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## GOVERNMENT NOTICES

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### NATIONAL TREASURY

No. R. 991

7 December 2005

#### **PUBLIC FINANCE MANAGEMENT ACT, 1999: PRESCRIBING STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE (GRAP) IN TERMS OF SECTION 91**

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The Minister of Finance has, in terms of Section 91 of the Public Finance Management Act, 1999 (Act No. 1 of 1999), prescribed the following Standards as set by the Accounting Standards Board in terms of Section 89:

- Presentation of Financial Statements (GRAP 1)
- Cash Flow Statements (GRAP 2)
- Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3)

These Standards are effective for all public entities required to comply with GRAP and that are using the **accrual** basis of accounting for annual financial statements for periods ending on or after 31 March 2006.

For entities not applying the accrual basis of accounting, namely National and Provincial Departments, the implantation of these first three Standards will be phased in through the annual financial reporting requirements.

The implementation of these Standards for municipalities is aligned with the implementation of the Municipal Finance Management Act (MFMA), Act No. 45 of 2003. The details thereof are contained in the MFMA Circular No. 18. The annual financial statements as provided for in the MFMA Circular No. 18 and any updates thereof form part of this regulation.



**ACCOUNTING STANDARDS BOARD**

**STANDARD OF GENERALLY RECOGNISED  
ACCOUNTING PRACTICE**

**PRESENTATION OF FINANCIAL STATEMENTS**

**(GRAP I)**



### Acknowledgement

This Standard of Generally Recognised Accounting Practice (GRAP) is drawn primarily from the International Public Sector Accounting Standard (IPSAS) on **Presentation of financial Statements** issued by the International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB). The International Federation of Accountants (IFAC) was founded in 1977 with its mission to develop and enhance the profession with harmonised standards. IPSASB has issued a comprehensive body of IPSASs, which will be used to produce future Standards of GRAP. Extracts of the IPSAS on **Presentation of Financial Statements** are reproduced in this Standard of GRAP with the permission of the IPSASB.

The approved text of the IPSASs is that published by the IFAC in the English language. The IPSASs are contained in the IFAC Handbook of International Public Sector Accounting Pronouncements and are available from:

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## STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE PRESENTATION OF FINANCIAL STATEMENTS

### INTRODUCTION

Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (national and provincial);
- (b) public entities;
- (c) constitutional institutions;
- (d) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (e) Parliament and the provincial legislatures.

The above are collectively referred to as "entities" in Standards of GRAP.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants, to be GRAP for:

- (a) government business enterprises (as defined in the PFMA);
- (b) trading entities (as defined in the PFMA);
- (c) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and
- (d) entities under the ownership control of any of these entities.

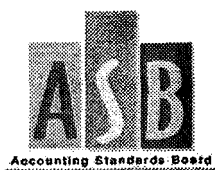
The Board believes that Statements of GAAP are relevant and applicable to financial statements prepared by all such entities, including those under their ownership control.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related interpretation that may be issued in the future.

Any limitation of the applicability of specific Standards is made clear in those Standards.

The Standard of GRAP on Presentation of Financial Statements is set out in paragraphs .01 - .147. All paragraphs in this Standard have equal authority. The authority of appendices is dealt with in the preamble to each appendix. This Standard should be read in the context of its objective, the Preface to Standards of GRAP and the Framework for the Preparation and Presentation of Financial Statements.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .12 of the Standard of GRAP on Accounting Policies,



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Changes in Accounting Estimates and *Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

### Objective

- .01 The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The recognition, measurement and disclosure of specific transactions, other events and conditions are dealt with in other Standards of GRAP.

### Scope

- .02 *This Standard shall be applied to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with Standards of GRAP.*
- .03 General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Standard does not apply to the structure and content of condensed interim financial information.
- .04 This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in the Standard of GRAP on Consolidated and Separate Financial Statements.
- .05 Entities that do not have equity and whose share capital is not equity may need to adapt the presentation in the financial statements.

### Definitions

- .06 *The following terms are used in this Standard of GRAP with the meanings specified:*
- Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- Accrual basis means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets, revenue and expenses.
- Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.
- Associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a controlled entity nor a joint venture.

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

**Cash** comprises cash on hand and demand deposits.

**Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Cash flows** are inflows and outflows of cash and cash equivalents.

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

**Contributions from owners** means future economic benefits or service potential that have been contributed to the entity by parties external to the entity, which establish their financial interest in the net assets of the entity, provided that the contributions:

- (a) do not result in liabilities of the entity, and
- (b) meet both of the following tests;
  - (i) They convey entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up.
  - (ii) They can be sold, exchanged, transferred or redeemed.

**Control** is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

**Controlled entity** is an entity, including an unincorporated entity such as a partnership that is under the control of another entity (known as the controlling entity).

**Controllina entity** is an entity that has one or more controlled entities.

**Distributions to owners** means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

**Economic entity** means a group of entities comprising a controlling entity and one or more controlled entities.

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

**Exchange difference** is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

**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.



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Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
  - (i) to receive cash or another financial asset from another entity; or
  - (ii) to exchange financial assets or liabilities with another entity under conditions that are potentially favourable to the entity; **or**
- (d) a contract that will or may be settled in the entity's own equity instrument\$ and **is:**
  - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; **or**
  - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount ~~of~~ cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Foreign operation is an entity that is a controlled entity, associate, joint venture or branch of a reporting-entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Government business enterprise means an entity that, in accordance with the Public Finance Management Act, Act No. 1 of 1999, as amended:

- (a) is a juristic person under the ownership control of the national/provincial executive;
- (b) has been assigned the financial and operational authority to carry on a business activity;
- (c) as its principal business, provides goods or services in accordance with ordinary business principles; and
- (d) is financed fully or substantially from sources other than:
  - (i) the National or Provincial Revenue Fund; or
  - (ii) by way of a tax, levy or other statutory money.

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- (a) the effects ~~of~~ the retrospective application or retrospective restatement are not determinable;
- (b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
- (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information



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about those estimates that:

- (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
- (ii) would have been available when the financial statements for that prior period were authorised for issue from other information.

Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.

Liabilities are present obligations 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.

Management comprises those persons responsible for the governance of the entity in accordance with legislation, including the accounting officers, however described in legislation.

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The size or nature of the information item, or a combination of both, could be the determining factor.

Minority interest is that portion of the surplus or deficit and of net assets of a controlled entity attributable to interests that are not owned, directly or indirectly through controlled entities, by the controlling entity.

Net assets are the residual interest in the assets of the entity after deducting all its liabilities.

Notes contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Presentation currency is the currency in which the financial statements are presented.

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

- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

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

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

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*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.*

*Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.*

**Purpose of financial statements**

.07 Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

- (a) assets;
- (b) liabilities;
- (c) net assets;
- (d) revenue and expenses, including gains and losses;
- (e) other changes in net assets; and
- (9) cashflows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

**Components of financial statements**

.08 A complete set of financial statements comprises:

- (a) a statement of financial position;
- (b) a statement of financial performance;
- (c) a statement of changes in net assets;
- (d) a cash flow statement; and
- (e) notes, comprising a summary of significant accounting policies and other explanatory notes.

..09 The components listed in paragraph .08 are referred to by a variety of names. The statement of financial position may also be referred to as a balance sheet or statement of assets and liabilities. The statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a profit and loss statement. The statement of changes in net assets may also be referred to as a statement of changes in equity or a statement of net worth. The notes to the financial statements may include items referred to as "schedules", "annexures" or "appendices".

.10 The financial statements provide users with information about an entity's resources and obligations at the reporting date and the flow of resources between reporting dates. This

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information is useful for users making assessments of an entity's ability to continue to provide goods and services at a given level, and the level of resources that may need to be provided to the entity in the future so that it can continue to meet its service delivery obligations.

- .11 *Entities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar. General purpose financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.*
- .12 *Where the financial statements and the budget are on the same basis of accounting, a comparison with the budgeted amounts for the reporting period shall be included in the financial statements.*
- .13 Reporting against budgets may be presented in various different ways, including the use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented.
- .14 *Where the financial statements and the budget are not on the same basis of accounting, a reconciliation between the statement of financial performance and the budget shall be included in the financial statements.*
- .15 Reporting against budgets may also include a statement by the individual(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.
- .16 Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of performance indicators, statements of service performance, programme reviews and other reports by management about the entity's achievements over the reporting period.
- .17 Entities are also encouraged to disclose information about compliance with legislative, regulatory or other externally imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes and may affect a user's assessment of the entity's performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future.

**Overall considerations**

Fair presentation and compliance with Standards of Generally Recognised Accounting Practice

- .18 *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires 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 set*

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*out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with ~~additional disclosures~~ when necessary, is presumed to result in financial statements that achieve a fair presentation.*

- .19** *An entity whose financial statements comply with Standards of GRAP shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with Standards of GRAP unless they comply with all the requirements of each applicable Standard of GRAP.*
- .20** *In virtually all circumstances, a fair presentation is achieved by compliance in all material respects with applicable Standards of GRAP. A fair presentation also requires an entity:*
  - (a) *to select and apply accounting policies in accordance with the requirements of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, which sets out the hierarchy of authoritative guidance that management considers in the absence of a Standard that specifically applies to an item;*
  - (b) *to present information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information; and*
  - (c) *to provide additional disclosures when compliance with the specific requirements in Standards of GRAP are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.*
- .21** *Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.*
- .22** *In the extremely rare circumstances when management concludes that compliance with a requirement in a Standard of GRAP would be so misleading that it would conflict with the objective of financial statements in the Framework for the Preparation and Presentation of Financial Statements, the entity shall depart from that requirement in the manner set out in paragraph .23 if the regulatory framework requires such a departure.*
- .23** *When an entity departs from a requirement of a Standard of GRAP under paragraph .22, it shall disclose:*
  - (a) *that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;*
  - (b) *that it has complied with applicable Standards of GRAP, except that it has departed from a particular requirement to achieve a fair presentation;*
  - (c) *the title of the Standard of GRAP from which the entity has departed, the nature of the departure, including the treatment that the Standard of GRAP would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements in the Framework for the Preparation and Presentation of Financial Statements, and the treatment adopted; and*
  - (d) *for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.*



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- .24** *When an entity has departed from a requirement of a Standard of GRAP in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph .23(c) and (d).*
- .25** Paragraph .24 applies, for example, when an entity departed in a prior period from a requirement in a Standard of GRAP for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.
- .26** For the purpose of paragraphs .22 - .25, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard of GRAP would be so misleading that it would conflict with the objective of financial statements in the Framework for the Preparation and Presentation of Financial Statements, management considers:
- (a) why the objective of financial statements is not achieved in the particular circumstances; and
  - (b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements in the Framework for the Preparation and Presentation of Financial Statements.

**Going concern**

- .27** *When preparing financial statements an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by management. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.*
- .28** Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of the financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.
- .29** The degree of consideration depends on the facts in each case, and 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

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liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern. For example:

- (a) in assessing whether an entity is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though they may operate for extended periods with negative net assets; and
  - (b) for an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the entity.
- .30 The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, management may need to consider a wide range of factors surrounding current and expected performance, expected short and medium term economic environment in which the entity operates, potential and announced restructurings of organisational units, estimates of revenue or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

#### Accrual basis of accounting

- .31 ***An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.***
- .32 When the accrual basis of accounting is used, items are recognised as assets, liabilities, net assets, revenue and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.

#### Consistency of presentation

- .33 ***The presentation and classification of items in the financial statements shall be retained from one period to the next unless:***
- (a) ***it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors; or***
  - (b) ***a Standard of GRAP requires a change in presentation.***
- .34 A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. For example, an entity may dispose of a savings bank that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial statements based on the principal activities of the economic entity as a financial institution is unlikely to be relevant for the new economic entity.
- .35 An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs .49 and .50.



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## Materiality and aggregation

- .36** *Each material class of similar items shall be presented separately in the financial statements. Items of dissimilar nature or function shall be presented separately unless they are immaterial.*
- .37** Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data which form line items on the face of the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.
- .38** Applying the concept of materiality means that a specific disclosure requirement in a Standard of GRAP need not be satisfied if the information is not material.
- .39** Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.
- .40** In this context, information is material if its non-disclosure could influence the decision-making and evaluations of users about the allocation and stewardship of resources, and the performance of the entity, made on the basis of the financial statements. Materiality depends on the size and nature of the item judged in the particular circumstances of its omission. In deciding whether an item or an aggregate of items is material, the size and nature of the item are evaluated together. Depending on the circumstances, either the size or nature of the item could be the determining factor. For example, individual revenues or receipts with the same nature and function are aggregated even if the individual amounts are large. However, large items which differ in nature or function are presented separately.
- .41** The principle of materiality provides that the specific disclosure requirements of Standards of GRAP need not be met if the resulting information is not material.





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**Offsetting**

- .42 Assets and liabilities, revenue and expenses, shall not be offset unless required or permitted by a Standard of GRAP.**
- .43** It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances, for example, obsolescence allowances on inventories and doubtful debts allowances on receivables, is not offsetting.
- .44** Revenue relating to exchange transactions is measured at the fair value of consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:
- (a) gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and
  - (b) expenses relating to a provision that is recognised in accordance with the Standard of GRAP on Provisions, Contingent Liabilities *and* Contingent **Assets** and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.
- .45** In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.
- .46** The offsetting of cash flows is dealt with in the Standard of GRAP on Cash **Flow** Statements.

**Comparative information**

- .47 Except when a Standard of GRAP permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.**
- .48** In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last reporting date, and about the steps that have been taken during the period to resolve the uncertainty.
- .49 When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified, unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:**

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- (a) *the nature of the reclassification;*
- (b) *the amount of each item or class of items that is reclassified; and*
- (c) *the reason for the reclassification.*

**.50** *When it is impracticable to reclassify comparative amounts, an entity shall disclose:*

- (a) *the reason for not reclassifying the amounts; and*
- (b) *the nature of the adjustments that would have been made if the amounts had been reclassified.*

**.51** Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way that allows reclassification, and it may not be practicable to recreate the information. In such circumstances, the nature of the adjustments to comparative amounts that would have been made is disclosed.

**.52** The Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

## Structure and content

### *Introduction*

**.53** This Standard requires particular disclosures on the face of the statement of financial position, statement of financial performance and statement of changes in net assets and requires disclosure of other line items either on the face of those statements or in the notes. The Standard of GRAP on *Cash Flow Statements* sets out requirements for the presentation of a cash flow statement.

**.54** This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented on the face of the statement of financial position, statement of financial performance and cash flow statement as well as in the notes. Disclosures are also required by other Standards of GRAP. Unless specified to the contrary elsewhere in this Standard of GRAP or in another Standard of GRAP, such disclosures are made either on the face of the statement of financial position, statement of financial performance and cash flow statement (whichever is relevant), or in the notes.

### *Identification of financial statements*

**.55** *The financial statements shall be identified clearly and distinguished from other information in the same published document.*

**.56** Standards of GRAP apply only to financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using Standards of GRAP from other information that may be useful to users but is not the subject of those requirements.

**.57** *Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:*

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- (a) *the name of the reporting entity or other means of identification and any change in that information from the preceding reporting date;*
- (b) *whether the financial statements cover the individual entity or the economic entity;*
- (c) *the reporting date or the period covered by the financial statements, whichever is appropriate to the component of the financial statements;*
- (d) *the presentation currency, as defined in the Standard of GRAP on The Effects of Changes in Foreign Exchange Rates; and*
- (e) *the level of rounding used in presenting amounts in the financial statements.*

**.58** The requirements in paragraph .57 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgement is required in determining the best way of presenting such information. For example, when the financial statements are presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.

**.59** Financial statements are often made more understandable by presenting information in thousands or millions of rands. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

*Reporting period*

**.60** *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, an **entity shall disclose**, in addition to the period covered by the financial statements:*

- (a) *the reason for using a longer or shorter period; and*
- (b) *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.*

**.61** Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different to those that would be presented for one year.

**Statement of financial position***The current/non-current distinction*

**.62** *An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of its financial position in accordance with paragraphs .68 - .79 except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of their liquidity.*

**.63** *Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled within (a) no more than twelve months after the reporting date; and (b) more than twelve months after the*

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***reporting date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.***

- .64 When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.
- .65 For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and is more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.
- .66 In applying paragraph .62, an entity is permitted to present some of its assets and liabilities using a currennon-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.
- .67 Information about the expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. The Standard of GRAP on Financial Instruments: Disclosure and Presentation requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current and non-current. For example, an entity discloses the amount of inventories that is expected to be recovered more than twelve months after the reporting date.

**Current assets**

- .68 ***An asset shall be classified as current when it satisfies any of the following criteria:***
  - (a) ***it is expected to be realised in, or is held for sale or consumption in, the entity's normal operating cycle;***
  - (b) ***it is held primarily for the purpose of being traded;***
  - (c) ***it is expected to be realised within twelve months after the reporting date; or***
  - (d) ***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.***

- .69 This Standard uses the term "non-current assets" to include tangible, intangible, and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
- .70 The operating cycle of an entity is the time taken to convert inputs or resources into outputs. For instance, governments transfer resources to entities so that they can convert those resources into goods and services, or outputs, to meet the government's desired social, political and economic outcomes. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months. Current assets include assets

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(such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue) that are either realised, consumed or sold, as part of the normal operating cycle even when they are not expected to be realised within twelve months of the reporting date. Current assets also include assets primarily held for the purpose of being traded (guidance on the classification of financial assets within this category could be found in the Standard of GRAP on financial Instruments: *Recognition and Measurement*) and the current portion of non-current financial assets.

**Current liabilities**

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

- (a) *it is expected to be settled in the entity's normal operating cycle;*
- (b) *it is held primarily for the purpose of being traded;*
- (c) *it is due to be settled within twelve months after the reporting date; or*
- (d) *the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.*

**All other liabilities shall be classified as non-current.**

- .72** Some current liabilities, such as government transfers payable and accruals for employee and other operating costs, are part of the working capital used in the normal operating cycle of the entity. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.
- .73** Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are financial liabilities classified as held for trading (guidance on the classification of financial liabilities could be found in the Standard of GRAP on *Financial Instruments: Presentation and Disclosure*), bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e. are not part of the working capital used in the entity's normal operating cycle), and are not due for settlement within twelve months after the reporting date, are non-current liabilities subject to paragraphs .76 and .77.
- .74** An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:
- (a) the original term was for a period of longer than twelve months; and
  - (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.
- .75** If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for

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example there is no agreement to refinance), the potential to refinance is not considered and the obligation *is* classified as current.

- .76** When an entity breaches an undertaking or covenant under a long-term loan agreement on or before the reporting date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorisation of the financial statements, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.
- .77** However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify a breach and during which the lender cannot demand immediate repayment.
- .78** In respect of loans classified as current liabilities, if the following events occur between the reporting date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with the Standard of GRAP on *Events after the Reporting Date*:
  - (a) refinancing on a long-term basis;
  - (b) rectification of a breach of a long-term loan agreement; and
  - (c) the receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the reporting date.

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

- .79** *As a minimum, the face of the statement of financial position shall include line items that present the following amounts:*
  - (a)** *Property, plant and equipment;*
  - (b)** *Investment property;*
  - (c)** *Intangible assets;*
  - (d)** *Financial assets (excluding amounts shown under (e), (g), (h) and (i));*
  - (e)** *Investments accounted for using the equity method;*
  - (f)** *Inventories;*
  - (g)** *Other receivables from non-exchange transactions, including taxes and transfers;*
  - (h)** *Trade and other receivables from exchange transactions;*
  - (i)** *Cash and cash equivalents;*
  - (j)** *Taxes and transfers payable;*
  - (k)** *Trade and other payables from exchange transactions;*
  - (l)** *Provisions;*
  - (m)** *Financial liabilities (excluding amounts shown under (i), (k) and (l));*
  - (n)** *Minority interest, presented within net assets; and*



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(o) **Net assets.**

**.80 Additional line items, headings and sub-totals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.**

**.81** This Standard does not prescribe the order or format in which items are to be presented. Paragraph .79 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the statement of financial position. In addition:

- (a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and
- (b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

**.82** The judgement on whether additional items are separately presented is based on an assessment of:

- (a) the nature and liquidity of assets;
- (b) the function of assets within the entity; and
- (c) the amounts, nature and timing of liabilities.

**.83** The use of different measurement bases for different classes of assets suggests that their nature or function differs and therefore that they should be presented as separate line items. For example, different classes of property, plant and equipment can be carried at cost or revalued amounts in accordance with the Standard of GRAP on *Property, Plant and Equipment*.

**Information to be presented either on the face of the statement of financial position or in the notes**

**.84** **An entity shall disclose, either on the face of the statement of financial position or in the notes to the statement of financial position, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.**

**.85** The detail provided in sub-classifications depends on the requirements of Standards of GRAP and on the size, nature and function of the amounts involved. The factors set out in paragraph .82 also are used to decide the basis of sub-classification. The disclosures vary for each item, for example:

- (a) items of property, plant and equipment are disaggregated into classes in accordance with the Standard of GRAP on *Property, Plant and Equipment*;
- (b) receivables are disaggregated into amounts receivable from user charges, taxes and other non-exchange revenues, other members of the economic entity, receivables from related parties, prepayments and other amounts;
- (c) inventories are sub-classified in accordance with the Standard of GRAP on *Inventories*, into classifications such as merchandise, production supplies, materials, work in Progress and finished goods;

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- (d) taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;
  - (e) provisions are disaggregated into provisions for employee benefit costs and any other items; and
  - (f) components of net assets are analysed and disaggregated into contributed capital, accumulated surpluses and deficits and any reserves.
- .86** *When an entity has no share capital, it shall separately disclose the following, either on the face of the statement of financial position or in the notes:*
- (a) *net assets, showing separately:*
    - (i) *contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;*
    - (ii) *accumulated surpluses or deficits;*
    - (iii) *reserves, including a description of the nature and purpose of each reserve within net assets; and*
    - (iv) *minority interests; and*
  - (b) *the amount of a distribution (other than the return of capital) declared after the reporting date but before the financial statements were authorised for issue.*
- .87** Many entities will not have share capital but the entity will be controlled exclusively by another entity. The nature of the government's interest in the net assets of the entity is likely to be a combination of contributed capital and the aggregate of the entity's accumulated surpluses or deficits and reserves – that reflect the net assets attributable to the entity's operations.
- .88** In some cases, there may be a minority interest in the net assets of the entity. For example, at whole-of-government level, the economic entity may include a government business enterprise that has been partly privatised. Accordingly, there may be private shareholders who have a financial interest in the net assets of the entity.
- .89** *When an entity has share capital, in addition to the disclosures in paragraph .86, it shall disclose the following, either on the face of the statement of financial position or in the notes:*
- (a) *for each class of share capital:*
    - (i) *the number of shares authorised;*
    - (ii) *the number of shares issued and fully paid, and issued but not fully paid;*
    - (iii) *par value per share, or that the shares have no par value;*
    - (iv) *a reconciliation of the number of shares outstanding at the beginning and at the end of the year;*
    - (v) *the rights, preferences, and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;*
    - (vi) *shares in the entity held by the entity or by its controlled entities or associates; and*



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(vii) *shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and*

(b) *a description of the nature and purpose of each reserve within net assets.*

**Statement of financial performance***Surplus or deficit for the period*

- .90 *All items of revenue and expense recognised in a period shall be included in the surplus or deficit unless a Standard of GRAP requires or permits otherwise.*
- .91 Normally, all items of revenue and expense recognised in a period are included in surplus or deficit. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period. The Standard of GRAP on Accounting *Policies*, Changes in Accounting Estimates and *Errors* deals with two such circumstances: the correction of prior period errors and the effect of changes in accounting policies.
- .92 Other Standards of GRAP deal with items which may meet the Framework definitions of revenue or expense but which are usually excluded from surplus or deficit. Examples include a revaluation surpluses (see the Standard of GRAP on *Property, Plant and Equipment*), particular gains and losses arising on translating financial statements of a foreign operation (see the Standard of GRAP on *The Effects of Changes in Foreign Exchange Rates*), and gains or losses on remeasuring available-for-sale financial assets (see the Standard of GRAP on *Financial Instruments: Recognition and Measurement*).

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

- .93 *As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:*
- (a) *revenue;*
  - (b) *finance costs;*
  - (c) *share of the surplus or deficit of associates and joint ventures accounted for using the equity method; and*
  - (d) *surplus or deficit for the period.*
- .94 *The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:*
- (a) *surplus or deficit attributable to minority interest; and*
  - (b) *surplus or deficit attributable to net asset holders of the controlling entity.*
- .95 *Additional line items, headings and sub-totals shall be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance.*
- .96 Because the effects of an entity's various activities, transactions, and other events differ in terms of their impact on its ability to meet its service delivery obligations, disclosing the components of financial performance assists in an understanding of the financial Performance achieved and in making projections of future results. Additional line items are included on the face of the statement of financial performance, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of

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performance. Factors to be considered include materiality and the nature and function of the components of revenue and expenses. Revenue and expense items are offset unless the criteria in paragraph .42 are met.

- .97** *An entity shall not present any items of revenue and expense as extraordinary items, either on the face of the statement of financial performance or in the notes.*

*Information to be presented either on the face of the statement of financial performance or in the notes*

- .98** *When items of revenue and expense are material, their nature and amount shall be disclosed separately.*

- .99** Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

- (a) the write-downs of inventories to net realisable value or property, plant and equipment to recoverable amount, as well as the reversals of such write-downs;
- (b) restructurings of the activities of an entity and the reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of investments;
- (e) discontinuing operations;
- (f) litigation settlements; and
- (g) other reversals of provisions.

- .100** *An entity shall present a sub-classification of total revenue, classified in a manner appropriate to the entity's operations.*

- .101** *An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.*

- .102** Entities are encouraged to present the analysis in paragraph .101 on the face of the statement of financial performance.

- .103** Expense items are sub-classified to highlight the costs and cost recoveries of particular programmes, activities or other relevant segments of the reporting entity. This information may be provided in one of two ways.

- .104** The first form of analysis is the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature, (for example depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses between functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue	<b>X</b>
Employee benefit costs	<b>X</b>
Depreciation and amortisation expense	<b>X</b>

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- |                |     |
|----------------|-----|
| Other expenses | X   |
| Total expenses | (X) |
| Surplus        | X   |
- .105** The second form of analysis is the function of expense method, and classifies expenses according to the programme or purpose for which they were made. This presentation often provides more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgement. An example of a classification using the function of expense method is as follows:
- |                    |     |
|--------------------|-----|
| Total revenue      | X   |
| Expenses:          |     |
| Health expenses    | (X) |
| Education expenses | (X) |
| Other expenses     | (X) |
| Surplus/(deficit)  | X   |
- .106** The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the provision of health and education services. The entity would present expense line items for each of these functions.
- .107** *Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense, and employee benefits expense.*
- .108** The choice between the function of expense method and the nature of expense method depends on historical and regulatory factors and the nature of the organisation. Both methods provide an indication of those costs that might vary, directly and indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard requires management to select the most relevant and reliable presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used.
- .109** *When an entity provides a dividend to its owners and has share capital, it shall disclose, either on the face of the statement of financial performance or in the statement of changes in net assets or in the notes, the amount of dividends, recognised as distribution to owners during the period, and the related amount per share.*

**Statement of changes in net assets**

- .110** *An entity shall present a statement of changes in net assets, showing on the face of the statement:*
- (a) *the surplus or deficit for the period;*
  - (b) *each item of revenue and expense that, as required by other Standards of GRAP, is recognised directly in net assets, and the total of these items;*

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- (c) *total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to net assets holders of the controlling entity and to minority interest; and*
  - (d) *for each component of net assets, the effects of changes in accounting policies and the correction of prior period errors recognised in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.*
- .111** *An entity shall also present, either on the face of the statement of changes in net assets or in the notes;*
- (a) *the amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;*
  - (b) *the balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and*
  - (c) *to the extent that components of net assets are separately disclosed, a reconciliation between the carrying amount of each component of net assets and each reserve at the beginning and the end of the period, separately disclosing each change.*
- .112** *Changes in an entity's net assets between two reporting dates reflect the increase or decrease in its net assets during the period.*
- .113** *The overall change in net assets represents the total net surplus/deficit for the period, other revenues and expenses recognised directly as changes in net assets, together with any contributions by, and distributions to, owners in their capacity as owners.*
- .114** *Contributions by, and distributions to, owners include transfers between two entities within an economic entity (for example, a transfer from a government, acting in its capacity as owner, to a government department). Contributions by owners, in their capacity as owners, to controlled entities are recognised as a direct adjustment to net assets only where they explicitly give rise to residual interests in the entity in the form of rights to net assets.*
- .115** *This Standard requires all items of revenue and expense recognised in a period to be included in surplus or deficit for the period unless another Standard of GRAP requires otherwise. Other Standards of GRAP require some items (such as revaluation surpluses and deficits, particular foreign exchange differences) to be recognised directly as changes in net assets. Because it is important to consider all items of revenue and expenses in assessing changes in an entity's financial position between two reporting dates, this Standard requires a statement of changes in net assets that highlights an entity's total revenue and expenses, including those that are recognised directly in net assets.*
- .116** *The Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transitional provisions in another Standard of GRAP require otherwise. The Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors also requires that restatements to correct prior period errors are made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are made to the balance of accumulated surpluses or deficits, except when a Standard of GRAP requires retrospective adjustment of another component of net assets. Paragraph .110(d) requires disclosure in the statement of changes in net assets of the total*

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adjustment to each component of net assets resulting, separately, from changes in accounting policies and from corrections of prior period errors. These adjustments are disclosed for each prior period and the beginning of the period.

- .117** The requirements in paragraphs **.110** and **.111** may **be** met in a number **of** ways, for example, a columnar format that reconciles the opening and closing balances of each element within net assets. An alternative is to present only the items set out in paragraph **.110** in the statement of changes in net assets. Under this approach, the items described in paragraph **.111** are shown in the notes.

**Cash flow statement**

- .118** Cash flow information provides users of financial statements 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. The Standard **of** GRAP on **Cash Flow** Statements sets **out** requirements for the presentation of the cash **flow** statement and related disclosures.

**Notes***Structure*

- .119** *The notes shall:*

- (a) *present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs **.124-.131**;*
- (b) *disclose the information required by Standards of GRAP that is **not** presented on the face of the statement **of** financial position, statement of financial performance, statement of changes in net assets or cash flow statement; and*
- (c) *provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets or cash flow statement, but is relevant to an understanding of any of them.*

- .120** *Notes shall be presented in a systematic manner. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement shall be cross-referenced to any related information in the notes.*

- .121** Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

- (a) a statement of compliance with Standards of GRAP (see paragraph **.19**);
- (b) a summary of significant accounting policies applied (see paragraph **.124**);
- (c) supporting information for items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets or cash flow statement in the order in which each line item and each financial statement is presented; and
- (d) other disclosures, including:



## GRAP 1

- (i) contingent liabilities (see the Standard of GRAP on Provisions, *Contingent Liabilities* and Contingent Assets) and unrecognised contractual commitments; and
- (ii) non-financial disclosures, e.g. the entity's financial risk management objectives and policies (see the Standard of GRAP on *Financial Instruments: Disclosure and Presentation*).

**.122** In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognised in surplus or deficit may be combined with information on maturities of financial instruments although the former disclosures relate to the statement of financial performance and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.

**.123** Notes provide information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

#### Disclosure of accounting policies

**.124** *An entity shall disclose in the summary of significant accounting policies:*

- (a) *the measurement basis (or bases) used in preparing the financial statements; and*
- (b) *the other accounting policies that are relevant to an understanding of the financial statements.*

**.125** It is important for users to be informed of the measurement basis (or bases) used in the financial statements (for example, historical cost, current cost, realisable value, fair value or recoverable amount) because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

**.126** In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is essentially useful to users when those policies are selected from alternatives allowed in the Standards of GRAP. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see the Standard of GRAP on Interests in Joint Ventures). Some Standards of GRAP specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, the Standard of GRAP on *Property, Plant and Equipment* requires disclosure of the measurement bases used for classes of property, plant and equipment. The Standard of GRAP on Borrowing Costs requires disclosure of whether borrowing costs are recognised immediately as an expense or capitalised as part of the cost of qualifying assets.

**.127** Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, entities would be expected to disclose an accounting policy for recognition of taxes,



## GRAP 1

donations and other forms of non-exchange revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When business combinations have occurred, the policies used for measuring goodwill and minority interest are disclosed.

- .128 An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by the Standards of GRAP, but is selected and applied in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.
- .129 An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph .132), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts of items recognised in the financial statements.**
- .130 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts of items recognised in the financial statements. For example, management makes judgements in determining:
- (a) whether financial assets are held-to-maturity investments;
  - (b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;
  - (c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
  - (d) whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity.
- .131 Some of the disclosures made in accordance with paragraph .129 are required by other Standards of GRAP. For example, the Standard of GRAP on Consolidated and Separate Financial Statements requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a controlled entity, even though more than half of its voting or potential voting power is owned directly or indirectly through controlled entities. The Standard of GRAP on Investment Property requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Key sources of estimation uncertainty

- .132 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. In respect of those assets and liabilities, the notes shall include details of:**
- (a) **their nature; and**
  - (b) **their carrying amount as at the reporting date.**

**GRAP 1**

- .133** Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as superannuation obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs.
- .134** The key assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph .132 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.
- .135** The disclosures in paragraph .132 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at fair value based on recently observed market prices (their fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).
- .136** The disclosures in paragraph .132 are presented in a manner that helps users of financial statements to understand the judgements management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:
- (a) the nature of the assumption or other estimation uncertainty;
  - (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
  - (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
  - (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.
- It is not necessary to disclose budget information or forecasts in making the disclosures in paragraph .132.
- .137** When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the reporting date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.





## GRAP 1

- .138 The disclosures in paragraph .129 of particular judgements management made in the process of applying the entity's accounting policies do not relate to the disclosures of key sources of estimation uncertainty in paragraph .132.
- .139 The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph .132 is required by other Standards of GRAP. For example, the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets requires disclosure, in specified circumstances, of major assumptions concerning future events affecting Classes of provisions. The Standard of GRAP on Financial Instruments: Disclosure and Presentation requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. The Standard of GRAP on Property, Plant and Equipment requires disclosure of significant assumptions applied in estimating fair values of revalued items of property, plant and equipment.

*Other disclosures*

- .140** *An entity shall disclose in the notes:*

- (a) *the amount of dividends that were proposed or declared after the reporting date but before the financial statements were authorised for issue; and*
- (b) *the amount of any cumulative preference dividends not recognised.*

- .141** *An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:*

- (a) *the domicile and legal form of the entity, and the jurisdiction within which it operates;*
- (b) *a description of the nature of the entity's operations and principal activities;*
- (c) *a reference to the relevant legislation governing the entity's operations; and*
- (d) *the name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable).*

**Transitional provisions**

- .142** *All provisions of this Standard should be applied from the date of first adoption of this Standard, except in relation to items that have not been recognised as a result of transitional provisions under another Standard of GRAP. The disclosure provisions of this Standard would not be required to apply to such items until the transitional provision in the other Standard of GRAP expires. Comparative information is not required in respect of financial statements to which this Standard is first applied.*

- .143** *Notwithstanding the existence of transitional provisions under another Standard of GRAP, entities that are in the process of adopting the accrual basis of accounting for financial reporting purposes are encouraged to comply in full with the provisions of that other Standard as soon as possible.*

*Reserves*

- .144** *All balances in reserves and trust fund accounts that are not represented by cash, for example the loss of rental reserves, capital reserves, Mayor's Flood Relief Fund, Sport Development Fund, etc., on the date of transition should be transferred to the opening balance of the accumulated surplus/(deficit) account in the statement of*

**GRAP 1**

*changes in net assets. There is no legislative requirement to maintain such separate fund accounts.*

*Deferred charge assets*

- .145** *This transitional provision requires the derecognition of capitalised expenditure incurred in raising loans on the capital market that do not meet the definition and recognition criteria of assets, for example, the capitalisation of loan-raising charges and loan discounts that are deferred over the loan period in the financial statements of some municipalities. Any such derecognition shall be recognised by adjusting the opening balance of accumulated surplus/(deficit).*

*Exemptions*

- .146** *Exemption from compliance with disclosure requirements when the relevant Standard of GRAP is applied for the first time will be considered by the Minister of Finance on a case-by-case basis.*

**Effective date**

- . 147** *This Standard of Generally Recognised Accounting Practice becomes effective for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.*



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## Appendix – Illustrative Financial Statements Structure

This appendix is illustrative only and does not form part of the Standards. The purpose of the appendix is to illustrate *the* application of the Standards and to assist in clarifying its meaning.

The Standard of Generally Recognised Accounting Practice (GRAP) on Presentation of financial Statements sets out the components of financial statements and minimum requirements for disclosure on the face of the statement of financial position and the statement of financial performance as well as for the presentation of changes in net assets. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes.

This appendix provides simple examples of the ways in which the requirements for the presentation of the statement of financial performance, statement of financial position and changes in net assets might be met. The order of presentation and the descriptions used for line items shall be changed when necessary in order to achieve a fair presentation in each entity's particular circumstances. **For** example, the line items of an entity such **as** a defence department are likely to be significantly different from those of a central bank.

The illustrative statement of financial position shows one way in which a statement of financial position distinguishing between current and non-current items may be presented. Other formats may be equally appropriate, provided the distinction is clear.

The financial statements have been prepared for a national government and the statement of financial performance (by function) illustrates the functions of government classifications used in the Government Finance Statistics. These functional classifications are unlikely to apply to all entities. Refer to this Standard for an example of more generic functional classifications for other entities.

The examples are not intended to illustrate all aspects of the Standards of GRAP. Nor do they comprise a complete set of financial statements, which would also include a cash **flow** statement, a summary of significant accounting policies and other explanatory notes.

### ENTITY – STATEMENT OF ACCOUNTING POLICIES (EXTRACT)

#### Reporting entity

These financial statements are for (name of entity). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Management Act, Act No. 1 of 1999). This comprises:

- the national department; and
- controlled entities.

#### Basis of preparation

The financial statements comply with Standards of GRAP for the Accrual Basis of Accounting. The measurement base applied is historical cost adjusted for revaluations of assets.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.



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**ENTITY – STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 20X2**

(in thousands of rands)

	20X2	20X2	20X1	20x1
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	X		X	
Receivables	X		X	
Inventories	X		X	
Prepayments	X		X	
Investments	X		X	
		X		X
<b>Non-current assets</b>				
Receivables	X		X	
Investments	X		X	
Other financial assets	X		X	
Infrastructure, plant and equipment	X		X	
Land and buildings	X		X	
Intangible assets	X		X	
Other non-financial assets	X		X	
<b>Total assets</b>		X		X
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables	X		X	
Short-term borrowings	X		X	
Current portion of borrowings	X		X	
Provisions	X		X	
Employee benefits	X		X	
		X		X
<b>Non-current liabilities</b>				
Payables	X		X	
Borrowings	X		X	
Provisions	X		X	
Employee benefits	X		X	
<b>Total liabilities</b>		X		X
<b>Net assets</b>		X		X
<b>NET ASSETS</b>				
Capital contributed by other government entities	X		X	
Reserves	X		X	
Accumulated surpluses/(deficits)	X		X	
		X		X
Minority interest		X		X
<b>Total net assets</b>		X		X



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## ENTITY – STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 20X2

*(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY FUNCTION)*

(in thousands of rands)

	20x2	20x1
<b>Revenue</b>		
Taxes	X	X
Fees, fines, penalties and licences	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other operating revenue	<u>X</u>	<u>X</u>
<b>Total revenue</b>	<u>X</u>	<u>X</u>
<b>Expenses</b>		
Public Service Commission	X	X
Defence	X	X
Safety and Security	X	X
Education	X	X
Health	X	X
Social Development	X	X
Housing	X	X
Sport and Recreation	X	X
Trade and Industry	X	X
Environmental Affairs and Tourism	X	X
Finance costs	<u>X</u>	<u>X</u>
<b>Total expenses</b>	<u>X</u>	<u>X</u>
Gains on sale of property, plant and equipment	<u>X</u>	<u>X</u>
<b>Total non-operating revenue (expenses)</b>	<u>(X)</u>	<u>(X)</u>
<b>Surplus/(deficit) for the period</b>	<u>X</u>	<u>X</u>
Attributable to:		
Net assets holders of the controlling entity	X	X
Minority interests	X	X
	X	X



## GRAP 1

**ENTITY – STATEMENT OF FINANCIAL PERFORMANCE****FOR THE YEAR ENDED 31 DECEMBER 20X2****(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY NATURE)**

(in thousands of rands)

	20x2	20x1
<b>Revenue</b>		
Taxes	X	X
Fees, fines, penalties and licences	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other operating revenue	X	X
<b>Total revenue</b>	<b>X</b>	<b>X</b>
<b>Expenses</b>		
Personnel	X	X
Administrative	X	X
Transfer payments	X	X
Depreciation and amortisation expense	X	X
Miscellaneous	X	X
Finance costs	X	X
<b>Total expenses</b>	<b>X</b>	<b>X</b>
Gains on sale of property, plant and equipment	X	X
<b>Surplus/(deficit) for the period</b>	<b>X</b>	<b>X</b>
Attributable to:		
Net assets holder of the controlling entity	X	X
Minority interest	X	X



## GRAP 1

## ENTITY – STATEMENT OF CHANGES IN NET ASSETS

## FOR THE YEAR ENDED 31 DECEMBER 20X2

(in thousands of rands)

	Attributable to net assets holders of the controlling entity				Total	Minority interest	Total equity
	Contri- buted capital	Revalu- ation reserve	Trans- lation reserve	Accumula- ted surpluses/ (deficits)			
<b>Balance at 31 December 20X0</b>	<b>X</b>	<b>X</b>	<b>(X)</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Changes in accounting policy	(X)			(X)	(X)	(X)	(X)
Restated balance	X	X	X	X	X	X	X
Surplus on revaluation of property		X			X	X	X
Deficit on revaluation of investments		(X)			(X)	X	X
Currency translation differences			(X)		(X)	(X)	(X)
Net gains and losses not recognised in the statement of financial performance		X	(X)		X	X	X
Surplus for the period				X	X	X	X
<b>Balance at 31 December 20X1</b>	<b>X</b>	<b>X</b>	<b>(X)</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Deficit on revaluation of property		(X)			(X)	(X)	(X)
Surplus on revaluation of investments		X			X	X	X
Currency translation differences			(X)		X	X	X
Net gains and losses not recognised in the statement of financial performance		(X)	(X)		(X)	(X)	(X)
Deficit for the period				(X)	(X)	(X)	(X)
<b>Balance at 31 December 20X2</b>	<b>X</b>	<b>X</b>	<b>(X)</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>



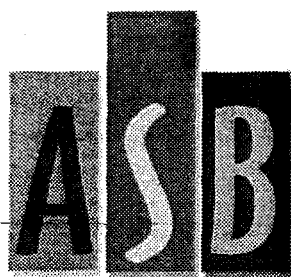
## GRAP 1

## Comparison with the International Public Sector Accounting Standard on *Presentation of Financial Statements* (May 2000)

The Standard of GRAP on *Presentation of Financial Statements* (GRAP 1) is drawn primarily from the International Public Sector Accounting Standard on *Presentation of Financial Statements* (IPSAS 1). The main differences between GRAP 1 and IPSAS 1 are as follows:

- GRAP 1 has incorporated changes to the International Accounting Standards under the improvements project of the International Accounting Standards Board (IASB). This includes the transfer of requirements for the selection and application of accounting policies to the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, and inclusion of the disclosure of key sources of estimation uncertainty and judgements made in applying accounting policies, amongst others.
- The scope of GRAP 1 is different to IPSAS 1 in that government business enterprises are defined differently.
- IPSAS 1 describes the residue of total assets after deducting total liabilities as "net assets/equity" whereas GRAP 1 refers to "net assets".
- GRAP 1 requires, where the financial statements and budgets are prepared on the same basis of accounting, the inclusion in the financial statements of a comparison with the budgeted amounts, and where a different basis of accounting is used, the inclusion of a reconciliation between the statement of financial performance and the budget. This disclosure is encouraged in IPSAS 1.
- Whereas GRAP 1 describes the period of foreseeable future in terms of going concern as 12 months from reporting date, IPSAS 1 refers to the same as 12 months from the approval of the financial statements. This change has been made in accordance with local requirements.
- Reference to extraordinary items has been removed from GRAP 1 in line with amendments made to the International Accounting Standards by the International Accounting Standards Board.
- Certain paragraphs that were mere recommendations in IPSAS 1 have been changed to black lettered paragraphs, for instance, the recommendation to include a reconciliation between the statement of financial performance and the budget where financial statements and the budget are prepared on a different basis.
- Paragraphs included in IPSAS 1 have been transferred to the Framework for the Preparation and Presentation of financial Statements and have been deleted from GRAP 1, for instance, paragraphs that covered the purpose of financial statements and the responsibility for the preparation and presentation of such statements in IPSAS 1.
- The term "management" has been introduced in GRAP 1 to describe those persons that are charged with the responsibility for the governance of an entity.





**Accounting Standards Board**

## **ACCOUNTING STANDARDS BOARD**

### **STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE**

#### **CASH FLOW STATEMENTS**

**(GRAP 2)**

**GRAP 2****Acknowledgement**

This Standard of Generally Recognised Accounting Practice (GRAP) is drawn primarily from the International Public Sector Accounting Standard (IPSAS) on *Cash Flow Statement* issued by the International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB). The International Federation of Accountants (IFAC) was founded in 1977 with its mission to develop and enhance the profession with harmonised standards. IPSASB has issued a comprehensive body of IPSASs, which will be used to produce future Standards of GRAP. Extracts of the IPSAS on *Cash Flow Statement* are reproduced in this Standard of GRAP with the permission of the IPSASB.

The approved text of the IPSASs is that published by the IFAC in the English language. The IPSASs are contained in the IFAC Handbook of International Public Sector Accounting Pronouncements and are available from:

International Federation of Accountants

545 Fifth Avenue, 14<sup>th</sup> Floor

New York, New York 10017 USA

Internet: <http://www.ifac.org>

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Comparison with the International Public Sector Accounting  
Standard on *Cash Flow Statements* (May 2000)



## GRAP 2

**STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE****CASH FLOW STATEMENTS****introduction**

Standards of Generally **Recognised Accounting Practice**

The Accounting Standards Board (Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (national and provincial);
- (b) public entities;
- (c) constitutional institutions;
- (d) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (e) Parliament and the provincial legislatures.

The above are collectively referred to as "entities" in Standards of GRAP.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants, to be GRAP for:

- (a) ~~government business enterprises (as defined in the PFMA);~~
- (b) trading entities (as defined in the PFMA);
- (c) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and
- (d) entities under the ownership control of any of these entities.

The Board believes that Statements of GAAP are relevant and applicable to financial statements prepared by all such entities, including those under their ownership control.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related interpretation that may be issued in the future.

Any limitation of the applicability of specific Standards is made clear in those Standards.

The Standard of GRAP on **Cash Flow Statements** is set out in paragraphs .01 - .51. All paragraphs in this Standard have equal authority. The authority of appendices is dealt with in the preamble to each appendix. This Standard should be read in the context of its objective, the **Preface to Standards of GRAP** and the **Framework for the Preparation and Presentation of Financial Statements**.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .12 of the Standard of GRAP on **Accounting Policies, Changes in Accounting Estimates and**

**GRAP 2**

**Errors** provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

**Objective**

- .01 The cash flow statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. Information about the cash flows of an entity is useful in providing users of financial statements with information for both accountability and decision making purposes. Cash flow information allows users to ascertain how an entity raised the cash it required to fund its activities and the manner in which that cash was used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash flows.

The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

**Scope**

- .02 ***An entity that prepares and presents financial statements under the accrual basis of accounting shall prepare a cash flow statement in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.***
- .03 Information about cash flows may be useful to users of an entity's financial statements in assessing the entity's cash flows, assessing the entity's compliance with legislation and regulations (including authorised budgets where appropriate) and for making decisions about whether to provide resources to, or enter into transactions with an entity. They are generally interested in how the entity generates and uses cash and cash equivalents. This is the case regardless of the nature of the entity's activities and irrespective of whether cash can be viewed as the product of the entity, as may be the case with a public financial institution. Entities need cash for essentially the same reasons, however different their principal revenue-producing activities might be. They need cash to pay for the goods and services they consume, to meet ongoing debt servicing costs, and, in some cases, to reduce levels of debt. Accordingly, this Standard of GRAP requires all entities to present a cash flow statement.

**Benefits of cash flow information**

- .04 Information about the cash flows of an entity is useful in assisting users to predict the future cash requirements of the entity, its ability to generate cash flows in the future and fund changes in the scope and nature of its activities. A cash flow statement also provides a means by which an entity can discharge its accountability for cash inflows and cash outflows during the reporting period.
- .05 A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes

**GRAP 2**

in net assets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. It also enhances the comparability of the reporting of operating performance by different entities, because it eliminates the effects of using different accounting treatments for the same transactions, other events and conditions.

- .06 Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.

**Definitions**

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

Accrual basis means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under the accrual basis are assets, liabilities, net assets, revenue and expenses.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a controlled entity nor a joint venture.

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

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

Contributions from owners means future economic benefits or service potential that have been contributed to the entity by parties external to the entity, which establish their financial interest in the net assets of the entity, provided that the contributions:

- (a) do not result in liabilities of the entity, and
- (b) meet both of the following tests;
  - (i) They convey entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners

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or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up.

- (ii) They can be sold, exchanged, transferred or redeemed.

Control is the power to govern the financial and **operating** policies of another entity so as to benefit from its activities.

Controlled entity is an entity, including an unincorporated entity such as a partnership that is under the control of another entity (known as the controlling entity).

Controlling entity is an entity that has one or more controlled entities.

Cost method is a method of accounting whereby the investment is recorded at cost. The statement of financial performance reflects revenue from the investment only to the extent that the investor receives distributions from accumulated net surpluses of the investee arising subsequent to the date of acquisition.

Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

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

Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Exchange rate is the ratio of exchange for two currencies.

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.

Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Foreign currency is a currency other than the functional currency of the entity.

Functional currency is the currency of the primary economic environment in which the entity operates.



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Government business enterprise means an entity that, in accordance with the Public Finance Management Act, Act No. 1 of 1999, as amended:

- (a) is a juristic person under the ownership control of the national/provincial executive;
- (b) has been assigned the financial and operational authority to carry on a business activity;
- (c) as its principal business, provides goods or services in accordance with ordinary business principles; and
- (d) is financed fully or substantially from sources other than –
  - (i) the National or Provincial Revenue Fund; or
  - (ii) by way of a tax, levy or other statutory money.

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- (a) the effects of the retrospective application or retrospective restatement are not determinable;
- (b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
- (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
  - (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
  - (ii) would have been available when the financial statements for that prior period were authorised for issue from other information.

Investment activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.

Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.

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Liabilities are present obligations 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.

Management comprises those persons responsible for the governance of the entity in accordance with legislation, including the accounting officers, however described in legislation.

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The size or nature of the information item, or a combination of both, could be the determining factor.

Minority interest is that portion of the surplus or deficit and of net assets of a controlled entity attributable to interests that are not owned, directly or indirectly through controlled entities, by the controlling entity.

Net assets are the residual interest in the assets of the entity after deducting all its liabilities.

Notes contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Operating activities are the activities of the entity that are not investing or financing activities.

Presentation currency is the currency in which the financial statements are presented.

Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, revenue and expenses of a jointly controlled entity is combined on a line-by-line basis with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.

Provisions are liabilities of uncertain timing and amount.

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

Revaluations are restatements of assets and liabilities.

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.

**Presentation of a cash flow statement**

**GRAP 2****.08 The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.**

**.09** An entity presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

**.10** A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.

**Operating activities**

**.11** 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:

- (a) by way of taxes (directly and indirectly); or
- (b) 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, pay a dividend to its owner and make new investments without recourse to external sources of financing. The consolidated whole-of-government operating cash flows provide an indication of the extent to which a government has financed its current activities through taxation and charges. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

**.12** Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

- (a) cash receipts from taxes, levies and fines;
- (b) cash receipts from charges for goods and services provided by the entity;
- (c) cash receipts from grants or transfers and other appropriations or other budget authority made by national government or other entities;
- (d) cash receipts from royalties, fees, commissions and other revenue;
- (e) cash payments to other entities to finance their operations (not including loans);
- (f) cash payments to suppliers for goods and services;
- (g) cash payments to and on behalf of employees;

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- (h) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
- (i) cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;
- (j) cash receipts and payments from contracts held for dealing or trading purposes;
- (k) cash receipts or payments from discontinuing operations; and
- (l) cash receipts or payments in relation to litigation settlements.

Some transactions, such as the sale of an item of plant, may give rise to a gain or **loss** which is included in the determination of net surplus or deficit. However, the cash flows relating to such transactions are cash flows from investing activities.

- .13 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by public financial institutions are usually classified as operating activities since they relate to the main cash-generating activity of that entity.

**Investing activities**

- .14 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. Examples of cash flows arising from investing activities are:
- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;
  - (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
  - (c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
  - (d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
  - (e) cash advances and **loans** made to other parties (other than advances and loans made by a public financial institution);

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- (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);
- (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
- (h) Cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

**Financing activities**

- .15** The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:
- (a) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short- or long-term borrowings;
  - (b) cash repayments of amounts borrowed; and
  - (c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

**Reporting cash flows from operating activities**

- .16** *An entity shall report cash flows from operating activities using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.*
- .17** The direct method provides information which may be useful in estimating future cash flows. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:
- (a) from the accounting records of the entity; or
  - (b) by adjusting operating revenues, operating expenses (interest and similar revenue, and interest expense and similar charges for a public financial institution) and other items in the statement of financial performance for:
    - (i) changes during the period in inventories and operating receivables and payables;
    - (ii) other non-cash items; and
    - (iii) other items for which the cash effects are investing or financing cash flows.

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- .18** Entities should provide a reconciliation of the surplus/deficit with the net cash flow from operating activities. This reconciliation may be provided as part of the cash flow statement or in the notes to the financial statements.

## **Reporting cash flows from investing and financing activities**

- .19** *An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs .20 and .23 are reported on a net basis.*

## **Reporting cash flows on a net basis**

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

- (a) *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; and*
- (b) *cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.*

- .21** Paragraph .20(a) refers only to transactions where the resulting cash balances are controlled by the reporting entity. Examples of such cash receipts and payments include:

- (a) the collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax sharing arrangement;
- (b) the acceptance and repayment of demand deposits of a public financial institution;
- (c) funds held for customers by an investment or trust entity; and
- (d) rents collected on behalf of, and paid over to, the owners of properties.

- .22** Examples of cash receipts and payments referred to in paragraph .20(b) are advances made for, and the repayment of:

- (a) the purchase and sale of investments; and
- (b) other short-term borrowings, for example, those which have a maturity period of three months or less.

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

- (a) *cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;*
- (6) *the placement of deposits with and withdrawal of deposits from other financial institutions; and*

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- (c) *cash advances and loans made to customers and the repayment of those advances and loans.*

**Foreign currency cash flows**

- .24** *Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.*
- .25** *The cash flows of a foreign controlled entity shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.*
- .26** Cash flows denominated in a foreign currency are reported in a manner consistent with the Standard of GRAP on The Effects of Changes in Foreign Exchange Rates. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign controlled entity. The Standard of GRAP on The Effects of Changes in Foreign Exchange Rates does not permit the use of the exchange rate at reporting date when translating the cash flows of a foreign controlled entity.
- .27** 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 the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

**Interest and dividends**

- .28** *Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.*
- .29** The total amount of interest paid during a period is disclosed in the cash flow statement whether it has been recognised as an expense in the statement of financial performance or capitalised in accordance with the allowed alternative treatment in the Standard of GRAP on Borrowing Costs.
- .30** Interest paid and interest and dividends received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of net surplus or deficit. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

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- .31** Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to make these payments out of operating cash flows.

**Taxes on surplus**

- .32** *Cash flows arising from taxes on surplus shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.*
- .33** Entities are generally exempt from taxes on surpluses.
- .34** Taxes on surplus arise from transactions that give rise to cash flows that are classified as operating, investing or financing activities in a cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transaction. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities, the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

**Investments in controlled entities, associates and joint ventures**

- .35** When accounting for an investment in an associate or a controlled entity accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends and advances.
- .36** An entity that reports its interest in a jointly controlled entity using proportionate consolidation includes in its consolidated cash flow statement its proportionate share of the jointly controlled entity's cash flows. An entity which reports such an interest using the equity method includes in its cash flow statement the cash flows in respect of its investments in the jointly controlled entity, and distributions and other payments or receipts between it and the jointly controlled entity.

**Acquisitions and disposals of controlled entities and other operating units**

- .37** *The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units shall be presented separately and classified as investing activities.*
- .38** *An entity shall disclose, in aggregate, in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:*



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- (a) *the total purchase or disposal consideration;*
  - (b) *the portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;*
  - (c) *the amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of; and*
  - (d) *the amount of the assets and liabilities other than cash or cash equivalents recognised by the controlled entity or operating unit acquired or disposed of, summarised by each major category.*
- .39 The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operating units as single line items, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of disposals are not deducted from those acquisitions.
- .40 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of.
- .41 Assets and liabilities other than cash or cash equivalents of a controlled entity or operating unit acquired or disposed of are only required to be disclosed where the controlled entity or unit had previously recognised those assets or liabilities. For example, where an entity which prepares reports under the cash basis is acquired by another entity, the acquiring entity would not be required to disclose the assets and liabilities (other than cash and cash equivalents) of the entity acquired, as that entity would not have recognised non-cash assets or liabilities.

**Non-cash transactions**

- .42 *Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.*
- .43 Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an entity. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement, as these items do not involve cash flows in the current period. Examples of non-cash transactions are:
- (a) the acquisition of assets through the exchange of assets, the assumption of directly related liabilities, or by means of a finance lease; and
  - (b) the conversion of debt to equity.

**Components of cash and cash equivalents**

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- .44** *An entity shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.*
- .45** In view of the variety of cash management practices and banking arrangements and in order to comply with the GRAP on Presentation of Financial Statements, an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents.
- .46** The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of an entity's investment portfolio, is reported in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

**Other disclosures**

- .47** *An entity shall disclose, together with a commentary by management in the notes to the financial statements, the amount of cash and cash equivalent balances held by the entity that are not available for use by the economic entity.*
- .48** There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the economic entity. Examples include cash and cash equivalent balances held by a controlled entity that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the controlling entity or other controlled entities.
- .49** Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is required and shall include:
- (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
  - (b) the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation; and
  - (c) the amount and nature of restricted cash balances.
- .50** Where appropriations or budget authorisations are prepared on a cash basis, the cash flow statement may assist users in understanding the relationship between the entity's activities or programmes and the government's budgetary information. Refer to the Standard of GRAP on Presentation of Financial Statements for a brief discussion of the comparison of actual and budgeted figures.

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**Effective date**

- .51** *This Standard of Generally Recognked Accounting Practice becomes effective for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.*

**GRAP 2****Appendix – Cash flow statement (for an entity other than a financial institution)**

*This appendix is illustrative only and does not form part of the Standards. The purpose of this appendix is to illustrate the application of the Standards to assist in clarifying their meaning.*

**Direct method cash flow statement (paragraph .16)****ENTITY – CONSOLIDATED CASH FLOW STATEMENT****FOR YEAR ENDED 31 DECEMBER 20X2**

(in thousands of currency units)

	20x2	20x1
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X
Payments		
Employee costs	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	<u>(X)</u>	<u>(X)</u>
<b>Net cash flows from operating activities</b>	<b>X</b>	<b>X</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X
Purchase of foreign currency securities	<u>(X)</u>	<u>(X)</u>
<b>Net cash flows from investing activities</b>	<b>(X)</b>	<b>(X)</b>

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**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Distribution/dividend to government	<u>(X)</u>	<u>(X)</u>
<b>Net cash flows from financing activities</b>	<b>X</b>	<b>X</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>X</b>	<b>X</b>
<b>Cash and cash equivalents at beginning of period</b>	<u><b>X</b></u>	<u><b>X</b></u>
<b>Cash and cash equivalents at end of period</b>	<u><b>X</b></u>	<u><b>X</b></u>

**Notes to the cash flow statement***(a) Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:

	<b>20X2</b>	<b>20x1</b>
Cash on hand and balances with banks	X	X
Short-term investments	<u>X</u>	<u>X</u>
	<u><b>X</b></u>	<u><b>X</b></u>

The entity has undrawn borrowing facilities of X, of which X must be used on infrastructural projects.

*(b) Property, plant and equipment*

During the period, the economic entity acquired property, plant and equipment with an aggregate cost of X, of which X was acquired by means of capital grants by the national government. Cash payments of X were made to purchase property, plant and equipment.

*(c) Reconciliation of net cash flows from operating activities to surplus/(deficit)*

(in thousands of rands)

<b>Surplus/(Deficit)</b>	<b>X</b>	<b>X</b>
<b>Non-cash movements</b>		
Depreciation	X	X

		<b>GRAP 2</b>
Amortisation	X	X
increase in provision for doubtful debts	X	X
Increase in payables	X	X
increase in borrowings	X	X
increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
increase in investments due to revaluation	(X)	(X)
increase in receivables	(X)	(X)
<b><i>Net cash flows from operating activities</i></b>	<b><i>(X)</i></b>	<b><i>(X)</i></b>

## GRAP 2

**Comparison with the International Public Sector Accounting Standard on *Cash Flow Statements* (May 2000)**

This Standard of Generally Recognised Accounting Practice (GRAP) on Cash Flow Statements (GRAP 2) is drawn primarily from the International Public Sector Accounting Standard on Cash *Flow* Statements (IPSAS 2). The main differences between GRAP 2 and IPSAS 2 are as follows:

- GRAP 2 is different from IPSAS 2 in that government business enterprises are defined differently.
- GRAP 2 has incorporated changes proposed to the International Accounting Standards under the improvements project of the International Accounting Standards Board (IASB).
- IPSAS 2 describes the residue of total assets after deducting total liabilities as "net assets/equity" whereas GRAP 2 refers to "net assets".
- The definition of the term "management" has been introduced in GRAP 2 to describe those persons that are charged with the responsibility for the governance of an entity.
- The classification and disclosure requirements of cash flows associated with extraordinary items have been eliminated in GRAP 2. Consequently the definitions of "surplus/deficit from ordinary activities", and "net surplus/deficit" have been deleted.
- The use of the indirect method, whereby net surplus or deficit is adjusted for the effects of transactions, has been eliminated from GRAP 2 to ensure consistency of preparation.
- Paragraphs included in IPSAS 2 have been transferred to the Framework for the Preparation and Presentation of Financial Statements and have been deleted from GRAP 2, for instance paragraphs that covered cash and cash equivalents, future economic benefits or service potential, economic entity and net assets.



## **ACCOUNTING STANDARDS BOARD**

### **STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE**

### **ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS**

**(GRAP 3)**





## GRAP 3

## Acknowledgement

This Standard of Generally Recognised Accounting Practice (GRAP) is drawn primarily from the International Public Sector Accounting Standard (IPSAS) on Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies issued by the International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB). The International Federation of Accountants (IFAC) was founded in 1977 with its mission to develop and enhance the profession with harmonised standards. IPSASB has issued a comprehensive body of IPSASs, which will be used to produce future Standards of GRAP. Extracts of the IPSAS on Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies are reproduced in this Standard of GRAP with the permission of the IPSASB.

The approved text of the IPSASs is that published by the IFAC in the English language. The IPSASs are contained in the IFAC Handbook of International Public Sector Accounting Pronouncements and are available from:

International Federation of Accountants

545 Fifth Avenue, 14<sup>th</sup> Floor

New York, New York 10017 USA

Internet: <http://www.ifac.org>

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## GRAP 3

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**GRAP 3****Changes in accounting policies**

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**GRAP 3****Introduction****Standards of Generally Recognised Accounting Practice**

The Accounting Standards Board (Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (national and provincial);
- (b) public entities;
- (c) constitutional institutions;
- (d) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (e) Parliament and the provincial legislatures.

The above are collectively referred to as "entities" in Standards of GRAP.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants, to be GRAP for:

- (a) government business enterprises (as defined in the PFMA);
- (b) trading entities (as defined in the PFMA);
- (c) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and
- (d) entities under the ownership control of any of these entities.

The Board believes that Statements of GAAP are relevant and applicable to financial statements prepared by all such entities, including those under their ownership control.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related interpretation that may be issued in the future.

Any limitation of the applicability of specific Standards is made clear in those Standards.

The Standard of GRAP on Accounting Policies, Changes in Accounting ~~Estimates and Errors~~ is set out in paragraphs .01 - .54. All paragraphs in this Standard have equal authority. The authority of appendices is dealt with in the preamble to each appendix. This Standard should be read in the context of its objective, the Preface to Standards of GRAP and the Framework for the Preparation and Presentation of Financial Statements.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

**GRAP 3****Objective**

- .01 The objective of this Standard 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. The Standard is intended to enhance the relevance and reliability of the entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in the Standard of GRAP on Presentation of Financial Statements.

**Scope**

- .02 *An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.*
- .03 The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with the International Accounting Standard on *Income Taxes*.

**Definitions**

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

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

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Accrual basis means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual basis are assets, liabilities, net assets, revenue and expenses.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

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

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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Cash flows are inflows and outflows of cash and cash equivalents.

Contributions from owners means future economic benefits or service potential that have been contributed to the entity by parties external to the entity, which establish their financial interest in the net assets of the entity, provided that the contributions:

- (a) do not result in liabilities of the entity, and
- (b) meet both the following tests;
  - (i) They convey entitlement both to distributions of future economic benefits or service potential/ by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
  - (ii) They can be sold, exchanged, transferred or redeemed.

Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

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.

Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Government business enterprise means an entity that, in accordance with the Public Finance Management Act, Act No. 1 of 1999, as amended:

- (a) is a juristic person under the ownership control of the national/provincial executive;
- (b) has been assigned the financial and operational authority to carry on a business activity;
- (c) as its principal business, provides goods or services in accordance with ordinary business principles; and
- (d) is financed fully or substantially from sources other than –
  - (i) the National or Provincial Revenue Fund; or
  - (ii) by way of a tax, levy or other statutory money.

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Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- (a) the effects of the retrospective application or retrospective restatement are not determinable;
- (b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
- (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
  - (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
  - (ii) would have been available when the financial statements for that prior period were authorised for issue from other information.

Liabilities are present obligations 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.

Mananement comprises those persons responsible for the governance of the entity in accordance with legislation, including the accounting officers, however described in legislation.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size or nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the information item, or a combination of both, could be the determining factor.

Net assets are the residual interest in the assets of the entity after deducting all its liabilities.

Notes contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Operatinn activities are the activities of the entity that are not investing or financing activities.

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

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- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Prospective application of a change in an accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

- (a) applying the new accounting policy to **transactions**, other events and conditions occurring after the date as at which the policy is changed; and
- (b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

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.

## Accounting policies

### Selection and application of accounting policies

- .05 When a Standard of **GRAP** specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard and considering any relevant Interpretations issued by the **ASB** for the Standard.
- .06 Standards of GRAP set out accounting policies that the ASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from Standards of GRAP to achieve a particular presentation of an entity's financial position, financial performance or cash flows.
- .07 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:
  - (a) relevant to the economic decision-making needs of users; and
  - (b) reliable in that the financial statements:



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- (i) represent faithfully the financial position, financial performance and cash flows of the entity;
  - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
  - (iii) are neutral, i.e. free from bias;
  - (iv) are prudent; and
  - (v) are complete in all material respects.
- .08** If one or more alternative accounting policies (benchmark or allowed alternative) are available under a Standard of GRAP, an entity should choose and apply consistently one of those policies unless the Standard specifically requires or permits categorisation of items (transactions, events, balances, amounts, etc.) for which policies are to be chosen. If a Standard requires or permits separate categorisation of items, a single accounting policy should be selected and applied consistently to each category.
- .09** Once an initial policy has been selected, a change in accounting policy should only be made in accordance with this Standard of GRAP and applied to all items or categories of items in the manner specified in paragraph .08.
- .10** The quality of information provided in financial statements determines the usefulness of the financial statements to users. Paragraph .07 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. The Framework for the Preparation and Presentation of Financial Statements contains the qualitative characteristics of financial reporting.
- .11** In making the judgement described in paragraph .07, management shall refer to and consider the applicability of, the following sources in descending order:
- (a) the requirements and guidance in Standards of GRAP dealing with similar and related issues; and
  - (b) the 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.
- .12** In making the judgement described in paragraph .07, management may also consider the most recent pronouncements of other standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with the sources in paragraph .11. For example pronouncements of, in descending order, the International Public Sector Accounting Standards Board, the International Accounting Standards Board (including the Framework for the Preparation and Presentation of Financial Statements), the Accounting Practices Board, The South African Institute of Chartered Accountants' Accounting Practices Committee.

*Consistency of accounting policies*

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

*Changes in accounting policies*

- .14** *An entity shall change an accounting policy only if the change:*
- (a) is required by a Standard of GRAP; or*
  - (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.*
- .15** *Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, financial performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in an accounting policy meets one of the criteria in paragraph .14.*
- .16** *The following are not changes in accounting policies:*
- (a) the application of an accounting policy for events or transactions, other events or conditions that differ in substance from those that previously occurred; and*
  - (b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were immaterial.*
- .17** *The initial application of a policy to revalue assets in accordance with the Standard of GRAP on Property, Plant and Equipment or the Standard of GRAP on Intangible Assets is a change in an accounting policy to be dealt with as a revaluation in accordance with the Standard of GRAP on Property, Plant and Equipment or the Standard of GRAP on Intangible Assets, rather than in accordance with this Standard.*
- 18** *Paragraphs .19 – .31 do not apply to the change in accounting policy described in paragraph .17.*

**GRAP 3***Applying changes in accounting policies***.19** *Subject to paragraph .23:*

- (a) *an entity shall account for a change in accounting policy resulting from the initial application of a Standard in accordance with the specific transitional provisions, if any, in that Standard; and*
- (b) *when an entity changes an accounting policy upon initial application of a Standard that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.*

**.20** For the purpose of this Standard of GRAP, early application of a Standard is not a voluntary change in accounting policy.

**.21** In the absence of a Standard of GRAP that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph .12, apply an accounting policy from the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

*Retrospective application*

**.22** *Subject to paragraph .23, when a change in accounting policy is applied retrospectively in accordance with paragraph .19(a) or (b), the entity shall adjust the opening balance of each affected component of net assets for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.*

*Limitations on retrospective application*

**.23** *When retrospective application is required by paragraph .19(a) or (b), a change in accounting policy shall be applied retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change..24 When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets for that period-25 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.*

**.26** When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing balance sheets for that



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period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of net assets (for example, to comply with a Standard of GRAP). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

- .27** When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph .25, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and net assets arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs .50 -.53 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods.

## Disclosure

- .28** *When initial application of a Standard of GRAP has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:*

- (a) *the title of the Standard;*
- (b) *when applicable, that the change in accounting policy is made in accordance with its transitional provisions;*
- (c) *the nature of the change in accounting policy;*
- (d) *when applicable, a description of the transitional provisions;*
- (e) *when applicable, the transitional provisions that might have an effect on future periods;*
- (f) *for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;*
- (g) *the amount of the adjustment relating to periods before those presented, to the extent practicable; and*
- (h) *if retrospective application required by paragraph .19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.*

*Financial statements of subsequent periods need not repeat these disclosures.*

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**.29** When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

- (a) the nature of the change in accounting policy;
- (b) the reasons why applying the new accounting policy provides reliable and more relevant information; \_
- (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
- (d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- (e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

*Financial statements of subsequent periods need not repeat these disclosures.*

**.30** When an entity has not applied a new Standard of GRAP that has been issued but is not yet effective, the entity shall disclose:

- (a) this fact; and
- (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.

**.31** In complying with paragraph .30, an entity considers disclosing:

- (a) the title of the new Standard of GRAP;
- (b) the nature of the impending change or changes in accounting policy;
- (c) the date by which application of the Standard of GRAP is required;
- (d) the date as at which it plans to apply the Standard of GRAP initially; and
- (e) either:
  - (i) a discussion of the impact that initial application of the Standard is expected to have on the entity's financial statements; or
  - (ii) if that impact is not known or reasonably estimable, a statement to that effect.



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## Changes in accounting estimates

- .32** As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information. For example, estimates may be required of:
- (a) tax revenue due to government; bad debts arising from uncollected taxes;
  - (b) inventory obsolescence;
  - (c) the fair value of financial assets and financial liabilities;
  - (d) the useful lives of or expected pattern of consumption of economic benefits or service potential of depreciable assets;
  - (e) the percentage completion of road construction; or
  - (f) warranty obligations.
- .33** The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
- .34** 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. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.
- .35** A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.
- .36** *The effect of a change in an accounting estimate, other than a change to which paragraph .37 applies, shall be recognised prospectively by including it in surplus or deficit in:*
- (a) *the period of the change, if the change affects that period only; or*
  - (b) *the period of the change and future periods, if the change affects both.*
- .37** *To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, it shall be recognised by adjusting the carrying amount of the related asset, liability or net assets item in the period of the change.*
- .38** Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of change in estimate. A change in an accounting estimate may affect the current period's surplus or deficit or the surplus or deficit of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's surplus or deficit and is therefore recognised in the current period. However, a change in the estimated useful

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life of or the expected pattern of consumption of economic benefits or service potential of a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as revenue or expense in the current period. The effect, if any, on future periods is recognised as revenue or expense in those future periods.

**Disclosure**

- .39** *An entity shall 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 future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.*
- .40** *If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.*

**Errors**

- .41** Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Standards of GRAP if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs .42 - .47).
- .42** *Subject to paragraph .43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:*
- (a) *restating the comparative amounts for the prior period(s) presented in which the error occurred; or*
  - (b) *if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.*

*Limitations on retrospective restatement*

- .43** *A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.*
- .44** *When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).*
- .45** *When it is impracticable to determine the cumulative effect, at the beginning of the*

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*current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.*

- .46** The correction of a prior period error is excluded from surplus or deficit for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated as far back as is practicable.
- .47** When it is impracticable to determine the amount of an error (e.g. a mistake in applying an accounting policy) for **all** prior periods, the entity, in accordance with paragraph .45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and net assets arising before that date. Paragraphs .50- .53 provide guidance on when it is impracticable to correct an error for one or more prior periods.
- .48** Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates **by** their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

*Disclosure of prior period errors*

- .49** *In applying paragraph .42, an entity shall disclose the following:*
  - (a) *the nature of the prior period error;*
  - (b) *for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;*
  - (c) *the amount of the correction at the beginning of the earliest prior period presented; and*
  - (d) *if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.*

*Financial statements of subsequent periods need not repeat these disclosures.*

## **Impracticability in respect of retrospective application and retrospective restatement**

- .50** In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs .51 - .53, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.
- .51** It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates **may** be developed after the balance sheet date. Developing estimates is potentially more difficult when retrospectively



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applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

**.52** Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that

- (a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred; and
- (b) would have been available when the financial statements for that prior period were authorised for issue

from other information. For some types of estimates (e.g. an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

**.53** 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 in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in measuring financial assets previously classified as held-to-maturity investments in accordance with the Standard of GRAP on *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with the Standard of GRAP on *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

**Effective date**

**.54** *This Standard of Generally Recognised Accounting Practice becomes effective for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(a) of the Public Finance Management Act, Act No. 1 of 1999 as amended.*



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## Appendix

*This appendix is illustrative only and does not form part of the Standards of Generally Recognised Accounting Practice. The purpose of this appendix is to illustrate the application of the Standard and to assist in clarifying its meaning. Extracts from the financial statements are provided to show the effects on the financial statements of the transactions described in this appendix. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Standards of GRAP.*

### Errors

#### Example 1. Retrospective restatement of errors

*During 20X2, the entity discovered that revenue from income taxes was incorrect. Income taxes of R6,500 that should have been recognised in 20X1 were incorrectly omitted from 20X1 and recognised as revenue in 20X2.*

*The entity's accounting records for 20X2 show revenue from taxation of R60,000 (including the R6,500 taxation which should have been recognised in 20X1), and expenses of R86,500.*

*In 20X1, the entity reported:*

Revenue from taxation	34,000
User charges	3,000
Other operating revenue	<u>30,000</u>
Total revenue	67,000
Expenses	<u>(60,000)</u>
Surplus	<u>7,000</u>

#### ENTITY – STATEMENT OF FINANCIAL PERFORMANCE (EXTRACT)

	20x2	20x1
		(restated)
Revenue from taxation	53,500	40,500
User charges	4,000	3,000
Other operating revenue	<u>40,000</u>	<u>30,000</u>
Total revenue	37,500	73,500
Expenses	<u>(86,500)</u>	<u>(60,000)</u>
Surplus	<u>11,000</u>	<u>13,500</u>

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## GRAP 3

## ENTITY – STATEMENT OF CHANGES IN NET ASSETS

	<u>20X2</u>	<u>20x1</u> (restated)
Opening accumulated surpluses as previously reported	17,000	10,000
Correction of error (Note 1)	<u>6,500</u>	<u>—</u>
Opening accumulated surpluses	23,500	10,000
Surplus	<u>11,000</u>	<u>13,500</u>
Closing accumulated surpluses	<u>34,500</u>	<u>23,500</u>

## Changes in Accounting Policies

## Example 2. Change in accounting policy with retrospective application

During 20X2, the entity changed its accounting policy with respect to the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station which is under construction. In previous periods, the entity had capitalised such costs in accordance with the allowed treatment in Standard of GRAP on **Borrowing** Costs. The entity has now decided to expense, rather than capitalise, these costs in order to conform to the benchmark treatment in the Standard of GRAP on **Borrowing** Costs.

The entity capitalised borrowing costs of R2,600 during 20X1 and R5,200 in periods prior to 20X1. All borrowing costs incurred in previous years with respect to the acquisition of the power station were capitalised.

The accounting records for 20X2 show a surplus from operating activities before interest of R30,000; and interest expense of R3,000 (which relates only to 20X2).

In 20X1, the entity reported:

Surplus from operating activities before interest	18,000
Interest expense	<u>—</u>
Surplus	<u>18,000</u>

Opening accumulated surpluses for 20X1 were R20,000 and closing accumulated surpluses were R38,000.



## GRAP 3

## ENTITY – STATEMENT OF FINANCIAL PERFORMANCE

**(EXTRACT)**

	<u>20X2</u>	<u>20x1</u> (restated)
Surplus from operating activities before interest	30,000	18,000
Interest expense	<u>(3,000)</u>	<u>(2,600)</u>
Surplus	<u>27,000</u>	<u>15,400</u>

## ENTITY – STATEMENT OF CHANGES IN NET ASSETS

	<u>20x2</u>	<u>20x1</u> (restated)
Opening accumulated <del>surpluses</del> as previously reported	38,000	20,000
Change in accounting policy with respect to the capitalisation of interest (Note 1)	<u>(7,800)</u>	<u>(5,200)</u>
Opening accumulated <del>surpluses</del> as restated	30,200	14,800
Surplus	<u>27,000</u>	<u>15,400</u>
Closing accumulated <del>surpluses</del>	<u>57,200</u>	<u>30,200</u>

**Extracts from notes to the financial statements**

- During 20X2, the entity changed its accounting policy with respect to the treatment of borrowing costs relating to a hydro-electric power station which is in the course of construction for use. In order to conform to the benchmark treatment in the Standard of **GRAP** on **Borrowing Costs**, the entity now expenses rather than capitalises such costs. This change in accounting policy has been accounted for retrospectively. The comparative statements for 20X1 have been restated to conform to the changed policy. The effect of the change is an increase in interest expense of R3,000 (20X2) and R2,600 (20X1). Opening accumulated ~~surpluses~~ for 20X1 have been reduced by R5,200 which is the amount of the adjustment relating to periods prior to 20X1.

**GRAP 3****Prospective application of a change in accounting policy when retrospective application is not practicable****Example 3. Prospective application of a change in accounting policy when retrospective application is not practicable**

During 20X2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.

In the years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

The entity's management considered how to account for each of the two aspects of the accounting change. It determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2.

Additional information:

The entity's tax rate is 30 per cent.

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Property, plant and equipment at the end of 20X1:

cost	25,000
Depreciation	(14,000)
Net book value	<u>11,000</u>

Prospective depreciation expense for 20X2 (old basis)	1,500
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Some results of the engineering survey:

**GRAP 3**

Valuation	17,000
Estimated residual value	3,000
Average remaining asset life (years)	7
Depreciation expense on existing property, plant and equipment for 20X2 (new basis)	2,000

***Extract from the notes***

- 1 From the start of 20X2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2 because it was not practicable to estimate the effects of applying the policy either retrospectively, or prospectively from any earlier date. Accordingly, the adoption of the new policy has no effect on prior years. The effect on the current year is to increase the carrying amount of property, plant and equipment at the start of the year by R6,000; increase the opening deferred tax provision by R1,800; create a revaluation reserve at the start of the year of R4,200; increase depreciation expense by R500; and reduce tax expense by R150.



## GRAP 3

**Comparison with the International Public Sector Accounting Standard on Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies (May 2000)**

The Standard of Generally Recognised Accounting Practice on Accounting Policies, Changes *in* Accounting Estimates and Errors (GRAP 3) is drawn primarily from the International Public Sector Accounting Standard on Net Profit or *Loss* for the Period, Fundamental Errors and Changes *in* Accounting Policies (IPSAS 3). The main differences between GRAP 3 and IPSAS 3 are as follows:

- GRAP 3 has incorporated changes proposed to the International Accounting Standards under the improvements project of the International Accounting Standards Board (**IASB**). This includes the transfer of requirements for the selection and application of accounting policies to the Standard of GRAP on Presentation of financial Statements, amongst others.
- The scope of GRAP 3 is different to IPSAS 3 in that government business enterprises are defined differently.
- IPSAS 3 describes the residue of total assets after deducting total liabilities as "net assets/equity" whereas GRAP 3 refers to "net assets".
- The term "management" has been introduced in GRAP 3 to describe those persons that are charged with the responsibility for the governance of an entity.
- Extraordinary items as a separate line item in the statement of financial performance have been eliminated. Consequently, the definitions of "surplus/deficit from ordinary activities", "ordinary activities" and "net surplus or deficit" have been deleted.
- Paragraphs included in IPSAS 3 have been transferred to the framework for the Preparation and Presentation of Financial Statements and have been deleted from GRAP 3, for instance, paragraphs that covered future economic benefits or service potential and net assets.