

The asset is carried at cost less impairment;

### *Revaluation model*

The asset is carried at a revalued amount, which is the fair value at the revaluation date less impairment. Revaluations are carried out regularly and all items of a given class are revalued.

Revaluation increases are credited to a revaluation surplus in the statement of changes in net assets. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

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

If any such indication exists, the entity shall estimate the recoverable amount or the recoverable service amount of the heritage asset.

Compensation from third parties for heritage assets that have been impaired, lost or given up, shall be included in surplus or deficit when the compensation becomes receivable.

Transfers to and from heritage assets shall be made when, and only when, the particular asset meets or no longer meets the definition of a heritage asset.

## 6. Derecognition

The carrying amount of a heritage asset shall be derecognised:

- On disposal
- When no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition is recognised in surplus or deficit when the heritage asset is derecognised.

## 7. Disclosure

The following information is disclosed in the financial statements:

- Gross carrying amount and accumulated amortisation amount at the beginning and end of the period
- Reconciliation of the carrying amount at the beginning and end of the period
- Existence and carrying amount of intangible assets pledged as security or subject to other restrictions on title
- Carrying amount of heritage assets retired from active use and held for disposal.

If heritage assets are accounted for using the revaluation model, the following additional information is disclosed by class of intangible assets:

- Effective date of the revaluation
- Whether an independent valuator was used
- Assumptions including the extent of market information used in the determination of fair value
- Amount and restriction on the distribution of the revaluation surplus.

When an entity does not recognise a heritage asset as a result of reliable measurement not being possible on initial recognition, the entity shall disclose the following for each heritage asset (or class of heritage asset):

- Description of the heritage asset or class of heritage assets
- Reason why the heritage asset or class of heritage assets could not be measured reliably
- On disposal of the heritage asset or class of heritage assets, the compensation received and the amount recognised in the statement of financial performance.

Similar disclosure is required where the entity is no longer able to reliably measure the fair value of a heritage asset under the revaluation model. The converse of the above disclosure is required where the entity changes from the cost to revaluation models.

# GRAP 25: Employee benefits

## 1. Objective

To prescribe the accounting treatment and disclosure for employee benefits including short-term benefits (wages, annual leave, sick leave and bonuses), post employment benefits (pensions and post employment medical care), other long term benefits (long service leave, disability, deferred compensation and long term incentive and performance related bonuses) and termination benefits.

## 2. Scope

The Standard applies to all accounting by an employer in accounting for employee benefits except share based payment transactions and the reporting by employee retirement benefit plans. It also does not deal with benefits provided by composite social security programmes that are not consideration in exchange for service rendered by employees.

## 3. Measurement and recognition

### *Short term employee benefits*

When an entity receives services from an employee during a reporting period, an expense is recognised for the services received. If the benefit is unpaid, a liability is recognised at the undiscounted amount.

### *Bonus, incentive and performance related payments*

These are recognised when the entity has a legal or constructive obligation to pay them and the costs can be reliably estimated.

### *Post employment benefits*

Post employment benefit plans are categorised as either defined benefit plans or defined contribution plans. For defined contribution plans (entity's legal or constructive obligation is limited to amount it agrees to contribute to the fund) expenses are recognised in the period in which the contribution is payable.

For defined benefit plans (entity has agreed to provide a certain level of benefits to current and former employees) a liability is recognised equal to net of:

- Present value of the defined benefit obligation
- Plus any liability that may arise from a minimum funding requirement
- Minus the fair value of any plan assets at the end of the reporting period.

If the amount calculated above results in an asset, it is subject to an asset ceiling, which is limited to the present value of the economic benefits available in the form of refunds and from reductions in future contributions. The net total of the following amounts

should be recognised in surplus or deficit:

- Current service costs
- Interest cost
- Expected return on plan assets
- Actuarial gains and losses
- Past service costs
- Effect of any curtailment or settlements
- Effect of applying the asset ceiling limit.

Multi employer plans, state plans and composite social security programmes should be classified as defined contribution plan or defined benefit plans. If it is classified as defined benefit plan, the proportionate share of the obligation and costs associated should be accounted for. If the required information is not available an entity should disclose as much information as available.

#### ***Defined benefit plans under common control***

If there is no binding agreement for charging the net defined benefit cost for the plan as a whole to individual entities within the economic entity, the entity shall in its separate financial statements account for the plan as a defined contribution plan and the legal sponsoring entity shall record the defined benefit plan.

#### ***Insured benefits***

If an entity pays insurance premiums to fund a post employment benefit plan and as a result does not retain a legal or constructive obligation to pay the employee benefits when they fall due or pay amounts if the insurer does not pay all the employee benefits, then the plan should be accounted for as a defined contribution plan. If it does retain some liability, it should continue to account for it as a defined benefit plan and record the insurance policy as part of the plan assets.

#### ***Other long term employee benefits***

Long term employee benefits are recognised in the same way as post employment benefits under a defined benefit plan. They are usually not subject to the same degree of uncertainty as the measurement of defined benefit plans.

#### ***Termination benefits***

Termination benefits are recognised when the entity is demonstrably committed to terminating one or more employees before the normal retirement date or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

## 5. Disclosure

An entity should disclose information that enable the users of the financial statements to evaluate the nature of its defined benefit plans and the financial effects of the changes in those plans during the reporting period.

When sufficient information is not available to use defined benefit accounting for multi employer plans, state plans and composite social security programmes this fact should be disclosed and the reason why sufficient information is not available should be disclosed.

An entity should disclose the amount recognised as an expense for defined contribution plans.

If the nature and expense of termination benefits and other long-term employee benefits are material, this should be disclosed.

## 6. Interpretations

The following Interpretations relating to employee benefits have been issued:

iGRAP 7: Limited of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Page 156).



# GRAP 104: Financial instruments

## 1. Objective

The objective of this Standard is to establish principles for recognising, measuring, presenting and disclosing financial instruments.

## 2. Scope

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for financial instruments except for:

- Recognition and measurement of financial instruments issued by the entity that meets the definition of a residual interest
- Employers' rights and obligations under employee benefit plans, to which the GRAP 25 applies
- Rights to payments to reimburse the entity for expenditure it is required to make to settle a liability that it recognises as a provision in accordance with GRAP 19, or for which, in an earlier period, it recognised a provision in accordance with that Standard.

This Standard does not apply to the following instruments, except where indicated otherwise:

- Interests in controlled entities, associates or joint ventures that are held by an entity and accounted for in accordance with GRAP 6, GRAP 7 or GRAP 8
- Forward contracts between an acquirer and a seller to buy or sell an acquiree that will result in an entity combination at a future acquisition date
- Rights and obligations under leases to which GRAP 13 applies (however, derecognition, impairment and embedded derivative principles in this Standard will apply to lease contracts.)
- Insurance contracts (except for the embedded derivative and presentation and disclosure principles in this Standard)
- Financial guarantee contracts and loan commitments (except for the derecognition and disclosure requirements in this Standard)
- Initial recognition and measurement of contractual rights and obligations arising from non-exchange revenue transactions to which GRAP 23 applies
- Contracts to buy or sell a non-financial item that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

An entity is permitted in terms of this Standard to apply hedge accounting as described in IFRS. Where an entity chooses to apply hedge accounting, it must comply in full with the requirements for hedge accounting prescribed in IFRS.

### 3. Classification of financial instruments

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- The entity designates at fair value at initial recognition
- Are held for trading.

Financial instruments at 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.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- Derivatives
- Combined instruments that are designated at fair value
- Instruments held for trading.

A financial instrument is held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term
- On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking
- Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition. Such a designation is made where it eliminates or significantly reduces an accounting mismatch
- Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

A derivative is a financial instrument or other contract within the scope of this Standard with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors
- It is settled at a future date.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract; with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative
- The hybrid (combined) instrument is not measured at fair value (i.e. a derivative that is embedded in a financial instrument at fair value is not separated).

#### **4. Initial recognition**

An entity shall recognise a financial asset or a financial liability using trade date accounting when it becomes a party to the contractual provisions of the instrument.

## 5. Equity versus liability classification

The issuer of a financial instrument shall classify the instrument, or its component parts in accordance with the substance of the contractual arrangement and the definitions of a financial liability and residual interest.

The instrument is a residual interest if, and only if, the instrument includes no contractual obligation to:

- Deliver cash or another financial asset to another entity
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

## 6. Initial measurement

An entity shall measure a financial asset or financial liability at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

In the case of a combined financial instrument, the residual interest component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount determined separately for the liability component.

No gain or loss arises from initially recognising the components of the instrument separately.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related. On initial recognition, an entity analyses a concessionary loan into its component parts and accounts for each component separately. An entity accounts for that part of a concessionary loan that is:

- A social benefit in accordance with the Framework where it is the issuer of the loan
- Non-exchange revenue, in accordance with GRAP 23 where it is the recipient of the loan.

The part of the concessionary loan that is a social benefit or non-exchange revenue is determined as the difference between the fair value of the loan and the loan proceeds, either paid or received.

## 7. Subsequent measurement

All financial assets measured at amortised cost, or cost, are subject to an impairment review where there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of a loss event which has an impact on the estimated future cash flows of the financial asset or group of financial assets.

For financial assets measured at amortised cost, the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Impairment losses can be reversed in a subsequent period subject to a maximum amount had the impairment not been recognised at the date the impairment is reversed.

For financial assets measured at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return

for a similar financial asset. Such impairment losses shall not be reversed.

For financial instruments measured at fair value, the best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique.

## 8. Reclassifications

An entity may not reclassify a financial instrument while it is issued or held unless it is:

- A combined instrument where the embedded derivative can no longer be reliably measured (the combined instrument will be reclassified to fair value and any difference between the previous carrying amount and the combined fair value is recognised in surplus or deficit.)
- An investment in a residual interest where a reliable fair value subsequently becomes available.

## 8. Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value shall be recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

## 9. Derecognition

Derecognition principles are applied on trade date to a part or the entire of a financial instrument as appropriate.

### *Financial assets*

An entity shall derecognise a financial asset only when:

- Contractual rights to the cash flows from the financial asset expire, are settled or waived
- The entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset
- The entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to

impose additional restrictions on the transfer. In this case, the entity shall derecognise the asset recognise separately any rights and obligations created or retained in the transfer.

Any difference between the consideration received and the amounts recognised and derecognised shall be recognised in surplus or deficit.

The treatment of collateral depends on whether the transferee has the right to sell or repledge the collateral and on whether the transferor has defaulted.

### *Financial liabilities*

An entity shall derecognise a financial liability when it is extinguished i.e. when the contract is discharged, cancelled, expires or waived.

An exchange between a borrower and lender of debt instruments with substantially different terms or a substantial modification of the existing terms shall be accounted for as having extinguished the original financial liability, and a new financial liability recognised.

The difference between the carrying amount of a financial liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in surplus or deficit.

## 10. Presentation

Interest, dividends or similar distributions, losses and gains relating to a financial asset or liability shall be recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests shall be debited by the entity directly to net assets, net of any related income tax benefit (where applicable). Transaction costs incurred on residual interests shall be accounted for as a deduction from net assets, net of any related income tax benefit (where applicable).

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when an entity:

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

## 11. Disclosure

The disclosure should enable users of the financial statements to evaluate:

- Significance of financial instruments for the entity's financial position and performance
- Nature and extent of risks arising from financial instruments and how the entity manages those risks.

The entity shall disclose the following to enable users to understand the significance of financial instruments for the entity's financial position and performance:

- Accounting policies used that are relevant to an understanding of the financial statements
- Carrying amounts of each of the categories of financial instruments including specific disclosures for reclassifications
- Nature and extent of risks arising from transferred financial assets that do not meet the derecognition criteria
- Amounts and terms and conditions associated with pledged and held collateral
- Reconciliation of the allowance for doubtful debts
- Details of compound financial instruments with multiple embedded derivatives
- Existence, terms and value of concessionary loans issued and received

- Details and carrying amount of loans in default and any renegotiations after year end
- Methods and assumptions applied in determining fair values of each class of financial assets or financial liabilities measured at fair value
- Hierarchy analysis of financial assets or financial liabilities measured at fair value based according to:
  - Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
  - Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
  - Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- Net gains or net losses arising from interest, dividends, impairments and derecognition for each class of financial instrument.

The entity shall disclose the following to enable users to understand the nature and extent of risks arising from financial instruments and how the entity manages those risks:

- Qualitative disclosures that enable the user to analyse:
  - Exposures to risk and how they arise and evolve
  - Its objectives, policies and processes for managing the risk and the methods used to measure the risk
- Quantitative disclosures that enable the user to analyse:
  - Credit risk:
    - Amount that best represents its maximum exposure to credit risk without taking account of any collateral held or other credit enhancements
    - Description and restrictions to collateral and other credit enhancements
    - Information about the credit quality of financial assets that are neither past due nor impaired
    - Information about the credit quality of financial assets that are past due or impaired including:
      - An analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired

- An analysis of financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the entity considered in determining that they are impaired
- Carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated
  - Liquidity risk:
- Maturity analysis for financial liabilities and how the entity manages its liquidity risk
  - Market risk:
- An entity is encouraged to disclose a sensitivity analysis reflecting:
- For each type of market risk to which the entity is exposed at the end of the reporting period, showing how surplus or deficit would have been affected by changes in the relevant risk variable that were reasonably possible at that date
- Methods and assumptions used in preparing the sensitivity analysis
- Changes from the previous period in the methods and assumptions used, and the reasons for such changes.

# GRAP 105: Transfers of functions between entities under common control

## 1. Objective

The objective of the Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

## 2. Scope

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

The Standard applies to transactions and events that meet the definition of a transfer of functions except for:

- Transfers of groups of assets and liabilities that do not meet the definition of a transfer of functions
- Transfer of functions between entities that are not under common control (see GRAP 106)
- Mergers (see GRAP 107).

For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity.

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

## 2. Identifying the acquirer and transferor

An acquirer and transferor need to be acquired for each transfer of functions. The acquirer is the entity which obtains control while the transferor is the entity which relinquishes control. Consideration should be given to the binding arrangement which gave rise to the transfer, which entity initiated the transfer and the size of the entities involved. If no acquirer can be identified, then the transaction is treated as a merger and accounted for in accordance with GRAP 107.

## 3. Determining the transfer date

The transfer date is the date on which the acquirer obtains and the transferor loses control of the function.

#### **4. Assets acquired or transferred and liabilities assumed or relinquished**

The assets and liabilities that qualify for recognition by the acquirer and derecognition by the transferor are normally governed by the terms of the binding arrangement which governs the transfer of functions.

The acquirer and the transferor may have a pre-existing relationship or they may enter into a separate binding arrangement during the transfer of functions negotiation that does not relate to the transfer of functions transaction. Should this occur, the acquirer and transferor should identify the consideration, assets and liabilities, which do not form part of the transfer of functions and account for them under the relevant Standard of GRAP.

#### **5. Accounting by the acquirer**

At the transfer date, the acquirer shall recognise the purchase consideration paid (if any) to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed shall be measured at their carrying amounts.

Any difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid (if any) to the transferor shall be recognised in accumulated surplus or deficit.

Any acquisition related costs are accounted for as expenses in the period in which they occur unless another Standard of GRAP requires different treatment.

A measurement period of two years from the transfer date is given to determine the accounting for the transfer of functions.

#### **6. Accounting by the transferor**

At the transfer date, the transferor shall derecognise from its financial statements, all the assets transferred and liabilities relinquished in a transfer of functions at their carrying amounts. Any difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received (if any) from the acquirer shall be recognised in accumulated surplus or deficit.

## 7. Disclosure

The following disclosures shall be made:

- Sufficient information which allows users to understand the effects of the transfer of functions including the accounting policy used, the name of the entities involved, a description of the entities involved and the transfer date
- Information on any transfer of assets and liabilities, which does not meet the definition of a transfer of functions
- The acquirer shall disclose the effect on each line item in the financial statements, the amount recognised directly in net assets, any additional contingent assets or contingent liabilities, the revenue and expenses attributable to the transfer and the details relating to provisional accounting
- The transferor (in addition to any disclosure required by GRAP 100) shall disclose the effect on each line item in the financial statements and the amount recognised directly in net assets.



# GRAP 106: Transfers of functions between entities not under common control

## 1. Objective

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

## 2. Scope

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 function consists of inputs, outputs and processes.

Specifically excluded from the scope of this Standard are the following:

- Transfers of individual or groups of assets and/or liabilities that do not meet the definition of a transfer of functions
- Transfer of functions undertaken between entities under common control (see GRAP 105)
- Mergers (see GRAP 107)
- Formation of a joint venture.

## 3. The acquisition method

An entity shall account for each transfer of functions between entities not under common control by applying the acquisition method. Application of this method requires:

- Identification of the acquirer
- Determination of the acquisition date
- Recognition and measurement of the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree
- Recognition of the difference between the total identifiable net assets plus non-controlling interest, and the consideration transferred to the seller.

### *Identification of the acquirer*

For each transfer of functions, one of the combining entities is identified as the acquirer.

If the transfer is effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities. If the transfer is effected primarily by exchanging residual interests, the acquirer is the entity that does not experience a change in control.

Other factors to consider include which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event should be accounted for as a merger in terms of GRAP 107.

***Determining the acquisition date***

The acquisition date is the date on which the acquirer obtains control of the acquiree.

This is the date on which the acquirer transfers the consideration, acquires the assets and assumes the liabilities of the acquiree as identified in the binding arrangement. However, the acquirer may obtain control on a date that is either earlier or later than the date on which the assets and liabilities are transferred by the acquiree, or is specified in the binding arrangement.

***Recognition and measurement of the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree***

On the date of acquisition, the acquirer recognises the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

The identifiable assets and liabilities transferred must be specifically agreed upon in the binding arrangement rather than as a result of separate transactions. Application of the asset and liability recognition principle and conditions (as laid out in the Framework) may result in recognising some assets and liabilities on acquisition date that the acquiree had not previously recognised in its financial statements.

The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. The Standard provides limited exceptions to the recognition principle and conditions. These include exceptions for operating leases, contingent liabilities, employee benefits, reacquired rights, assets held for sale and intangible assets.

Recognition and measurement of the difference between the assets acquired and liabilities assumed and the consideration transferred.

The acquirer shall recognise the difference between the assets acquired and liabilities assumed and the consideration transferred as of the acquisition date in surplus or deficit.

This difference is measured as the excess of (a) over (b) below:

- (a) the aggregate of:
  - (i) Consideration transferred (measured at fair value)
  - (ii) Amount of any non-controlling interest in the acquiree
  - (iii) In a transfer of functions achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.

An acquirer might take control of an acquiree by transferring cash, cash equivalents or other assets, incurring liabilities, exchanging residual interests, by providing more than one type of consideration, or without transferring any consideration at all, such as through a binding arrangement. The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

In a transfer of functions achieved in stages, the acquirer shall remeasure its previously held residual interest in the acquiree at its acquisition-date fair value.

#### 4. Measurement period

Sometimes the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs. In this case, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

Additional assets or liabilities will be recognised during the measurement period, if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities. The measurement period (which shall not exceed two years) ends as soon as the acquirer receives the information it was seeking.

## 5. Determining what forms part of the transfer of function transaction

The acquirer and the acquiree could have a pre-existing relationship or other arrangement before or when negotiations for the transfer of functions began, or they may enter into a binding arrangement during the negotiations that is separate from the transfer of functions. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the transfer of functions.

The following are examples of separate transactions that are not to be included in applying the acquisition method:

- Transaction that in effect settles pre-existing relationships between the acquirer and acquiree
- Transaction that reimburses the acquiree or its former owners for paying the acquirer's acquisition-related costs
- Contributions received from third parties as compensation for future services as a result of undertaking a transfer of functions.

Where the transaction settles a pre-existing relationship, the acquirer recognises a gain or loss, measured on a different basis depending on whether the relationship is contractual or non-contractual.

## 6. Subsequent measurement and accounting

In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and the residual interest issued in a transfer of functions in accordance with other applicable Standards of GRAP for those items.

Specific guidance is however provided in this Standard on subsequently measuring and accounting for reacquired rights, contingent liabilities recognised on acquisition date, indemnification assets and contingent consideration.

## 7. Disclosures

This Standard prescribes disclosure of information that enables users of financial statements to evaluate the nature and financial effect of a transfer of functions that occurs.

The disclosure required, includes the following:

- Name and description of the acquiree
- Acquisition date
- Percentage of voting rights acquired through a residual interest
- Primary reasons for the transfer of functions and a description of how the acquirer obtained control of the acquiree
- Acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration
- Amount recognised in respect of contingent consideration arrangements and indemnification assets, including a description of arrangement and estimate of the range of outcomes
- Fair value and gross contractual amount for acquired receivables, including the best estimate of contractual cash flows not expected to be collected
- Amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.

# GRAP 107: Mergers

## 1. Objective

To establish accounting principles for the combined entity and the combining entities in a merger.

## 2. Scope

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. A combined entity is a new reporting entity from the combination of two or more entities. Combining entities are entities that are being combined for the mutual sharing of risks and benefits in a merger.

The Standard should be applied by the combining entity and combined entity in a merger when no acquirer can be identified. The Standard does not apply to a transfer of functions between entities.

## 3. Measurement by the combined entity

The terms of the merger are usually governed by a binding agreement. On the merger date (the date on which the new reporting entity obtains control of the assets and the liabilities and combining entities loses control of their assets and liabilities) the combined entity shall recognise all the assets and liabilities assumed at their carrying amounts.

The assets and liabilities are subsequently measured in accordance with the Standards of GRAP that apply to them.

The difference between the carrying amount of the assets acquired and liabilities assumed should be recognised in accumulated surplus or deficit.

If the merger accounting is not complete by the end of the reporting period, the combined entity has a measurement period available in which to adjust the carrying values of the assets or liabilities and the consideration transferred should additional information become available. The measurement period ends when all information that was outstanding is received. It shall be not be longer than two years from the merger date.

Costs incurred in relation to the merger such as legal or advisor costs should be expensed in the period during which the costs were incurred.

#### 4. Measurement by the combining entities

At the merger date, the combining entities shall derecognise the assets transferred and liabilities derecognised at the carrying amounts.

The difference between the carrying amounts of the assets transferred and liabilities derecognised should be recognised in accumulated surplus or deficit.

#### 5. Disclosure

The combined entity and the combining entities shall disclose information that enables users to evaluate the effect of the merger. It should also disclose the accounting policy adopted for the merger as well as the entities involved in the merger.

The combined entity should disclose:

- For each affected line item in the financial statements the values of assets acquired and liabilities assumed in a merger
- Difference between carrying amounts of assets acquired and liabilities assumed that was recorded in a separate line in accumulated surplus or deficit
- Contingent assets and liabilities assumed in a merger
- Period for which the results of the merger are included in the financial statements of the combined entities.

The combining entity should disclose:

- For each asset and liability transferred the carrying amount derecognised
- Difference between carrying amounts of assets transferred and liabilities derecognised that was recorded in a separate line in accumulated surplus and deficit.

# iGRAP 7: The limit on a defined benefit asset, minimum funding requirements and their interaction

## 1. Objective

The measurement of a defined benefit asset is limited to the “present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.” Minimum funding requirements normally stipulate a minimum level of contributions that must be made to a plan over a given period. This may limit the ability of an entity to reduce future contributions.

This interpretation provides guidance on how minimum funding requirements interact with the asset limit described above.

## 2. Issue

The issues addressed in the interpretation are:

- Whether refunds or reductions in future contributions should be regarded as available
- How minimum funding requirements might affect the availability of reductions in future contributions.

## 3. Consensus

An entity shall determine the availability of refunds or reductions in future contributions in accordance with the terms and conditions of the plan and any statutory requirements. It is available if at some point during the life of the plan or when the plan liabilities are settled, the benefit can be realised

An entity should analyse any minimum funding requirement at a given date into contributions that are required to cover an existing shortfall for past service and the future accrual of benefits.

Contributions to cover an existing shortfall do not affect the future contributions and consideration should be given to raising a liability for this shortfall.

If there is a minimum funding requirement for contributions related to future accrual of benefits, the economic benefit available as a reduction in future contributions is determined as:

- Estimated future service cost in each year less
- Estimated minimum funding contributions required in respect of the future accrual of benefits in that year.

# GRAP 18: Segment reporting

## 1. Objective

This Standard establishes principles for reporting financial information by segments, in order to help users to better understand the entity's past performance and enhance transparency of financial reporting.

## 2. Scope

Application of this Standard is required in complete sets of published financial statements. Where the consolidated and separate financial statements of the entity are presented together, segment information needs to be presented only on the basis of the consolidated financial statements.

## 3. Definition of a segment

A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

In most cases, the major classifications of activities identified in budget documentation will reflect the segments for which information is reported to management, and therefore will also reflect the segments to be reported in the financial statements.

The types of segments reported to the management of an entity are frequently referred to as 'service segments' or 'geographical segments'. These terms are used in this Standard with the following meanings:

- A 'service segment' refers to a distinguishable component of an entity that is engaged in providing related outputs or achieving particular operating objectives consistent with the overall mission of each entity
- A 'geographical segment' is a distinguishable component of an entity that achieves particular operating objectives and provides outputs within a particular geographical area.

It is possible that an entity reports to management on the basis of more than one segment structure, for example by both service and geographical segments. In these cases the segments may be reported separately or as a matrix. Alternatively, a primary or secondary segment reporting structure may be adopted with only limited disclosures made about secondary segments.

#### **4. Definitions of segment revenue, expenses, assets, liabilities and accounting policies**

Segment revenue is reported in the entity's statement of financial performance and is directly attributable to a segment and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment.

Segment expenses result from the operating activities of a segment that are directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to the provision of goods and services to external parties and expenses relating to transactions with other segments of the same entity.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Assets that are jointly used by two or more segments shall be allocated to segments if, and only if, their related revenues and expenses are allocated to those segments.

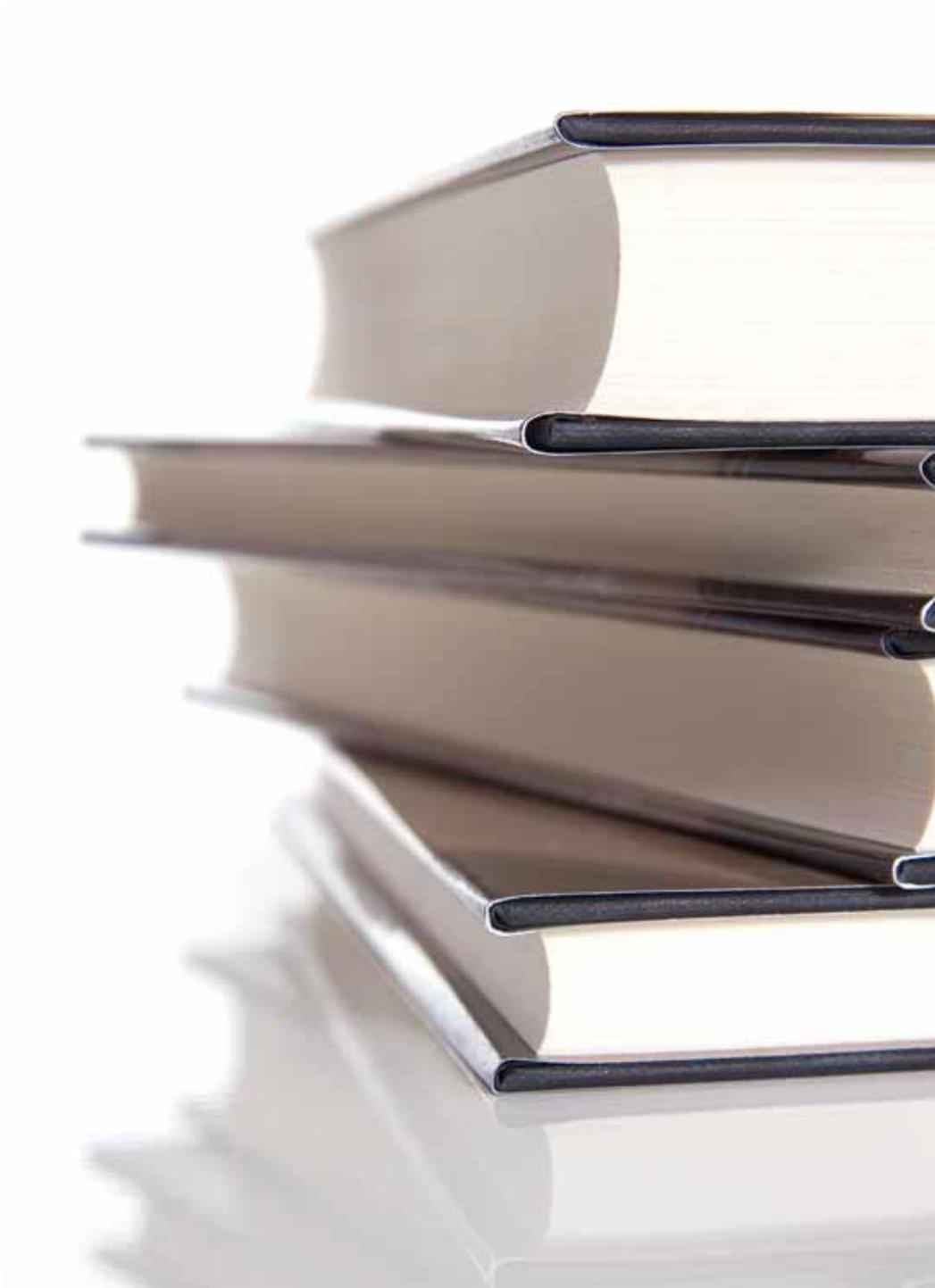
Segment accounting policies are the accounting policies applied for preparing and presenting the financial statements of the consolidated group or entity as well as those accounting policies that relate specifically to segment reporting.

#### **5. Newly identified segments**

When a segment is identified for the first time in the current period (possibly as a result of a change in the internal reporting structure), prior period segment data that is presented for comparative purposes shall be restated to reflect the newly reported segment as a separate segment, unless it is impracticable to do so.

#### **6. Disclosure**

For each segment, an entity must disclose segment revenue and segment expenses. Segment revenue from budget appropriation or similar allocation must be separately disclosed in addition to segment revenue from other external sources and segment revenue from transactions with other segments. An entity shall disclose the total carrying amount of segment assets and segment liabilities. The entity shall disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period for each segment. Other more detailed disclosures required are contained in the Standard.



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