



Comments due by 25 February 2011

## **DISCUSSION PAPER**

# **COMPARISON OF STANDARDS OF GRAP TO THE INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES**

## Introduction

This Invitation to Comment (ITC) outlines the Board's Discussion Paper on the *Comparison of the Standards of GRAP to the International Financial Reporting Standard for Small and Medium-sized Entities*. The Discussion Paper includes the Board's analysis of the key differences between these standards, any preliminary views reached as well as specific matters for comment.

## Commenting on the Invitation to Comment

This ITC on *Comparison of the Standards of GRAP to the International Financial Reporting Standard for Small and Medium-sized Entities* was prepared and published by the Board. Comment received may be used to inform the Board's future work on the Standards of GRAP.

Comment should be submitted in writing so as to be received by **25 February 2011**. Email responses are preferred. Unless respondents to the ITC specifically request confidentiality, their comment is a matter of public record. Comment should be addressed to:

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### **Acknowledgement**

The International Financial Reporting Standard for *Small and Medium-sized Entities* (IFRS for SMEs) issued by the International Accounting Standards Board (IASB) has been used in developing this Discussion Paper, as well as the supporting comparisons. Extracts of the IFRS for SMEs are reproduced in this Discussion Paper and supporting comparisons with the permission of the IASB.

The approved text of IFRSs is that published by the IASB in the English language and copies may be obtained directly from:

IFRS Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

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

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## **Background and purpose of this exposure draft**

The International Accounting Standards Board (IASB) issued the *International Financial Reporting Standard for Small and Medium-sized Entities* (IFRS for SMEs) in July 2009. Through interactions with various stakeholders, the Board has been asked to consider the appropriateness of the IFRS for SMEs for application in the public sector. In particular, it has been asked to consider whether any requirements in the existing Standards of GRAP could be aligned with the IFRS for SMEs.

In order to make this assessment, the Board has undertaken a detailed analysis and comparison of the IFRS for SMEs to the existing requirements of the Standards of GRAP. The results of this analysis are included in this Discussion Paper, along with any preliminary views reached by the Board and any specific issues requiring consultation.

## **Accompanying material**

The National Treasury has issued a document requesting respondents' views on areas outlined in the Discussion Paper where additional guidance may be needed. This document should be read, and responded to, in conjunction with the Discussion Paper. It is available on the Board's website on [www.asb.co.za](http://www.asb.co.za) and the National Treasury's website on <http://oag.treasury.gov.za>.

This Discussion Paper comprises a number of sections that analyse and discuss the most significant differences in principle between the IFRS for SMEs and the Standards of GRAP. Unless otherwise indicated, each section in this Discussion Paper is accompanied by a paragraph-by-paragraph, non-authoritative comparison of the relevant section(s) of the IFRS for SMEs and Standard(s) of GRAP. These detailed comparisons are provided for information purposes only and can be downloaded from the Board's website.

## **Due process and timetable**

As the Board intends to use the comment received on the discussions and views outlined in this Discussion Paper to inform its future work, it is appropriate to follow a due process. Preparers, users, auditors, Standard-setters and other parties with an interest in public sector financial reporting are therefore invited to comment on the Discussion Paper.

## **Request for comment**

Comment on this Exposure Draft is invited, and must be submitted by **25 February 2011**. The Board would particularly welcome respondents' views on the specific issues outlined in each section of the Discussion Paper. Respondents are also invited to comment on other aspects of the Discussion Paper by explaining the issue and identifying specific paragraphs of the IFRS for SMEs or Standards of GRAP, where appropriate.

The basis for accepting or rejecting significant comment will be published on the Board's website.

# Discussion Paper on Comparison of Standards of GRAP to IFRS for Small and Medium-sized Entities

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## Introduction to the Discussion Paper

### Background

#### *The IFRS for SMEs*

- IN1. In July 2009, the International Accounting Standards Board issued the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). In developing and issuing this IFRS, the IASB acknowledged that a less onerous set of accounting standards may be appropriate for certain entities in the private sector.
- IN2. The IASB considered that less onerous reporting requirements should be applied by those entities that are not publicly accountable. In the IFRS for SMEs, entities are publicly accountable if they have publicly traded equity or debt, or hold money in a fiduciary capacity, e.g. a bank.
- IN3. The accounting and reporting requirements for SMEs were developed using the full suite of IFRSs. Simplifications were then made to the full suite of IFRSs based on the needs of users of the financial statements. The simplifications varied from amending the recognition and measurement principles for certain transactions and events to requiring significantly fewer disclosures.
- IN4. The issuing of the IFRS for SMEs has had far-reaching consequences for Standard-setting in both the private and public sectors because it has become acceptable for certain entities to apply an alternative accounting framework. Simpler accounting alternatives also became acceptable for certain transactions and events. As a result of feedback received from stakeholders regarding the issue of the IFRS for SMEs, the Board has been asked to consider whether:
- (a) more than one reporting framework should be adopted in the public sector; and
  - (b) the Standards of GRAP could be simplified.

#### *International public sector perspective*

- IN5. Internationally, limited work has been done on whether the public sector should have more than one reporting framework, or whether existing public sector standards based on IFRSs could be simplified using the IFRS for SMEs.
- IN6. The IPSASB has tentatively agreed that it would not develop an additional reporting framework for the public sector. It has, however, agreed to consider the impact of the IFRS for SMEs on individual International Public Sector Accounting Standards (IPSASs).
- IN7. Standard-setters in New Zealand and Australia have considered the IFRS for SMEs in their respective countries. However, because these Standard-setters issue sector neutral standards (i.e. the accounting standards apply to both the public and the private sector), the impact of the IFRS for SMEs has not been specifically considered in the public sector.
- IN8. As a result of the limited work done internationally on the potential impact of the IFRS for SMEs in the public sector, and the need expressed by stakeholders

nationally to consider the issues outlined above, the Board undertook a comparison of the IFRS for SMEs to the Standards of GRAP.

## Purpose of the Discussion Paper

- IN9. The results of the Board's comparison of the IFRS for SMEs to the Standards of GRAP are outlined in this Discussion Paper. Based on the outcome of the Board's comparison and analysis, the main purpose of the Discussion Paper is to discuss and receive feedback from respondents on whether:
- an additional reporting framework should be introduced into the public sector for entities that meet certain criteria; and
  - the existing Standards of GRAP can be simplified using the principles in the IFRS for SMEs as a basis.
- IN10. The Board believes that the simplification of the Standards of GRAP should be considered regardless of the feedback received on an additional reporting framework for the public sector.
- IN11. In its analysis, the Board identified high-level conceptual differences between the IFRS for SMEs and the Standards of GRAP. The Board has not considered amending the Standards of GRAP in these areas, but has included the results of its analysis in the Discussion Paper as this may be useful to the Board's stakeholders.
- IN12. During preliminary consultations with stakeholders on the proposed simplifications to the Standards of GRAP, it was indicated that the Standards can be simplified beyond those proposals in the Discussion Paper. Many of the reasons given by stakeholders relate to the complexity of implementing the Standards, rather than the complexity of the principles in the Standards themselves.
- IN13. After consultation with the National Treasury, which is responsible for the implementation of the Standards, it was agreed that the need for additional implementation guidance should be assessed. To identify the areas where guidance is needed, the National Treasury has issued a discussion document requesting feedback from stakeholders on particular issues outlined in this Discussion Paper. The document issued by the National Treasury accompanies this Discussion Paper and is available on the Board's website.

## Scope of the Discussion Paper

### *Basis of comparison*

- IN14. Each section of the IFRS for SMEs has been compared to an equivalent Standard of GRAP<sup>1</sup>, except where an equivalent or similar Standard of GRAP has not been issued, or the principles in the Standard of GRAP cannot be directly compared to those in the IFRS for SMEs. As a result, the following sections of the IFRS for SMEs have been excluded from the scope of this Discussion Paper:
- (a) Financial instruments, including liabilities and equity (sections 11, 12, and 22): In developing GRAP 104 on *Financial Instruments*, the Board considered the proposals in the IFRS for SMEs as well as existing IFRSs on financial

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<sup>1</sup> The Standards of GRAP prior to the Improvements Project (2010) have been used in the comparisons. Where relevant, changes effective from 1 April 2011 have been discussed in the Discussion Paper or the comparison.

instruments. The approach adopted by the Board in accounting for financial instruments is different to that in the IFRS for SMEs since it does not distinguish between basic and other financial instruments. In GRAP 104, all financial instruments are categorised into defined categories depending on the characteristics of the instrument and management's intention.

- (b) Business combinations and goodwill (section 19): No equivalent Standard of GRAP exists<sup>2</sup>.
- (c) Share-based payments (section 26): Since these transactions are limited in the public sector, no equivalent Standard of GRAP has or is likely to be issued.
- (d) Income taxes (section 29): Since these transactions are limited in the public sector, no equivalent Standard of GRAP has or is likely to be issued.
- (e) Related party disclosures (section 33): No equivalent Standard of GRAP exists for related party disclosures.
- (f) Extractive industries and service concession arrangements (section 35): Extractive industries are limited in the public sector and therefore no equivalent Standard of GRAP exists. Service concession arrangements in the IFRS for SMEs are considered from the operator's perspective only. A Guideline has been issued by the Board that deals with the accounting by the grantor, not the operator.

Appendix A provides an analysis and mapping of the topics included in the Discussion Paper.

- IN15. The Board has not included public sector specific Standards of GRAP, such as the Standards of GRAP on *Heritage Assets*, *Impairment of Non-cash-generating Assets* and *Presentation of Budget and Actual Information*, in its comparison. The purpose of the comparison is to consider only those simplifications that could be made to the Standards of GRAP as a result of the IFRS for SMEs. In analysing the comment received on any proposed simplifications to the Standards of GRAP, the Board will assess the impact on the public sector specific Standards not included in this Discussion Paper.

#### *Discussion of key principles*

- IN16. The purpose of this Discussion Paper is to analyse and discuss the differences between the key principles of the IFRS for SMEs and the Standards of GRAP. As a result, discussions on the following aspects of the comparison between the IFRS for SMEs and the Standards of GRAP have not been included in the Discussion Paper.

#### *Concepts and terminology unique to the public sector*

- (a) Different concepts and terminology are used throughout the IFRS for SMEs when compared to the Standards of GRAP. This is because the IFRS for SMEs has been developed for profit-oriented entities in the private sector and the Standards of GRAP for entities that provide goods and services in the

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<sup>2</sup> At the time of publishing this Discussion Paper, the Board has issued an Exposure Draft of a proposed Standard of GRAP on *Transfers of Functions Between Entities Not Under Common Control*.

public sector. These sector differences are pervasive throughout the documents given their application in either public or private sector. These differences are noted in the detailed comparisons and, if relevant, are included in the Discussion Paper.

*Different transactions and accounting approaches*

- (b) Differences between the principles in the IFRS for SMEs and the Standards of GRAP may be justified where, for example, the transactions are not common to either the public or private sector or if different accounting approaches are used in either Standard. Where relevant, these differences are dealt with in the Discussion Paper, or they are documented in the detailed comparisons that accompany it.

*Content and structure of the IFRS for SMEs and the Standards of GRAP*

- (c) The content and structure of the IFRS for SMEs are different to the Standards of GRAP, for example:
- The Standards of GRAP include interpretive guidance issued by the International Financial Reporting Interpretations Committee in certain areas. Very limited interpretive guidance is provided in the IFRS for SMEs.
  - Definitions in the IFRS for SMEs are included in a separate glossary of terms and not in the main body of the Standard.

## **Organisation of the Discussion Paper**

IN17. A detailed comparison has been prepared for each section of the IFRS for SMEs and Standards of GRAP, except where indicated otherwise. The results of these comparisons have been organised into three parts.

- (a) Part I considers the high-level implications of the comparison of the IFRS for SMEs to the Standards of GRAP and focuses on the appropriateness of adopting more than one reporting framework in the public sector.
- (b) Part II considers the Standard-specific implications of the comparison of the IFRS for SMEs to the Standards of GRAP and outlines those areas where the standards differ. In Part II, the Board has reached preliminary views on whether the principles in the Standards of GRAP can be simplified or, alternatively, has requested respondents' views on whether simplification is needed and how this could be achieved. These topics are dealt with in Part II.
- Investments in associates and joint ventures
  - Assets: Common issues
  - Assets: Specific issues
  - Liabilities, contingent liabilities and contingent assets
  - Leases
  - Revenue

- Other aspects of financial reporting
- (c) Part III outlines those areas where the Board noted differences between the IFRS for SMEs and the Standards of GRAP, but does not intend making significant changes to the Standards of GRAP as a result of such differences. Part III deals with higher level conceptual issues such as the Framework, the presentation of financial statements and the preparation of consolidated and separate financial statements.

# **PART I - HIGH-LEVEL IMPLICATIONS OF THE COMPARISON OF THE IFRS FOR SMEs TO THE STANDARDS OF GRAP**

## **PART I – HIGH-LEVEL IMPLICATIONS OF THE COMPARISON OF THE IFRS FOR SMEs TO THE STANDARDS OF GRAP**

Entities in the public sector undertake a variety of operations, with varying degrees of complexity and available resources. With the issue of the IFRS for SMEs, many stakeholders indicated to the Board that certain entities should be allowed to apply a less onerous reporting framework.

The effect of this proposal is that some entities would apply the full suite of the Standards of GRAP, while other would apply another, less onerous reporting framework. The application of different reporting requirements for different entities is known as *differential reporting*.

While most stakeholders were not specific about the form and content of another reporting framework, many proposed that the IFRS for SMEs should be adopted as is. Others noted that the Board should simplify the existing requirements of the Standards for certain entities, using the IFRS for SMEs as a basis.

The Board considers that these are two separate issues that should be considered independently because of the way it sets Standards of GRAP.

When the Board develops Standards, it identifies whether any principles can be simplified, for example, by eliminating alternative accounting treatments and reducing disclosures. The Board therefore believes that regardless of its own and respondents' views on differential reporting, the Standards of GRAP should be simplified for all entities since this would be consistent with the way it develops Standards.

As a result, Part I of the Discussion Paper deals with the high-level implications of the comparison of the IFRS for SMEs to the Standards of GRAP and explores:

- the issue of differential reporting in general, whether the IFRS for SMEs in its current form is appropriate for application in the public sector, and the practical challenges of adopting another reporting framework in the public sector; and
- whether entities exist in the South African public sector that may be eligible to apply another reporting framework.

Part II of the Discussion Paper outlines the Standard-specific implications of the comparison of the IFRS for SMEs to the Standards of GRAP and explores those areas in the individual Standards that differ from the IFRS for SMEs and the Board's proposed views or actions.

### **Section 1 – Differential reporting in the public sector**

#### **References**

- 1.1 This section is drawn from Section 1, *Small and Medium-sized Entities*, of the IFRS for SMEs and the GRAP *Framework for the Preparation and Presentation of Financial Statements* (GRAP Framework). There is no paragraph-by-paragraph analysis of this section of the IFRS for SMEs as there is no directly equivalent Standard of GRAP.

#### **Analysis**

- 1.2 In the private sector, the IASB has acknowledged that less onerous accounting and reporting requirements are appropriate for certain types of entities. This distinction is made on the basis of whether an entity has public accountability and publishes general purpose financial statements for external users.
- 1.3 In assessing the appropriateness of differential reporting in the public sector, it is important to consider high-level conceptual issues such as public accountability, the objectives of general purpose financial statements, and the users of financial statements and their information needs. Also important in this regard is consideration of the practical implementation issues, such as the preparation of consolidated financial statements. The analysis that follows explores these areas.

*Conceptual analysis of differential reporting*

- 1.4 The IFRS for SMEs describes general purpose financial statements, users of financial statements and public accountability as follows:
  - P8 General purpose financial statements are those directed to general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs.
  - 1.2(b) ...Examples of external users include owners who are not involved in managing the business, existing and potential creditors and rating agencies.
  - 1.3 An entity has public accountability if:
    - (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
    - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds; and investment banks.
- 1.5 The GRAP Framework describes general purpose financial statements, users of financial statements and accountability as follows:
  - .11 The Framework is concerned with general-purpose financial statements, including consolidated financial statements. Such financial statements are prepared at least annually and are directed towards the common information needs of a wide range of users.
  - .13 The users of financial statements include parliament, legislatures and other governing bodies, the public who receive the services and pay taxes and levies, present and potential funders and supporters, suppliers and creditors, rating agencies, other governments, international agencies, resource providers, economists, financial analysts and employees.
  - .22 Accountability is the cornerstone of financial reporting in government, and the term *accountability* is used throughout this framework. Accountability is based on the belief that the citizens has a "right to know," a right to receive openly declared facts that may lead to public debate by the citizens and their elected

representatives. Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society".

- 1.6 Even though there is no equivalent definition of "public accountability" in the Standards of GRAP, the notion of "accountability" in the public sector is much wider than that envisaged in the IFRS for SMEs. "Accountability" in the public sector extends beyond trading debt or equity in a public market and holding assets in a fiduciary capacity for the following reasons:
- (a) Public sector entities exist to provide goods and services that are in the public interest. Examples of such services include energy, water, health care, education and policing.
  - (b) Most funding received by entities in the public sector is contributed by the public through taxes and other means.
  - (c) Public sector entities exercise stewardship over various resources which are of public importance, e.g. land, natural resources and heritage assets.
- 1.7 Since public sector entities operate in the public interest, users of the financial statements include those who provide resources and funding to the government, but also those who are recipients of public goods and services. Consequently, there are more users of general purpose financial statements in the public sector than the private sector and, more specifically, those financial statements prepared using the IFRS for SMEs.
- 1.8 The users of financial statements in the public sector use the information provided to make a wide range of decisions about performance, financial position, cash flows, sustainability, resource allocations and levels of service delivery. To ensure that all users are afforded the same level of decision-making, it is important that they are provided with the same information.

#### *Practical analysis of differential reporting*

- 1.9 In the South African public sector, legislation requires the preparation of consolidated financial statements. Consolidated financial statements are currently prepared for national government, for each provincial government, and each municipality and its entities. Once all entities in the public sector have migrated to accrual accounting, these consolidations will be prepared using Standards of GRAP.
- 1.10 Included in the consolidated financial statements for the national and each provincial government, are entities that prepare their financial statements in accordance with Standards of GRAP (such as departments, constitutional institutions and public entities) as well as Statements of GAAP (as government business enterprises). As the consolidated financial statements and the related disclosures will be prepared using Standards of GRAP
- any differences in the recognition and measurement principles in the reporting frameworks would require adjustment on consolidation; and
  - additional information would be required where the disclosure requirements of the reporting frameworks differ.

#### **Preliminary views and specific matters for comment**

##### *Appropriateness of the IFRS for SMEs and differential reporting in the public sector*

- 1.11 The inherent “public accountability” in the public sector and the wide range of users of general purpose financial statements should inform the requirements of the accounting and reporting framework.
- 1.12 While some entities in the public sector are smaller or less complex than others (relative to the services they provide, the community they service or the value of public funds they receive), they are all accountable to the public for the resources they receive and the services they provide. It is thus critical that the financial reporting framework used to prepare public sector financial statements supports public accountability and decision-making as fundamental objectives.
- 1.13 As all entities in the public sector are publicly accountable to the same groups of users, it is important that these users receive the same information from all entities. This ensures that users are treated equitably and are able to make informed decisions using consistent, comparable information. The use of different financial reporting frameworks by different entities in the public sector does not promote the equitable treatment of users, neither does it afford users the same decision-making opportunities and allow comparison of entities’ performance across the public sector.
- 1.14 As noted in the sections of the Discussion Paper that follow, there are a number of areas where the recognition, measurement and disclosure requirements of the IFRS for SMEs differ from the Standards of GRAP. As the consolidated financial statements are prepared using Standards of GRAP, the use of another reporting framework will result in additional challenges when preparing consolidated financial statements. In particular, additional information may be required from those entities that do not prepare their financial statements in accordance with Standards of GRAP.

*Specific matter for comment – Question 1*

1.15 The Board is therefore of the view that:

- (a) The requirements of the IFRS for SMEs are designed to meet the reporting requirements of those entities that do not have public accountability. The application of the IFRS for SMEs as a complete reporting framework for public sector entities is inappropriate as these entities are publicly accountable.
- (b) The comparability of financial statements in the public sector supports public accountability and sound decision-making. At a basic level, users of the various entities’ financial statements, such as the public at large, require the same information from all entities. Use of differential reporting in the public sector is therefore inappropriate.
- (c) The use of different reporting frameworks does not necessarily reduce the reporting burden of entities. Entities may still be required to prepare additional information that complies with the Standards of GRAP to enable the preparation of consolidated financial statements in accordance with legislation.

Do you agree with the Board’s views expressed above? Please provide reasons for your view.

*Alternative reporting frameworks for the public sector*

1.16 During the preliminary consultation with stakeholders on the Discussion Paper, it was indicated that some entities may exist in the public sector that should not use Standards of GRAP to prepare their financial statements because:

- they are not funded from public resources, i.e. they do not receive appropriations, transfers or grants from the revenue collected and distributed by government;
- they are not controlled, jointly controlled or significantly influenced by an entity that is required to produce consolidated financial statements using Standards of GRAP; and
- a wide range of users does not exist for their financial statements.

*Specific matter for comment – Question 2*

1.17 Where an entity meets all three the requirements in paragraph 1.16, it may be appropriate to apply an alternative reporting framework. For example, where a wide range of users does not exist for an entity's financial statements, it may be appropriate to apply a special purpose reporting framework. To assess whether and what type of reporting framework is required, the Board would particularly value comment on the nature and extent of the entities that exist in the public sector that meet all the three requirements in paragraph 1.16.

## **PART II – STANDARDS-LEVEL IMPLICATIONS OF THE COMPARISON OF THE IFRS FOR SMEs TO STANDARDS OF GRAP**

## **PART II – STANDARDS-LEVEL IMPLICATIONS OF THE COMPARISON OF THE IFRS FOR SMEs TO STANDARDS OF GRAP**

Part II of the Discussion Paper outlines the key differences between the principles in the IFRS for SMEs and specific Standards of GRAP. Each section provides an analysis of the differences between the Standards and the Board’s preliminary views or specific matters for comment on those differences.

As noted in Part I, the Board does not consider that the IFRS for SMEs is a suitable reporting framework for the public sector. However, the Board has considered that many of the principles in the IFRS for SMEs can be used to simplify the Standards of GRAP. One of the main objectives of the comparison is therefore to identify those areas where the Standards of GRAP can be simplified using the IFRS for SMEs.

Simplifications to the Standards of GRAP should be considered using an overriding principle.

As noted in the GRAP Framework, the requirements in the Standards of GRAP are developed within the overall constraint that the cost of providing information should not outweigh the benefit received by the users of the financial statements. When entities prepare their financial statements, they would also consider a “cost-benefit” test in applying the requirements of the individual Standards of GRAP. A “cost-benefit” test requires measurement of both the costs and benefits of providing or not providing certain information to the users of the financial statements.

The IFRS for SMEs uses the same overall constraint, except that on an individual Standard-level, the IASB has acknowledged that some information would only be useful to users if it can be provided without “undue cost and effort”. A test based on “undue cost and effort” does not require an assessment of the benefits users may or may not receive from the disclosure of the information.

The Board considers that the overall “cost-benefit” test should be retained, but that it could apply an “undue cost and effort” test in the individual Standards of GRAP. Where differences have been identified between the IFRS for SMEs and the Standards of GRAP, the Board has, in certain instances, requested respondents’ views on whether the information is useful to users of the financial statements and provides an indication of the cost or resources required to comply with the Standard. The responses to these questions will be used to inform the Board’s analysis of how “undue cost and effort” can be applied at an individual Standard-level.

## Section 2 – Investments in associates and joint ventures

### References

This section outlines the results of the comparison of sections 14 and 15 of the IFRS for SMEs to the Standards of GRAP on *Investments in Associates* (GRAP 7) and *Interests in Joint Ventures* (GRAP 8). A detailed paragraph-by-paragraph comparison is available.

### Analysis of differences

#### *Definition of joint control*

- 2.1 The definition of joint control in the IFRS for SMEs and GRAP 8 is different. The definition in the IFRS for SMEs notes that joint control is the “contractually agreed sharing of control”, while GRAP 8 notes that joint control is the agreed sharing of control over an activity as a result of a “binding arrangement”.
- 2.2 Public sector entities use a variety of mechanisms to conclude and regulate arrangements. Often, legislation or similar means, such as a government notice, regulation or ministerial order, is used. Despite the fact that arrangements are often concluded through other means, the effect of these arrangements is the same as if the arrangement had been concluded through a contract. The use of these alternative mechanisms is unique to the public sector and, as a result, the definition in GRAP 8 is appropriate.

#### *Accounting approach*

- 2.3 The accounting approach adopted in the IFRS for SMEs and the Standards of GRAP for associates and joint ventures differs. GRAP 7 requires that associates are accounted for using the equity method, while GRAP 8 requires that joint ventures are accounted for using either the proportionate consolidation or the equity method. In the separate financial statements prepared using GRAP 7 or GRAP 8, entities have a choice of measuring the investment in the associate or joint venture at cost or at fair value.
- 2.4 The IFRS for SMEs allows entities a free choice of accounting treatment in the consolidated and separate financial statements for both associates and joint ventures. Under the IFRS for SMEs, entities may elect to apply one of the following approaches.
  - Cost less impairment; except if published price quotations exist. Where public price quotations exist, fair value must be used.
  - Fair value, excluding transaction costs (with certain financial instrument disclosures).
  - Equity method (with required disclosure of fair values where published price quotations exist).

It is therefore important to note that proportionate consolidation is not allowed for joint ventures under the IFRS for SMEs.

- 2.5 As a result of the different approaches allowed under the IFRS for SMEs, very limited disclosures are required. For example, entities should disclose the accounting policy for investments in associates and joint ventures, the carrying amount of investments

in associates and joint ventures and the fair values of the investments (where published price quotations exist).

*Application of the equity method*

- 2.6 The IFRS for SMEs does not provide detailed guidance regarding differences in the reporting dates of entities where the equity method is applied (see paragraphs 11.4 and 11.5 below).
- 2.7 The IFRS for SMEs stipulates that transaction costs are added to the transaction price on initial recognition. GRAP 7 does not specify the treatment of transaction costs in determining the cost of the investment under the equity method.
- 2.8 In the IFRS for SMEs, losses of an associate are allocated to the “investment in the associate”. While the same principle is applied in the Standards of GRAP, GRAP 7 is more specific about what comprises the “investment in the associate”. GRAP 7 notes that an entity allocates losses in an associate to both the investment in the associate as well as any other long-term interests that, in substance, are part of an entity’s net investment in an associate. Together these are referred to as the “interest in the associate”. As entities may advance amounts to associates that do not require repayment or where the repayment is uncertain, it is appropriate that these amounts are considered as part of the “interest in the associate”. The additional guidance in GRAP 7 is therefore considered useful.
- 2.9 The IFRS for SMEs provides guidance on the measurement of an associate that becomes a subsidiary or a joint venture. The investor remeasures its previously held equity interest to fair value and recognises the resulting gain or loss, if any, in profit or loss. No similar guidance exists in GRAP 7 and 8. The Board has included similar guidance, however, in its proposed Standard of GRAP on *Transfers of Functions Between Entities Not Under Common Control* (where transfers of functions are achieved in stages). Finalisation of the principles in that standard will affect the guidance provided for this transaction.

*Disclosures*

- 2.10 The disclosures in both GRAP 7 and GRAP 8 are significantly more onerous compared to the IFRS for SMEs. The following additional disclosures are required in GRAP 7 and 8.

GRAP 7

These are additional disclosures required by venturers.

- (a) Summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and surplus or deficit.
- (b) The reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through controlled entities, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence.
- (c) The reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through controlled entities, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence.
- (d) The reporting date of the financial statements of an associate, when such

financial statements are used in applying the equity method and are, as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period.

- (e) The nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.
- (f) The unrecognised share of deficits of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of deficits of an associate.
- (g) The associate's legal name, country of incorporation (if not South Africa) and principal activities.
- (h) Where the equity method is not used, that fact should be stated.
- (i) Summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and surplus or deficit.
- (j) The movements in carrying value (beginning and end of the period), new investments, disposals, share of total revenue and expenses, dividends and other movements.
- (k) Where adjustments to eliminate the effect of different accounting policies cannot be made, the nature of the differences.

#### GRAP 8

These are additional disclosures required by venturers:

- (l) For contingent liabilities:
  - (i) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;
  - (ii) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and
  - (iii) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.
- (m) For contingent assets, a brief description of the following contingent assets and, where practicable, an estimate of their financial effect, where an inflow of economic benefits or service potential is probable:
  - (i) any contingent assets of the venturer arising in relation to its interests in joint ventures and its share in each of the contingent assets that have arisen jointly with other venturers; and
  - (ii) its share of the contingent assets of the joint ventures themselves.
- (n) The aggregate amount of the following commitments arising from joint ventures, separately from other commitments:

- (i) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and
- (ii) its share of the capital commitments of the joint ventures themselves.
- (o) A listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities.
- (p) The amounts relating to any significant unadjusted transactions or events occurring between the reporting date of the venturer and the reporting date of the joint venture.
- (q) The period for which the results of operations of the joint venture are included in the statement of financial performance.
- (r) If there are significant statutory, contractual or exchange control restrictions on the ability of a joint venture to distribute its reserves (other than those shown as non-distributable), the extent of the restrictions shall be indicated.
- (s) A venturer that reports its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation of the equity method is required to disclose the aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, revenue and expenses related to its interest in joint ventures.

### **Preliminary views and specific matters for comment**

#### *Accounting approaches*

- 2.11 Investments in associates or joint ventures indicate that the investor is able to either exercise significant influence or joint control over another entity. The accounting for these investments should therefore reflect that a more significant relationship exists. Accounting for investments in associates and joint ventures, using the equity method (or proportionate consolidation for joint ventures), rather than cost or fair value, better reflects the economic circumstances of the relationship.
- 2.12 In addition, the comparability of public sector entities' financial statements is an important objective of financial reporting. Allowing entities a range of accounting policy choices does not promote comparability and does not provide users with consistent information for decision-making.
- 2.13 The Board therefore does not support the approach adopted in the IFRS for SMEs for the measurement of investments in associates and joint ventures.

#### *Specific matter for comment – Question 3*

- 2.14 Do you agree with the Board's view? Please provide reasons for either agreeing or disagreeing with the Board's views.

#### *Transaction costs*

- 2.15 The equity method requires entities to measure these investments, initially at cost, but subsequently adjusted for the post-acquisition change in the investor's share of net assets/equity. Since the equity method is a cost based measurement, the transaction costs should be included in the initial cost. In line with the IFRS for SMEs, the Board proposes that the transaction costs should be capitalised to the

initial cost of the investment in an associate. This would require an amendment to GRAP 7.

*Specific matter for comment – Question 4*

2.16 Do you agree with the Board's proposed treatment of the transaction costs? Please provide reasons for either agreeing or disagreeing with the Board's views.

*Disclosures*

2.17 In issuing GRAP 7 and 8, the Board concluded that the additional disclosures outlined in paragraph 2.10 above are useful to users of the financial statements.

*Specific matter for comment – Question 5*

2.18 The Board would, however, value comment on whether any of the additional disclosure requirements in GRAP 7 and 8 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

*Issues requiring implementation guidance*

*Specific matter for comment – Question 6*

2.19 Are there any principles included in GRAP 7 and 8 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standards.

## Section 3 – Assets: Common issues

### References

This section outlines the results of the comparison of sections 13, 16, 17 18, 25, 27 and 34 of the IFRS for SMEs to the Standards of GRAP on *Borrowing Costs* (GRAP 5), *Inventories* (GRAP 12), *Investment Property* (GRAP 16), *Property, Plant and Equipment* (GRAP 17), *Intangible Assets* (GRAP 102), *Agriculture* (GRAP 101), *Impairment of Cash-generating Assets* (GRAP 26). A detailed paragraph-by-paragraph comparison is available for each section.

### Common issues

- 3.1 In comparing the requirements of the asset-related Standards of GRAP to the IFRS for SMEs, common issues were identified that affect more than one type of asset. These common issues are discussed separately from the specific issues identified for the different types of assets. The specific issues are discussed in Section 4.

### Analysis of differences

- 3.2 The comparison of the asset-related Standards of GRAP to the IFRS for SMEs highlighted the following differences which exist across the various types of assets.
- The recognition and measurement of assets acquired in non-exchange transactions.
  - The measurement of assets held for sale.
  - The treatment of borrowing costs.
  - The elimination of measurement alternatives.
  - The re-assessment of useful lives, depreciation methods and residual values.

#### *Assets acquired or transferred in non-exchange transactions*

- 3.3 Assets are often acquired in the public sector as a result of a non-exchange transaction, i.e. they are acquired at no or nominal cost. With the exception of section 18 which deals with intangible assets acquired through a government grant, no guidance is provided in the IFRS for SMEs for these types of transactions. The Standards of GRAP generally prescribe that assets acquired in a non-exchange transaction should be measured at fair value or a proxy for fair value, for example, replacement cost.
- 3.4 The Standards of GRAP also provide guidance on the measurement of assets that are transferred to another entity or individual as part of a non-exchange transaction. In instances where assets are transferred at no or only a nominal cost, certain measurement approaches may not be appropriate. As an example, GRAP 12 requires entities to measure inventories held for distribution at replacement cost rather than net realisable value.
- 3.5 The acquisition and transfer of assets through non-exchange transactions in the public sector may involve transactions that are unique to the public sector and are encountered more frequently. As a result, it is appropriate for separate guidance to be included in each Standard of GRAP dealing with assets.

*Measurement of assets held for sale*

- 3.6 As noted in section 3, the IFRS for SMEs does not prescribe specific accounting principles for non-current assets held for sale. In accordance with GRAP 100, when an entity is committed to a plan to sell an asset or disposal group, it:
- (a) Ceases depreciation of the relevant asset(s) or disposal group(s).
  - (b) Measures the asset(s) or disposal group(s) at the lower of their carrying amount and their fair value less costs to sell.
  - (c) Reclassifies the asset(s) or disposal group(s) as current assets and/or current liabilities (where relevant). Additional disclosures are also required.
- 3.7 The IFRS for SMEs requires an entity to assess whether or not a plan to dispose of an asset gives rise to an impairment loss, and requires certain narrative disclosures when an entity has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities.

*Borrowing costs*

- 3.8 GRAP 5 requires entities to capitalise borrowing costs unless it is inappropriate to do so. It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of an entity directly to the nature of the expenditure to be funded i.e. capital or current. In such cases, an entity shall expense those borrowing costs related to a qualifying asset. The IFRS for SMEs does not permit the capitalisation of borrowing costs to qualifying assets; all borrowing costs are expensed.

*Elimination of measurement alternatives for assets*

- 3.9 The IFRS for SMEs prescribes specific measurement approaches for the various types of assets and has, in many instances, eliminated alternative accounting treatments. The measurement approaches used to subsequently measure assets in the IFRS for SMEs and the Standards of GRAP are outlined in Table 1 below. A table outlining the initial and subsequent measurement of assets in the Standards of GRAP and IFRS for SMEs is included at Appendix B).

*Re-assessment of useful lives, depreciation methods and residual values*

- 3.10 GRAP 17 and GRAP 102 require that an entity assess the useful lives, depreciation/amortisation methods and residual values of its property, plant and equipment and intangible assets at every reporting date. The IFRS for SMEs only requires an entity to re-assess the useful lives, depreciation methods and residual values if there has been an indication that circumstances may have changed from the previous reporting period.
- 3.11 The IFRS for SMEs provides an indication of the circumstances in which an entity may need to re-assess the useful lives, depreciation methods and residual values. These are as follows:
- A change in how an asset is used.
  - Significant unexpected wear and tear.
  - Technological advancements.
  - Changes in the market price of an asset.

Table 1 – Comparison of initial and subsequent measurement

Type of asset	IFRS for SMEs	Standards of GRAP
<b>Investment property, including property interests held by a lessee in an operating lease</b>	<p>Fair value, unless fair value cannot be determined reliably without undue cost and effort.</p> <p>Where fair value cannot be determined without undue cost and effort, investment property is measured using the cost model in accordance with the requirements for property, plant and equipment.</p> <p>Investment property under construction measured at cost at initial recognition.</p>	<p>Choice of cost model (which comprises cost less accumulated depreciation and accumulated impairment losses) or fair value model.</p> <p>Note: The same measurement model must be applied for all investment properties.</p>
<b>Property, plant and equipment</b>	Cost model.	Choice of cost model or revaluation model.
<b>Intangible assets</b>	Cost model.	Choice of cost model or revaluation model.
<b>Agriculture</b>	Fair value less costs to sell. Where fair value less costs to sell cannot be determined reliably without undue cost and effort, a cost model is used.	Fair value less costs to sell. If there are no market prices for the assets or where alternative techniques to determine fair value are unreliable, a cost model is used.

**Preliminary views and specific matters for comment**

*Assets held for sale*

3.12 In the South African public sector, entities apply the measurement, presentation and disclosure requirements of GRAP 100 for non-current assets held for sale (including disposal groups) and discontinued operations. Broadly, GRAP 100 requires entities to measure assets held for sale using the lower of their carrying value and fair value less costs to sell when an entity is committed to sell the asset, and to present these assets separately on the statement of financial position. GRAP 100 requires specific presentation and disclosure of discontinued operations both in the statement of financial performance and position.

3.13 During the initial adoption of the Standards of GRAP the Board received feedback from stakeholders that the requirements of GRAP 100 are onerous. The Board continues to hold the view that the treatment of non-current assets held for sale and discontinued operations is appropriate as it reflects the effect of decisions taken by management regarding the use of their assets at year-end as well as operations that have been discontinued. However, the Board is willing to consider whether any areas of GRAP 100 could be clarified or simplified.

*Specific matter for comment – Question 7*

3.14 The Board requests respondents' views on what aspects of GRAP 100 could be amended or improved. Respondents should describe their issues in sufficient detail and, where relevant, make reference to the necessary paragraphs in GRAP 100.

*Borrowing costs*

- 3.15 The IASB concluded that borrowing costs should not be capitalised by small and medium-sized entities on the basis of feedback received that the cost of applying this approach outweighs the benefits. In 2008, the IPSASB re-considered its approach to borrowing costs and issued an Exposure Draft requiring the capitalisation of borrowing costs. Comment received as part of the public due process indicated that many respondents did not support the capitalisation of borrowing costs.
- 3.16 Locally, the Board has received informal feedback from stakeholders that the requirements to capitalise borrowing costs are onerous and difficult to apply in practice. In particular, stakeholders have said that it is difficult to allocate borrowing costs as many entities borrow centrally and cannot necessarily attribute borrowing costs to specific qualifying assets.

*Specific matter for comment – Question 8*

- 3.17 The Board would therefore appreciate respondents' views on whether the approach in GRAP 5 should be retained, i.e. borrowing costs are capitalised unless it is inappropriate to do so, or the approach in the IFRS for SMEs should be followed. The latter requires that all borrowing costs are expensed. Respondents should provide supporting rationale for their views.

*Elimination of measurement alternatives*

- 3.18 When issuing the Standards of GRAP, the Board eliminated alternative accounting treatments wherever possible, based on feedback from respondents during the public comment process. Respondents to the public comment process indicated that the measurement alternatives should be retained for investment properties, property, plant and equipment and intangible assets.
- 3.19 Sound conceptual arguments exist for the use of cost or another measurement basis:
- The use of a cost approach is simple to apply and results in information that is verifiable. Besides the ongoing assessment of impairment, depreciation methods, residual values and useful lives, specialist skills are not required to measure assets on an ongoing basis.
  - The use of a revaluation or fair value model results in more relevant information, but is relatively complex to apply. It also requires that resources be expended to determine the fair value or depreciated replacement cost on an ongoing basis.
- 3.20 Broadly, the IFRS for SMEs requires the use of:
- (a) fair value for investment property, including property interests held by a lessee in an operating lease, except where fair value cannot be determined reliably without undue cost and effort.
  - (b) the cost model for:
    - (i) investment properties that cannot be measured reliably at fair value without undue cost and effort;

- (ii) property, plant and equipment; and
- (iii) intangible assets.

*Specific matter for comment – Question 9*

3.21 The Board would value input on whether any measurement alternatives should be eliminated from the Standards of GRAP in line with the requirements of the IFRS for SMEs, or whether measurement alternatives should be allowed. Respondents' should also consider if any of the measurement alternatives impact on the scope of any of the Standards, for example, investment properties (see paragraph 4.14).

*Re-assessment of useful lives, depreciation methods and residual values*

3.22 The Board has received feedback from stakeholders that the annual assessment of residual values, useful lives and depreciation methods is onerous. This is particularly the case where entities hold large numbers of assets or they control complex assets such as infrastructure assets.

3.23 The IFRS for SMEs does not require an annual assessment of residual values, useful lives and depreciation method. It requires an assessment only when there has been an indication that there has been a change in circumstances (as outlined in 3.11 above).

*Specific matter for comment – Question 10*

3.24 The Board would therefore value comment particularly on whether:

- (a) An indicator based approach to assessing residual values, useful lives and depreciation methods is appropriate for the public sector?
- (b) The indicators outlined in the IFRS for SMEs are appropriate?

Respondents should explain their views wherever appropriate.

## Section 4 – Assets: Specific issues

### References

This section outlines the results of the comparison of sections 13, 16, 17 18, 27 and 34 of the IFRS for SMEs to the Standards of GRAP on *Inventories* (GRAP 12), *Investment Property* (GRAP 16), *Property, Plant and Equipment* (GRAP 17), *Intangible Assets* (GRAP 102), *Agriculture* (GRAP 101), *Impairment of Cash-generating Assets* (GRAP 26). A detailed paragraph-by-paragraph comparison is available for each section.

### Inventories

#### Analysis of differences

- 4.1 The IFRS for SMEs and GRAP 12 are similar, except that different terminology is used to describe the measurement bases. The IFRS for SMEs uses “estimated selling price less costs to complete and sell”, while GRAP 12 uses the term “net realisable value” and “current replacement cost”.
- 4.2 GRAP 12 requires two additional disclosures when compared to the IFRS for SMEs:
  - (a) Inventories measured at fair value less estimated point-of-sale costs, eg. agricultural produce after harvest or inventories held by commodity brokers.
  - (b) The circumstances that led to the reversal of a write-down of inventory.

#### Preliminary views and specific matters for comment – Inventories

##### *Disclosures*

- 4.3 The Board believes that disclosure of the circumstances that led to the reversal of any write-down would be useful information to provide users of the financial statements. Similarly, since inventories are measured at the lower of cost and net realisable value or current replacement cost in GRAP 12, it is useful to indicate to users whether any inventories are measured at fair value less estimated point-of-sale costs. As a result, the Board does not propose amending the disclosure requirements in GRAP 12.

##### *Specific matter for comment – Question 11*

- 4.4 Do you agree with the Board’s view? Please provide reasons for either agreeing or disagreeing with the Board’s views.

##### *Issues requiring implementation guidance*

##### *Specific matter for comment – Question 12*

- 4.5 Are there any principles included in GRAP 12 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

## Investment property

### Analysis of differences

#### *Scope and classification as investment property*

- 4.6 In accordance with the IFRS for SMEs, only those investment properties that are measured at fair value are classified as investment property. If investment property cannot be measured at fair value, it is treated as property, plant and equipment. Under GRAP 16, investment property measured using the cost model is still treated as investment property.
- 4.7 Investment property under construction is measured at initial recognition at cost, and is treated as investment property. Investment property under construction is measured at cost and treated as property, plant and equipment in accordance with GRAP 16 and 17. Investment property under construction is treated as investment property in the revised GRAP 16 effective from 1 April 2011. However, in the revised Standard, if an entity measures investment property at fair value, investment properties under construction are also measured at fair value.
- 4.8 Properties may often be used for more than one purpose. A property may be partially owner occupied and partially rented to external parties. The IFRS for SMEs requires mixed use properties to be separated into their various components unless the fair value of the investment property component cannot be measured reliably without undue cost and effort. If the fair value cannot be determined reliably, the whole property is treated as property, plant and equipment.
- 4.9 GRAP 16 requires mixed use properties to be accounted for as follows:
- (a) Where parts of the property can be sold or leased separately under a finance lease, those parts are treated separately.
  - (b) If parts of the property cannot be sold separately, an entity accounts for property as an investment property only if an insignificant portion of the asset is owner occupied.
- 4.10 The classification of mixed use investment property in the IFRS for SMEs is driven largely by the measurement approach adopted. In contrast, GRAP 16 uses an approach that is based on the use of the asset.
- 4.11 When the fair value of an investment property can no longer be determined reliably under the IFRS for SMEs, it is measured at cost and treated as property, plant and equipment. Where the fair value model is used in GRAP 16 and the fair value of a property is no longer available, an entity measures the property at cost, but is still treated as an investment property. Investment properties are only treated as property, plant and equipment where there has been a change in use.

#### *Disclosures*

- 4.12 There are a number of additional disclosures required in GRAP 16 when compared to the IFRS for SMEs. One of the most significant differences is that comparative information need not be presented for the reconciliation of the opening and closing balances of investment properties in the IFRS for SMEs.
- 4.13 The following additional disclosures are required in GRAP 16.

- (a) Criteria for distinguishing investment property and property, plant and equipment.
- (b) Separate disclosure of disposals, foreign exchange gains and losses and subsequent expenditure capitalised to the cost of investment properties is not required in the reconciliation of the opening and closing balances of property, plant and equipment. In the IFRS for SMEs these are dealt with as “other changes”.
- (c) The amounts included in surplus and deficit for:
  - (i) rental revenue; and
  - (ii) operating expenses incurred on properties, distinguishing between those properties that earned rental revenue and those that did not.
- (d) Where valuations are obtained for properties that includes values for assets that are recognised separately, e.g. lifts, air-conditioning, fittings or furniture (if leased on a fully furnished basis), a reconciliation should be shown in the notes to the financial statements indicating how the valuation was adjusted to avoid the double-counting of assets.

### **Preliminary views and specific matters for comment – Investment property**

#### *Scope*

4.14 Many of the differences in the scope of the IFRS for SMEs and GRAP 16 and the classification of investment property arise from the different measurement approach adopted in the IFRS for SMEs. Whether the scope of the standard is appropriate will be informed by respondents’ comments on the measurement alternatives outlined in paragraphs 3.18 to 3.20 above.

#### *Disclosures*

4.15 In issuing GRAP 16, the Board concluded that the additional disclosures outlined in paragraph 4.12 and 4.13 above are useful to users of the financial statements.

#### *Specific matter for comment – Question 13*

4.16 The Board would, however, value comment on whether any of the disclosure requirements in GRAP 16 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

#### *Issues requiring implementation guidance*

#### *Specific matter for comment – Question 14*

4.17 Are there any principles included in GRAP 16 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

## Property, plant and equipment

### Analysis of differences

#### *Scope*

4.18 As noted above, the scope of the IFRS for SMEs and GRAP 17 differs with regard to the treatment of investment property. In addition to differences in scope that arise from the treatment of investment property, GRAP 17 provides guidance on the treatment of heritage assets which are common in the public sector.

#### *Componentisation of assets*

4.19 The IFRS for SMEs requires assets to be allocated into major components if those components have significantly different patterns of consumption of economic benefits. GRAP 17 requires an entity to allocate an asset into its significant parts and depreciate each part separately. The IFRS for SMEs only requires separation of an asset into its component parts where those parts have different useful lives. GRAP 17 requires separation of an asset into parts when the cost of that part is significant in relation to the total cost of the item.

#### *Disclosures*

4.20 GRAP 17 requires or encourages a number of additional disclosures. Similar to GRAP 16, comparative information need not be presented in the IFRS for SMEs for the reconciliation of the opening and closing balances of property, plant and equipment.

4.21 The following additional disclosures are required in GRAP 17.

- (a) Separate disclosure of disposals and foreign exchange gains and losses is not required in the reconciliation of the opening and closing balances of property, plant and equipment. In the IFRS for SMEs these are dealt with as “other changes”.
- (b) Disclosure of whether depreciation is recognised in surplus or deficit or capitalised to the cost of another asset.
- (c) Expenditures recognised in the carrying amount of an item of property, plant and equipment under construction.
- (d) The amount of compensation received from third parties for items of property, plant and equipment impaired, lost or given up.

4.22 The following additional disclosures are encouraged in GRAP 17<sup>3</sup>.

- (a) The carrying value of temporarily idle property, plant and equipment.
- (b) The gross carrying amount of fully depreciated property, plant and equipment that is still in use.
- (c) The carrying amount of property, plant and equipment retired from active use.
- (d) Where the cost model is used, the fair value of property, plant and equipment in cases in which this is materially different from the carrying amount.

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<sup>3</sup> As part of the Improvements Project undertaken by the Board in 2010, the Board amended certain required and encouraged disclosures in GRAP 17. The amended requirements have been included in the Discussion Paper.

## **Preliminary views and specific matters for comment – Property, plant and equipment**

### *Componentisation of assets*

- 4.23 The Board has received feedback from stakeholders that the componentisation of assets is onerous. The IFRS for SMEs adopts a less stringent approach than GRAP 17 as an entity is only required to separate an asset into its component parts where those parts have different useful lives. This will, at a minimum, ensure that the use of the assets is correctly reflected in the financial statements as the depreciation expense adequately reflects the use of the asset.
- 4.24 However, GRAP 17 requires an entity to identify and account for separate parts where they have a significant cost in relation to the asset as a whole. Each part is depreciated separately. This approach (a) ensures that the use of the asset is correct, and (b) facilitates better derecognition and recognition of parts of assets, e.g. when major components of assets are replaced.
- 4.25 While the Board believes that the approach in GRAP 17 is conceptually more correct, if the parts of the assets do not have different useful lives, there is no financial impact if the parts of the assets are not accounted for separately. Given the feedback from stakeholders that componentisation of assets is difficult, the Board believes that a pragmatic rather than a conceptual approach should be taken regarding the componentisation of assets. The Board therefore proposes that the approach in the IFRS for SMEs should be followed and that parts of assets should only be accounted for separately where their useful lives differ.

#### *Specific matter for comment – Question 15*

- 4.26 The Board requests views on whether its proposal to follow the approach in the IFRS for SMEs is supported. Please provide reasons for supporting or disagreeing with its view.

### *Disclosures*

- 4.27 In issuing GRAP 17, the Board concluded that the additional disclosures outlined in paragraph 4.20 to 4.22 above are useful to users of the financial statements.

#### *Specific matter for comment – Question 16*

- 4.28 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 17 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

### *Issues requiring implementation guidance*

#### *Specific matter for comment – Question 17*

- 4.29 Are there any principles included in GRAP 17 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

## Intangible assets

### Analysis of differences

#### *Scope*

4.30 In the public sector, entities are often granted rights and powers through legislation or similar means. To avoid recognising these rights as intangible assets, GRAP 102 stipulates that rights arising from contracts (including binding arrangements) may give rise to intangible assets, except those that are conferred on entities through legislation. As these rights are unique to the public sector, similar requirements are not included in the IFRS for SMEs.

#### *Treatment of research and development costs*

4.31 In accordance with GRAP 102, research costs are expensed while development costs are recognised as an asset if certain criteria are met. In the IFRS for SMEs, both research and development costs are expensed.

#### *Useful lives of intangible assets*

4.32 In accordance with GRAP 102, intangible assets can be categorised as those having an indefinite useful life and those having finite useful lives. Indefinite life intangible assets are not amortised, but are tested for impairment on an annual basis. Extensive disclosures are required regarding indefinite life intangible assets. Specific impairment requirements are also outlined in GRAP 26.

4.33 The IFRS for SMEs does not allow indefinite life intangible assets. All intangible assets must be amortised. If the useful life cannot be reliably estimated, an entity amortisation period is presumed to be 10 years.

#### *Disclosures*

4.34 Similar to GRAP 16 and 17, comparative information need not be presented in the IFRS for SMEs for the reconciliation of the opening and closing balances of intangible assets.

4.35 The following additional disclosures are required in GRAP 102:

- (a) Separate disclosure of foreign exchange gains and losses is required in the reconciliation of the opening and closing balances of intangible assets. In the IFRS for SMEs these are dealt with as “other changes”.
- (b) The disclosure of fully amortised intangible assets still in use and intangible assets that are controlled by the entity, but not recognised because the control criteria are not met, is encouraged.

### **Preliminary views and specific matters for comment – Intangible assets**

#### *Research and development costs*

4.36 The IASB noted that it did not require the capitalisation of development costs as it was difficult for small and medium-sized entities to determine whether assets would be commercially viable in the future. It noted that users of the financial statements would not find the different treatment of research and development costs useful.

4.37 Entities in the public sector may undertake significant research and development activities. Unlike in the private sector, many intangible assets may be developed for

use by the entity in providing goods and services to the public, including for internal use. The Board believes that:

- entities in the public sector are able to make the necessary assessments required in GRAP 102 to capitalise development costs; and
- the capitalisation of costs incurred to develop assets that are used in the delivery of goods and services should be capitalised since it better reflects the use of public resources.

*Specific matter for comment – Question 18*

4.38 The Board therefore proposes to retain the approach in GRAP 102 and require the capitalisation of development costs where specific criteria are met. Do you agree with this view? Please provide reasons for supporting or disagreeing with the Board's view.

*Useful lives of intangible assets*

4.39 Indefinite life intangible assets result in complex accounting requirements in the Standards of GRAP, particularly with regard to impairment testing. A significant indefinite life intangible asset is goodwill, calculated as the difference between the fair value of the assets acquired and liabilities assumed and proceeds paid for an acquiree in a transfer of functions. The Board has recently issued a proposed Standard of GRAP on transfers of functions that does not allow the recognition of goodwill.

*Specific matter for comment – Question 19*

4.40 Indefinite life intangible assets typically comprise goodwill and other assets where the useful life is indefinite. With the Board's proposal that goodwill should not be recognised, a potential opportunity exists to simplify GRAP 102 if no other indefinite life intangible assets exist. To inform the Board's decision, it would value feedback from respondents on the existence of intangible assets in the public sector, other than goodwill, that have an indefinite useful life. Where indefinite life intangible assets exist, it would be useful if respondents provided a detailed description of the intangible assets, how they arise and why they have an indefinite life.

4.41 The IFRS for SMEs requires that if the amortisation period of an intangible asset cannot be reliably determined, it is amortised over 10 years. While prescribing specific thresholds simplifies the application of the IFRS for SMEs, it is inappropriate for Standards of GRAP that are principle-based. The Board believes that entities should make an estimate of the useful life of the asset, and disclose any uncertainty regarding this assessment in the financial statements.

*Specific matter for comment – Question 20*

4.42 The Board does not support prescribing specific thresholds in the Standards of GRAP and therefore does not propose amending GRAP 102. Do you agree with this view? Please provide reasons for agreeing or disagreeing.

*Disclosures*

4.43 The additional disclosures required in GRAP 102 are not significantly more onerous than those in the IFRS for SMEs. As a result, the Board does not believe that any changes are required.

*Specific matter for comment – Question 21*

4.44 Do you agree with the Board's view that no changes are necessary to the disclosures in GRAP 102? Please provide reasons for agreeing or disagreeing with the Board.

*Issues requiring implementation guidance*

*Specific matter for comment – Question 22*

4.45 Are there any principles included in GRAP 102 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, wherever relevant, refer to the specific paragraphs in the Standard.

**Biological assets that are part of an agricultural activity**

**Analysis of differences**

4.46 The IFRS for SMEs and GRAP 101 are similar. The IFRS for SMEs requires the use of fair value less costs to sell for biological assets unless fair value cannot be determined without undue cost and effort. GRAP 101 requires the use of fair value unless market-determined prices do not exist and other measurement techniques do not result in a reliable measure of fair value. Where fair value cannot be determined reliably, an entity uses the cost model. The most significant difference is that the IFRS for SMEs requires significantly less disclosures.

4.47 GRAP 101 requires the following additional disclosures:

*Fair value model*

- (a) Aggregate gains and losses on initial recognition of biological assets and agricultural produce, as well as any changes in fair value.
- (b) Encouraged disclosure of the quantitative values of groups of biological assets, distinguishing between bearer and consumable biological assets.
- (c) Non-financial measures or estimates of physical quantities of biological assets and output of agricultural produce and the nature of activities involving each group of biological assets.
- (d) Fair value less point of sale costs of agricultural produce harvested during the period, determined at the point of sale.
- (e) The existence and carrying amounts of biological assets whose title is restricted, or pledged as security; restrictions placed on sale of biological assets; commitments for the development and or acquisition of biological assets; and financial risk management strategies related to agricultural activity.
- (f) Encouraged disclosure of changes in fair value between physical and price changes.

- (g) Disclosure of events, such as disease, climatic changes, that give rise to material revenue or expense.

These disclosures are also required for assets measured using the cost model.

*Cost model*

- (h) GRAP 101 requires disclosure of a range of estimates within which fair value is likely to lie.
- (i) Additional disclosures are required for biological assets measured at cost, i.e. where an entity sells biological assets measured at cost, it is required to disclose the gain or loss on sale, as well as a reconciliation of the opening and closing balances of the carrying values of assets. The reconciliation should also include line items for impairment, reversals of impairment as well as depreciation.
- (j) Where fair value can be reliably determined at a subsequent reporting date, the following disclosures are required: a description of the biological assets, why fair value cannot be determined and the effect of the change.

**Preliminary views and specific matters for comment – Biological assets that are part of an agricultural activity**

*Disclosures*

4.48 In issuing GRAP 101, the Board concluded that the additional disclosures outlined in paragraph 4.47 above are useful to users of the financial statements.

*Specific matter for comment – Question 23*

4.49 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 101 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

*Issues requiring implementation guidance*

*Specific matter for comment – Question 24*

4.50 Are there any principles included in GRAP 101 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

**Impairment of assets**

**Analysis of differences**

4.51 Similar to the private sector, assets in the public sector may be operated to generate economic benefits. However, most assets are operated to generate service potential. The Standards of GRAP thus make a distinction between the impairment of cash- and non-cash-generating assets. Since most assets in the private sector are cash-generating, the comparison in this Discussion Paper is limited to the impairment approach followed for cash-generating assets in the Standards of GRAP.

### *Measuring an impairment loss*

4.52 The impairment approach adopted in the IFRS for SMEs and GRAP 26 is similar. More detailed guidance is provided in GRAP 26 regarding the determination of fair value and value-in-use. As examples, GRAP 26 stipulates that:

- (a) bid prices should be used when determining the fair values of assets; and
- (b) the discount rate should represent the risk free rate when determining value-in-use and, if appropriate, adjusted for risks specific to the asset for which the cash flows have not been adjusted.

### *Disclosure*

4.53 GRAP 26 requires the following additional disclosures.

- (a) For each material impairment loss recognised or reversed (for an asset or CGU):
  - (i) the events that led to the recognition or reversal;
  - (ii) amount of the loss recognised or reversed;
  - (iii) for an asset, the nature of the asset and which reportable segment is affected;
  - (iv) for a CGU, a description of the CGU, amount of the impairment loss recognised or reversed by class of assets (and by reported segment), and if the aggregation of assets has changed since last year, the reasons for the change.
- (b) Whether the recoverable amount was determined using fair value less costs to sell or value in use.
- (c) The manner in which fair value less costs to sell and value in use is determined.
- (d) Key assumptions used in determining the recoverable amounts of assets.

### **Preliminary views and specific matters for comment – Impairment of assets**

#### *Disclosures*

4.54 In issuing GRAP 26, the Board concluded that the additional disclosures outlined in paragraph 4.53 above are useful to users of the financial statements.

#### *Specific matter for comment – Question 25*

4.55 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 26 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

#### *Issues requiring implementation guidance*

#### *Specific matter for comment – Question 26*

4.56 Are there any principles included in GRAP 21 (or GRAP 26) that should specifically be addressed in the implementation guidance issued by the National Treasury (see



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paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

## **Section 5 – Liabilities, contingent liabilities and contingent assets**

### **References**

This section outlines the results of the comparison of sections 21 and 28 of the IFRS for SMEs to the Standards of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19) and *Employee Benefits* (GRAP 25). A detailed paragraph-by-paragraph comparison is available for each section.

### **Provisions, contingent liabilities and contingent assets**

#### **Analysis of differences**

- 5.1 The principles in the IFRS for SMEs and GRAP 19 are substantially the same. GRAP 19 provides additional guidance on specific issues, for example:
- obligations arising from social benefits;
  - the distinction between provisions, contingent liabilities, accruals and payables;
  - measuring provisions at the best estimate of the amount required to settle an obligation at the reporting date; and
  - the application of the principles in the Standard to future operating deficits, onerous contracts, restructuring provisions.
- 5.2 GRAP 19 does require additional disclosures, however, when compared to the IFRS for SMEs. The following disclosures are required:
- (a) Comparative information is required for the following.
- (i) A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.
  - (ii) An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, major assumptions made concerning future events are disclosed.
  - (iii) The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.
- (b) GRAP 19 requires the disclosure of the financial effect of contingent assets unless this disclosure is impracticable. The IFRS for SMEs requires this disclosure where it is practicable to do so, without undue cost and effort.

### **Preliminary views and specific matters for comment – Provisions, contingent liabilities and contingent assets**

#### *Disclosures*

- 5.3 In issuing GRAP 19, the Board concluded that the additional disclosures outlined in paragraph 5.2 above are useful to users of the financial statements.

*Specific matter for comment – Question 27*

- 5.4 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 19 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

*Issues requiring implementation guidance*

*Specific matter for comment – Question 28*

- 5.5 Are there any principles included in GRAP 19 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

## **Employee benefits**

### **Analysis of differences**

- 5.6 The principles in the IFRS for SMEs and GRAP 25 are similar in many respects. The most notable differences arise in the treatment of defined benefit plans.

#### *Scope*

- 5.7 The scope of GRAP 25 and the IFRS for SMEs is different. GRAP 25 specifically excludes composite social security programmes where benefits are provided by way of non-exchange transactions. Composite social security programmes are unique to the public sector.

#### *Short-term benefits*

- 5.8 The IFRS for SMEs specifically requires that provisions for short-term compensated absences are presented as current liabilities on the statement of financial position. GRAP 25 is not prescriptive in this regard. Instead entities use GRAP 1 on the *Presentation of Financial Statements* to determine whether presentation as a current or non-current liability is appropriate.

#### *Defined contribution plans*

- 5.9 Where entities make payments to defined contribution plans in advance of the service being rendered, GRAP 25 requires an asset to be recognised but only if the payment will result in a reduction in future payments or a cash refund. The IFRS for SMEs does not include a similar requirement. The effect of this difference may be minimal since entities applying the IFRS for SMEs would need to assess whether the advance payment meets the definition of an asset.

#### *Defined benefit plans*

- 5.10 The most significant difference between the IFRS for SMEs and GRAP 25 is that the IFRS for SMEs requires the use of the projected unit credit method, except where the information required to apply this method is not available or cannot be obtained without undue cost and effort. In these instances, an alternative approach is used that does not consider future salary increases or an employee's mortality during his/her period of employment. GRAP 25 only allows the use of the projected unit credit method.

- 5.11 The IFRS for SMEs allows the recognition of actuarial gains and losses in the income statement or the statement of comprehensive income. Actuarial gains and losses are recognised in full in the year that they arise. GRAP 25 requires the recognition of actuarial gains and losses in full in the statement of financial performance.
- 5.12 GRAP 25 provides detailed guidance on the steps that are to be followed in measuring defined benefit plans. It also provides guidance on the application of the projected unit credit method as well as the measurement of plan assets. The IFRS for SMEs provides limited guidance in this regard.
- 5.13 In determining the defined benefit obligation and plan assets, the following differences exist between the IFRS for SMEs and GRAP 25.
- (a) In determining the net asset or liability to be presented in the statement of financial position, GRAP 25 requires the recognition of an additional liability where minimum funding requirements exist. As minimum funding requirements may give rise to an additional liability for an entity, these should be considered and recognised if appropriate.
  - (b) The discount rate in the IFRS for SMEs is determined primarily by reference to yields on high-quality corporate bonds. In accordance with GRAP 25, the discount rate is determined by reference to yields on government bonds. Based on consultation internationally and locally, respondents expressed a view that yields on government bonds best represent the risk free rate in the public sector.
  - (c) The asset-ceiling in the IFRS for SMEs and GRAP 25 differs. This difference is due to the recognition of liabilities arising from minimum funding requirements.
  - (d) GRAP 25 requires that defined benefit obligations and plan assets are re-measured before determining the effect of any curtailment or settlement. The IFRS for SMEs does not require a similar remeasurement. As a period of time may have elapsed since the last actuarial valuation, it is appropriate that the obligations and plan assets are re-measured before determining the effect of the curtailment or settlement.
- 5.14 Neither the IFRS for SMEs nor GRAP 25 require an actuarial valuation at every reporting date, But the IFRS for SMEs provides guidance on how to measure the defined benefit plan for the reporting periods between valuations. The IFRS for SMEs states that: "In the periods between comprehensive actuarial valuations, if the principal actuarial assumptions have not changed significantly the defined benefit obligation can be measured by adjusting the prior period measurement for changes in employee demographics such as number of employees and salary levels." Similar guidance is not provided in GRAP 25 even though the same approach should be adopted.
- 5.15 The IFRS for SMEs also requires disclosure of the date of the most recent comprehensive valuation and, if not at the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at that date.
- 5.16 The disclosures required in GRAP 25 are more onerous than the IFRS for SMEs. GRAP 25 requires the following additional disclosures.
- (a) Comparative information.

- (b) Specific disclosures of all the costs comprising the changes in the liability during the period.
- (c) Specific disclosures of all the changes to the plan assets.
- (d) Specific disclosure of the costs recognised in the statement of financial performance.
- (e) A reconciliation of plan assets and obligations.
- (f) A narrative description of the rate of return.
- (g) Disclosure of the basis used to determine the discount rate and expected rates of return on any reimbursement right recognised as an asset. These disclosures should be made in absolute terms.
- (h) A sensitivity analysis based on a 1% increase of medical inflation.
- (i) Historical trend information for the last four years.
- (j) An estimate required of contributions to be made in the next reporting period.

5.17 GRAP 25 provides guidance on the presentation of the following.

- (a) Circumstances when surpluses in one plan can be offset against deficits in another.
- (b) A non-current/current distinction is not required to be made for plan assets and liabilities.
- (c) Whether current service cost, past service cost, interest cost or expected return on plan assets should be shown as a single line item in the financial statements.

#### *Other long-term benefits*

5.18 The treatment of other long-term benefits in the IFRS for SMEs is consistent with GRAP 25. GRAP 25 provides additional guidance on the treatment of disability benefits.

#### *Group plans*

5.19 Where a controlling entity provides employee benefits to employees of its controlled entities, GRAP 25 requires the costs of the plan to be allocated between the various entities on the basis of any binding arrangement concluded between the entities or on the basis of their contributions made. The IFRS for SMEs only requires that these costs are accounted for by the various entities on a “reasonable” basis. No guidance is provided on what constitutes a “reasonable basis”.

### **Preliminary views and specific matters for comment – Employee benefits**

#### *Measuring defined benefit obligations*

5.20 Employee costs and, in particular, retirement costs resulting from defined benefit plans, are a significant expense for entities in the public sector. The approach adopted to measure these plans should adequately reflect their impact on entities’ financial performance and financial position. The alternative approach required in the IFRS for SMEs does not consider future salary increases, nor does it consider in-service mortality. Ignoring both these variables would have a significant impact on the measurement of the plan. Depending on the circumstances, ignoring salary

increases means that the liability may be understated, while ignoring in-service mortality may mean that the liability is overstated. As the projected unit credit method considers all variables in determining the value of the defined benefit obligation, the Board believes that this approach provides a more accurate measurement of the liability.

*Alternative accounting treatments*

5.21 In developing GRAP 25, the Board simplified the requirements of IAS 19 wherever possible. This resulted in the Board eliminating alternative accounting treatments wherever possible. Apart from simplifying the requirements of the Standard, it improves comparability across entities' financial statements. As a result of the extensive consultation during the development of GRAP 25, the Board does not support the following alternative accounting treatments in the IFRS for SMEs:

- (a) an alternative approach to measuring defined benefit obligations; and
- (b) recognition of actuarial gains and losses either in surplus or deficit or comprehensive income.

*Guidance and disclosures – IFRS for SMEs*

5.22 The IFRS for SMEs provides guidance on the approach to be followed in measuring defined benefit plans in the periods between actuarial valuations as well as specific disclosure requirements (see paragraph 5.14 and 5.15 above). As this is an area that practitioners find difficult, the Board believes that this guidance, along with the related disclosures, could usefully be included in GRAP 25.

*Specific matter for comment – Question 29*

5.23 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing.

*Disclosures – GRAP 25*

5.24 In issuing GRAP 25, the Board concluded that the additional presentation and disclosure requirements outlined in paragraph 5.16 and 5.17 above are useful to users of the financial statements. The narrative disclosure, sensitivity analysis and historical trend information assist users in understanding the assumptions used in measuring the plan and the impact any changes in assumption may have on an entity's financial position and performance.

*Specific matter for comment – Question 30*

5.25 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 25 should be eliminated, if any. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

*Issues requiring implementation guidance*

*Specific matter for comment – Question 31*

5.26 Are there any principles included in GRAP 25 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.



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## Section 6 – Leases

### References

This section outlines the results of the comparison of section 20 of the IFRS for SMEs to the Standard of GRAP on *Leases* (GRAP 13). A detailed paragraph-by-paragraph comparison is available.

### Analysis of differences

- 6.1 The treatment of leases in the IFRS for SMEs and GRAP 13 is similar, with the exception of the straight-lining of leases and the disclosure requirements. In many instances, GRAP 13 provides additional explanatory and application guidance. As examples, GRAP 13 provides guidance on applying the risks and rewards approach, the application of the criteria used to assess whether a lease is a finance lease or an operating lease, and determining the borrowing rate that should be used to discount lease payments.

#### *Straight-lining of operating leases by lessees and lessors*

- 6.2 The IFRS for SMEs requires that operating leases are straight-lined unless:
- (a) another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis; or
  - (b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition (b) is not met.

GRAP 13 requires that operating leases are straight-lined unless another systematic basis is representative of the time pattern of the user's benefit, even if payments are not on that basis.

- 6.3 The effect of the requirement in the IFRS for SMEs is that if an entity (lessor or lessee) can demonstrate that rental escalations compensate the lessor for inflationary increases, the operating lease payments/revenue need not be straight-lined. Under GRAP 13, entities would be required to straight-line the lease revenue/expense if the escalation is a fixed percentage, or assess whether a variable escalation is a contingent rent and either included in, or excluded from, the minimum lease payments.

#### *Disclosures*

- 6.4 In GRAP 13, lessors and lessees apply the requirements in the Standard of GRAP on *Financial Instruments* in disclosing certain aspects of leases. The IFRS for SMEs does not require lessors or lessees to consider the disclosures for financial instruments. This significantly reduces the disclosures for all types of leases.
- 6.5 Apart from the fact that lessors and lessees do not need to comply with the financial instrument disclosures, a number of other disclosures are not required in the IFRS for SMEs when compared to GRAP 13. The additional disclosures required in GRAP 13 are outlined below.:

*Finance leases in the financial statements of lessees*

- (a) A reconciliation of the total future minimum lease payments and their present value.
- (b) Disclosure of the contingent rents recognised as an expense.
- (c) Disclosure of sub-lease payments expected to be received under non-cancellable sub-leases at the reporting date.

*Operating leases in the financial statements of lessees*

- (d) Disclosure of sub-lease payments expected to be received under non-cancellable sub-leases at the reporting date. The lease and sub-lease payments recognised in the statement of financial performance should be separated between minimum lease payments, contingent rents and sub-lease payments.

*Finance leases in the financial statements of lessors*

- (e) GRAP 13.67 encourages entities to disclose the gross investment in the lease, less unearned revenue in new business added during the accounting period, after deducting the relevant amounts for cancelled leases.

*Operating leases in the financial statements of lessors*

- (f) Entities are required to consider whether separate disclosure of material sale and leaseback transactions is required in terms of GRAP 1 on *Presentation of Financial Statements*.

**Preliminary views and specific matters for comment**

*Straight-lining of operating leases*

- 6.6 The straight-lining of leases requires a high degree of judgement in applying the approaches in GRAP 13 and the IFRS for SMEs. While the approach in the IFRS for SMEs may be simpler, entities still need to assess and demonstrate whether the escalations compensate the lessor for expected inflationary cost increases. If this cannot be determined, the lease must be straight-lined.

*Specific matter for comment – Question 32*

- 6.7 The Board would appreciate comment on the approach in the IFRS for SMEs in straight-lining leases, particularly whether it would be simpler to apply than the current requirements of GRAP 13.

*Disclosures*

- 6.8 In issuing GRAP 13, the Board concluded that the additional disclosures outlined in paragraph 6.5 above are useful to users of the financial statements.

*Specific matter for comment – Question 33*

- 6.9 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 13 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

*Issues requiring implementation guidance*

*Specific matter for comment – Question 34*

6.10 Are there any principles included in GRAP 13 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

## Section 7 - Revenue

### References

This section outlines the results of the comparison of sections 23 and 24 of the IFRS for SMEs to the Standards of GRAP on *Revenue from Exchange Transactions* (GRAP 9), *Construction Contracts* (GRAP 11) and *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23). A detailed paragraph-by-paragraph comparison is available for section 23<sup>4</sup>.

### Introduction

7.1 The IFRS for SMEs deals with revenue from the sales of goods and services, including from construction contracts, as well as grants received from government. The Standards of GRAP have three separate Standards that deal with (a) the sale of goods and rendering of services from exchange transactions, (b) accounting for construction contracts and (c) revenue from non-exchange transactions.

### Revenue from the sale of goods and services, including construction contracts

#### Analysis of differences

- 7.2 The principles in the IFRS for SMEs and GRAP 9 are similar for the sales of goods and the rendering of services. GRAP 9 provides additional explanatory guidance on certain areas, for example, on agency relationships. Minor differences in the disclosure requirements exist and are discussed at paragraph 7.5.
- 7.3 Section 23 of the IFRS for SMEs includes guidance on accounting for construction contracts. A separate Standard of GRAP issued by the Board provides guidance on accounting for construction contracts. While the principles are largely consistent, the following differences exist between the IFRS for SMEs and the Standards of GRAP.
- (a) GRAP 11 provides more comprehensive guidance on accounting for costs arising from construction contracts. Additional guidance is also provided in other areas, for example, the determination of contract revenue and the accounting treatment of construction contracts where the outcome cannot be measured reliably.
  - (b) GRAP 11 deals with construction contracts that arise from exchange and non-exchange transactions, i.e. where the contractor receives money directly from the entity who receives construction services or from a third party such as the revenue fund. One of the most important aspects of this guidance is the treatment of contracts where the costs exceed the expected revenue, which differs between exchange and non-exchange transactions.
  - (c) GRAP 11 makes a distinction between fixed price and cost plus contracts. This distinction is important as construction contracts that are undertaken by way of a non-exchange transaction are usually fixed price contracts.
- 7.4 Construction contracts in the private sector are usually undertaken through exchange transactions. It is therefore possible to combine the accounting principles of construction contracts with the sales of goods and rendering of services. As

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<sup>4</sup> As the scope of the IFRS for SMEs and GRAP 23 differs, a detailed comparison is not feasible.

construction contracts in the public sector can be undertaken through exchange and non-exchange transactions, separate guidance is necessary.

- 7.5 Both GRAP 9 and GRAP 11 require additional disclosures when compared to the IFRS for SMEs.

GRAP 9

- (a) The disclosure of revenues arising from exchange of goods and services.

GRAP 11

- (b) Aggregate of costs incurred and recognised, as well as surpluses recognised to date.
- (c) Advances received.
- (d) Retentions.
- (e) Gross amounts due to and from customers.

These additional disclosures required in GRAP 9 and 11 are appropriate in understanding the nature of transactions that occurred during the year, as well as their impact on the financial performance and position.

**Preliminary views and specific matters for comment – Sales of goods and services, including construction contracts**

- 7.6 Based on the discussions above, the Board believes that no changes are required to GRAP 9 and GRAP 11.

*Specific matter for comment – Question 35*

- 7.7 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing.

*Issues requiring implementation guidance*

*Specific matter for comment – Question 36*

- 7.8 Are there any principles included in GRAP 9 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

**Government grants**

**Analysis of differences**

- 7.9 Section 24 of the IFRS for SMEs deals with the recognition of government grants. It excludes those forms of government assistance that cannot have a value placed on them and transactions that cannot be distinguished from the normal trading transactions of the entity, e.g. free technical or marketing advice.
- 7.10 GRAP 23 deals with the accounting treatment of revenue from non-exchange transactions and is not limited to assistance provided by a government. It deals with revenues from taxes, fines, donors as well as intergovernmental grants and transfers.

- 7.11 There are similarities in the approach to recognising revenue from government grants in IFRS for SMEs and GRAP 23. The IFRS for SMEs requires an entity to recognise revenue from a grant when it is receivable, unless the grant imposes future specified performance conditions on the entity. Where future performance obligations exist, revenue is recognised as and when these obligations are fulfilled. Under GRAP 23, an entity recognises revenue when an entity has an enforceable claim on the resources to be received, unless the transfer is made subject to conditions. As the IFRS for SMEs does not explain the concept of a “condition”, it is unclear whether the meaning is the same as in GRAP 23<sup>5</sup>.
- 7.12 In accordance with GRAP 23, the fair value of services received in kind (such as those envisaged in paragraph 7.9) are not recognised but disclosed in the financial statements. These services are not dealt with in the IFRS for SMEs.
- 7.13 As the types of transactions dealt with in the IFRS for SMEs are limited, there are considerably less disclosure requirements compared to GRAP 23. As examples, GRAP 23 requires disclosures about the different sources of non-exchange revenue (e.g. taxes and fines), how they are measured, and receivables and obligations outstanding at reporting date.

#### **Preliminary views and specific matters for comment – Government grants**

- 7.14 Accounting for non-exchange revenue is one of the most significant accounting issues in the public sector. GRAP 23 provides detailed guidance on how to recognise and measure the various elements that arise from non-exchange revenue transactions. In addition, it provides specific guidance about when conditions imposed on a transfer of resources give rise to an obligation. Consequently, the Board believes that the requirements of GRAP 23 should be retained.

##### *Specific matter for comment – Question 37*

- 7.15 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing.

##### *Issues requiring implementation guidance*

##### *Specific matter for comment – Question 38*

- 7.16 Are there any principles included in GRAP 23 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

<sup>5</sup> The approach set out in the IFRS for SMEs is different from that of IAS 20. IAS 20 effectively requires the matching of revenues and expenses.

## Section 8 – Other aspects of financial reporting

### References

This section outlines the results of the comparison of sections 30, 31 and 32 of the IFRS for SMEs to the Standards of GRAP on *The Effects of Changes in Foreign Exchange Rates* (GRAP 4), *Financial Reporting in Hyperinflationary Economies* (GRAP 10) and *Events After the Reporting Date* (GRAP 14). A detailed paragraph-by-paragraph comparison is available for each section.

### Foreign currency translation

#### Analysis of differences

- 8.1 The principles in the IFRS for SMEs and GRAP 4 regarding the treatment of foreign exchange transactions are similar. As an example, GRAP 4 provides more guidance on the indicators used by an entity to determine its functional currency, the disposal of a foreign operation and the effect of foreign exchange rates on income taxes. The main differences between the IFRS for SMEs and GRAP 4 are outlined below.
- 8.2 Exchange differences arising from monetary items that form part of an entity's net investment in a foreign operation are recognised as a separate component of net assets in the consolidated financial statements. These exchange differences are subsequently recognised in surplus or deficit on disposal of the foreign operation. In the IFRS for SMEs, the exchange differences are not subsequently recognised in profit or loss on disposal of the investment.
- 8.3 These two disclosures are required in terms of GRAP 4.
  - (a) A reconciliation of the net exchange differences recognised as a separate component of net assets.
  - (b) When an entity presents financial statements in a currency other than its functional currency, it can only state that those financial statements are prepared in accordance with Standards of GRAP if they comply with all the requirements of the relevant Standards. When supplementary information is also provided in a currency other than an entity's functional currency, it is required to clearly indicate that the information is supplementary information, disclose the entity's functional currency, presentation currency used for the supplementary information and the translation method used.

#### Preliminary views and specific matters for comment – Foreign currency translation

##### *Approach*

- 8.4 The IASB does not require the recycling of exchange differences to profit or loss as this approach does not require entities to track the exchange differences after recognition.

##### *Specific matter for comment – Question 39*

- 8.5 While recognition in surplus or deficit (profit or loss) is conceptually sound, the Board would value input from users on whether the requirement to recycle exchange differences to surplus or deficit is onerous.

### *Disclosures*

- 8.6 In issuing GRAP 4, the Board concluded that the additional disclosures outlined in paragraph 8.3 above are useful to users of the financial statements. In particular, the disclosures regarding supplementary information may be particularly relevant where an entity presents supplementary or other information to meet reporting requirements of donors, for example.

#### *Specific matter for comment – Question 40*

- 8.7 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 4 should be eliminated, if any. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

### *Issues requiring implementation guidance*

#### *Specific matter for comment – Question 41*

- 8.8 Are there any principles included in GRAP 4 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

## **Reporting in hyperinflationary economies**

### **Analysis of differences**

- 8.9 The approach to adjusting financial statements for the effects of hyperinflation is consistent in the IFRS for SMEs and GRAP 10. GRAP 10 provides additional guidance on, for example, the restatement of budget information, the restatement of comparative information, the treatment of borrowing costs and the treatment of the revaluation reserve.
- 8.10 In translating the statement of comprehensive income and income statement, the IFRS for SMEs allows entities to translate income and expenses when the items were initially recognised in the financial statements. If general inflation is approximately even throughout the period, and the income and expenses arose evenly throughout the period, an average rate of inflation may be used. GRAP 10 currently does not allow the use of average rates.

### **Preliminary views and specific matters for comment – Reporting in hyperinflationary economies**

- 8.11 There may be limited instances in which any entity is able to demonstrate that income, expenses and inflation were approximately equal throughout the period. The Board is therefore of the view that the current approach in GRAP 10 should be retained and use of average rates should not be permitted.

#### *Specific matter for comment – Question 42*

- 8.12 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing.

*Issues requiring implementation guidance*

*Specific matter for comment – Question 43*

8.13 Are there any principles included in GRAP 10 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

**Events after the reporting date**

**Analysis of differences**

8.14 The treatment of events after the reporting date in the IFRS for SMEs and GRAP 14 are similar. However, GRAP 14 does provide specific guidance on the application of the Standard in the public sector to:

- (a) the assessment of going concern; and
- (b) the determination of when financial statements are authorised for issue.

8.15 GRAP 14 requires that if an entity receives information after the reporting date but before the financial statements are authorised for issue, about conditions that existed at the reporting date, it must update the disclosures about those conditions. For example, an entity would update its disclosures or treatment of contingent liabilities if new information is received before the financial statements are authorised for issue. No similar guidance is provided in the IFRS for SMEs,

**Preliminary views and specific matters for comment – Events after the reporting date**

8.16 The Board believes that the additional considerations in GRAP 14 are useful to users of the financial statements as they ensure that all relevant information is provided in the financial statements for a particular period. As a result, the Board does not propose any amendment to GRAP 14.

*Specific matter for comment – Question 44*

8.17 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing with the proposal.

*Issues requiring implementation guidance*

*Specific matter for comment – Question 45*

8.18 Are there any principles included in GRAP 14 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

## **PART III – ANALYSIS AND DISCUSSION OF CONCEPTUAL DIFFERENCES BETWEEN THE IFRS FOR SMEs AND THE STANDARDS OF GRAP**

## **PART III – ANALYSIS AND DISCUSSION OF CONCEPTUAL DIFFERENCES BETWEEN THE IFRS FOR SMEs AND STANDARDS OF GRAP**

During the comparison of the IFRS for SMEs and the Standards of GRAP, a number of conceptual differences were noted. These arise from differences in the concepts and pervasive principles underpinning the Standards, as well as differences in the preparation and presentation of financial statements and consolidated financial statements.

While the Board has noted these differences, it does not believe that significant changes are required in these areas. This information has been included in the Discussion Paper for information purposes and to solicit respondents' views on selected issues.

### **Section 9 - Concepts and pervasive principles**

#### **References**

This section outlines the results of the comparison of section 2 of the IFRS for SMEs to the GRAP *Framework for the Preparation and Presentation of the Financial Statements* (GRAP Framework) and selected paragraphs of the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1). A detailed paragraph-by-paragraph comparison has been prepared.

#### **Analysis of differences**

##### *Qualitative characteristics*

9.1 Many of the qualitative characteristics in the IFRS for SMEs and the GRAP Framework are consistent. However, the GRAP Framework includes additional qualitative characteristics when compared to the IFRS for SMEs. As examples, the GRAP Framework includes “faithful representation” and “neutrality” as qualitative characteristics of financial statements. Commentary is also provided about balancing the various qualitative characteristics, considering the cost of providing information that meets all the qualitative characteristics relative to the benefits produced, and whether overall fair presentation is achieved where trade-offs between the various qualitative characteristics have occurred.

##### *Definitions, recognition criteria and presentation of elements*

9.2 Many of the underlying concepts and pervasive principles are similar between the GRAP Framework and the IFRS for SMEs. However, significant differences exist between the GRAP Framework and IFRS for SMEs regarding the elements of the financial statements, particularly how these are defined and where they are presented in the financial statements.

9.3 The definitions of the elements of financial statements, i.e. revenue, expenses, assets, liabilities and, their related recognition criteria, include the notion of both “economic benefits” and “service potential” in the GRAP Framework. This is because the objective of most public sector entities is usually to provide public services rather than generate a commercial return from operating its assets. As the IFRS for SMEs is developed for profit-oriented entities, the elements and recognition criteria refer only to “economic benefits”.

- 9.4 The IFRS for SMEs defines “income” as encompassing both “revenue” and “gains”, while the Framework only defines “revenue” and “gains”. In the Framework the term “revenue” is used to encompass both “revenue” and “gains”.
- 9.5 Unlike the IFRS for SMEs, the GRAP Framework does not deal explicitly with the presentation of the elements in the financial statements. However, it broadly asserts that assets and liabilities are recognised in the statement of financial position, while revenue and expenses are recognised in the statement of financial performance.
- 9.6 The IFRS for SMEs is consistent with the GRAP Framework for the recognition of assets and liabilities. The IFRS for SMEs requires revenues and expenses to be recognised in a “statement of comprehensive income (or income statement, if presented)”. “Comprehensive income” as a single measure performance does not exist in the GRAP Framework. Consequently no statement of comprehensive income exists and entities are only required to prepare an income statement (statement of financial performance).

#### *Measurement of elements*

- 9.7 In order to simplify the IFRS for SMEs, it prescribes a default position for the measurement of assets and liabilities. All assets and liabilities are to be measured initially at cost unless another measurement basis is specified elsewhere in the IFRS for SMEs.
- 9.8 The GRAP Framework does not prescribe a single measurement base to be used for all assets and liabilities. Instead, the measurement requirements of specific assets and liabilities are included in the individual Standards of GRAP. The GRAP Framework does include a list of measurement bases, however, that have been used in developing the Standards of GRAP, i.e. historical cost, current replacement cost, realisable value, present value, market value and fair value. The IFRS for SMEs only discusses historical cost and fair value, even though measurement bases such as present value are used.

#### **Preliminary views and specific matters for comment**

- 9.9 The International Public Sector Accounting Standards Board (IPSASB) is in the process of developing a conceptual framework for the public sector. The conceptual framework, which will be completed in phases, will identify and address:
- the users of general purpose financial statements in the public sector;
  - qualitative characteristics of financial statements;
  - elements of the financial statements and their recognition criteria;
  - presentation and disclosure; and
  - measurement.
- 9.10 As a result of the ongoing work at the IPSASB, the Board believes that it would be inappropriate to make any significant amendments to the current GRAP Framework until the conceptual framework project has been completed by the IPSASB.
- 9.11 The Board would value comment on the issue outlined below. Responses to this issue will be provided to the IPSASB for consideration in its conceptual framework project and may be used in any future revisions the Board may make to GRAP Framework.

*Measurement basis*

9.12 The IFRS for SMEs prescribes a default measurement approach for assets and liabilities, i.e. cost, unless indicated otherwise. In the Standards of GRAP, most assets and liabilities (with the exception of financial instruments and assets that are part of an agricultural activity) are measured at cost if acquired in an exchange transaction and fair value if acquired in a non-exchange transaction. Subsequent measurement is specified in individual Standards of GRAP.

*Specific matter for comment – Question 46*

9.13 The Board believes that the measurement requirements in the Standards of GRAP are well understood. Nevertheless, the Board would appreciate views on whether a default measurement approach, similar to the IFRS for SMEs, would be useful to preparers and users of the financial statements.

## Section 10 – Presentation of financial statements

### References

This section outlines the results of the comparison of sections 3 to 8 and 10 of the IFRS for SMEs to the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1), *Cash Flow Statements* (GRAP 2) and *Accounting Policies, Changes in Accounting Estimates and Errors* (GRAP 3). Detailed paragraph-by-paragraph comparisons are available.

### Presentation of financial statements

#### Analysis of differences

- 10.1 The presentation of financial statements in the IFRS for SMEs and the Standards of GRAP is largely consistent, with the exception of the components that comprise financial statements, departing from the requirements of the standards to achieve fair presentation and specific disclosures.

#### *Components of financial statement*

- 10.2 The IFRS for SMEs allows the preparation of a statement of income and retained earnings, in place of a statement of comprehensive income, where limited transactions have been undertaken with the owners for a particular period. No similar statement exists in the Standards of GRAP.
- 10.3 The IFRS for SMEs allows the presentation of either a single statement of comprehensive income, or a separate income statement and a statement of comprehensive income. As noted in section 9, the Standards of GRAP only require the preparation of an income statement (statement of financial performance).
- 10.4 Standards of GRAP require a comparison of actual and budget information. No similar requirement exists in the IFRS for SMEs. Comparison of actual and budget information provides useful information in the public sector about whether entities' activities for the year were in line with their approved plans and spending mandate.

#### *Fair presentation override*

- 10.5 The IFRS for SMEs allows a departure from its requirements to achieve fair presentation only if legislation does not prohibit such a departure. Departures from the Standards of GRAP to achieve fair presentation are allowed, but only if legislation requires such a departure. Legislation in the public sector environment may require deviations from the Standards of GRAP if, for example, certain information is classified and cannot be disclosed publicly.

#### *Specific disclosures*

- 10.6 The IFRS for SMEs does not prescribe specific disclosures for entities that do not have share capital. Instead, entities are required to adapt the disclosure requirements for entities that do have share capital to meet their specific needs. In contrast, GRAP 1 prescribes detailed, specific disclosure requirements for entities that do not have share capital. Since most entities in the public sector do not have a traditional capital structure comprising shares and similar instruments, it is appropriate that GRAP 1 prescribes detailed disclosures for these entities.

- 10.7 The IFRS for SMEs requires limited disclosures of non-current assets held for sale and discontinued operations, both in the statement of financial position and the income statement. In the statement of financial position, narrative descriptions are required about the assets to be sold, the facts and circumstances of the plan of sale as well as the carrying amounts of the assets. The income statement requires disclosures of the post tax profit or loss on a discontinued operation and the gains or losses recognised on its disposal. GRAP 100 on *Non-current Assets Held for Sale and Discontinued Operations* requires more detailed disclosures in both the statements of financial position and performance. Apart from the disclosure requirements outlined above and assessing impairment on assets to be sold or operations to be discontinued, a GRAP 100-equivalent does not exist in the IFRS for SMEs (see paragraphs 3.6-3.7 and 3.12-3.14 for further discussions and views on the treatment of non-current assets held for sale).
- 10.8 Where an entity departs from the requirements of a Standard of GRAP, it must disclose, for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported when complying with the requirement. Similar disclosures are not required by the IFRS for SMEs.
- 10.9 If an entity amends its classification of items, it is required to reclassify the comparative amounts unless it is impracticable to do so. If it is impracticable to reclassify comparative information, GRAP 1 requires the entity to disclose the nature of the adjustments that would have to be made if the amounts had to be reclassified. The IFRS for SMEs does not require this disclosure.
- 10.10 In GRAP 1 entities are required to disclose the relevant legislation governing the entity's operations, as well as the name of the controlling entity. Similar disclosures are not required in the IFRS for SMEs. The disclosures required by GRAP 1 are useful in the public sector environment as most entities:
- operate within the requirements of specific legislation; and
  - are also usually part of an economic entity.

These disclosures are therefore useful in the public sector.

### **Preliminary views and specific matters for comment – Presentation of financial statements**

#### *Components of financial statements*

- 10.11 The components that comprise the financial statements prepared using the IFRS for SMEs and the Standards of GRAP differ. The different components are appropriate in the context of the objective of financial statements prepared using Standards of GRAP and those prepared using the IFRS for SMEs. The Board is therefore of the view that it should not introduce or remove any components of the financial statements for the following reasons.
- (a) Comparison of budget and actual results: This comparison is important for the public sector since it promotes and enhances accountability over the resources received by an entity during a period.
  - (b) Statement of income and retained earnings: In developing Standards of GRAP, the Board eliminates alternative accounting treatments where possible. The introduction of an alternative statement would not achieve

comparability across entities' financial statements. The inclusion of an additional statement would also increase the complexity of the Standard.

*Specific matter for comment – Question 47*

10.12 Do you agree with the Board's view? Please provide reasons for either agreeing or disagreeing.

*Fair presentation override*

10.13 During the Board's Improvements Project, the requirements to depart from the Standards of GRAP to achieve fair presentation was again debated. Based on circumstances in the public sector, the Board concluded that departures should only be made where legislation requires such a departure. Therefore, the Board does not propose any amendments to the requirements of GRAP 1 in this regard.

*Specific matter for comment – Question 48*

10.14 Do you agree with the Board's view? Please provide reasons for either agreeing or disagreeing.

*Disclosures*

10.15 In issuing GRAP 1, the Board concluded that the additional disclosures outlined in paragraph 10.7 and 10.8 above are useful to users of the financial statements.

*Specific matter for comment – Question 49*

10.16 The Board would however value comment on whether any of these additional disclosures in GRAP 1 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

*Issues requiring implementation guidance*

*Specific matter for comment – Question 50*

10.17 Are there any principles included in GRAP 1 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

## **Accounting policies, estimates and errors**

### **Analysis of differences**

10.18 The principles used to select and apply changes in accounting policies are consistent between the IFRS for SMEs and GRAP 3, except in the instances outlined below.

10.19 Where the IFRS for SMEs does not specify the treatment of a particular transaction or event, entities may consult the full IFRSs for guidance on the selection of an appropriate accounting policy. In similar circumstances in GRAP 3, entities use pronouncements of the following Standard-setters: International Public Sector Accounting Standards Board (IPSASB), IASB and Accounting Practices Board

(APB) and Accounting Practices Committee (APC) <sup>6</sup>. As the IFRS for SMEs is developed for the private sector and the Standards of GRAP for the public sector, there are valid reasons for consulting different sources in formulating appropriate accounting policies.

- 10.20 The IFRS for SMEs specifies that a change from fair value to cost, or vice versa, due to the availability of information is not a change in accounting policy. GRAP 3 does not include a similar clarification, even though reclassifications from fair value to cost are allowed in certain Standards of GRAP (e.g. GRAP 101 on *Agriculture* and GRAP 104 on *Financial Instruments*).
- 10.21 GRAP 3 requires the following disclosures which are not required in the IFRS for SMEs:
- (a) Disclosures about Standards issued not yet effective.
  - (b) When the application of a Standard of GRAP has an effect on the current or prior period, GRAP 3 requires disclosure of the title of the Standard, whether the change in policy is made in accordance with the transitional provisions, a description of the transitional provisions and any transitional provisions that may have an effect on future periods.

#### **Preliminary views and specific matters for comment – Accounting policies, changes in accounting estimates and errors**

##### *Change in measurement basis – Availability of fair value information*

###### *Specific matter for comment – Question 51*

10.22 The Board would value comment on whether GRAP 3 could be clarified to state that a change from fair value to cost, or vice versa, due to the availability of information, is not a change in accounting policy.

###### *Disclosures*

10.23 In issuing GRAP 3, the Board concluded that the additional disclosures outlined in paragraph 10.21 above are useful to users of the financial statements.

###### *Specific matter for comment – Question 52*

10.24 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 3 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

##### *Issues requiring implementation guidance*

###### *Specific matter for comment – Question 53*

10.25 Are there any principles included in GRAP 3 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

<sup>6</sup> As part of the Improvements Project, the Board deleted the reference to the Accounting Practices Committee from the relevant paragraph of GRAP 3. This amendment is effective from 1 April 2011.

## Cash flow statements

### Analysis of differences

- 10.26 The principles in the IFRS for SMEs and GRAP 2 on *Cash Flow Statements* are similar. GRAP 2 provides extensive commentary on the treatment of public sector specific transactions which are not relevant to small and medium-sized entities in the private sector. GRAP 2 also provides guidance on the reporting of cash flows on a net basis and the treatment of cash flows related to the acquisitions of controlled entities, joint ventures and associates. Despite the similarities, there are specific differences between the IFRS for SMEs and GRAP 2, which are outlined below.
- 10.27 The IFRS for SMEs allows entities a choice of preparing cash flow statements using the direct and the indirect method. GRAP 2 does not allow the use of the indirect method. GRAP 2 also requires the preparation of a reconciliation between the net cash from operating activities and the surplus or deficit for the year. A similar reconciliation is not required in the IFRS for SMEs when the direct method is used.
- 10.28 The IFRS for SMEs notes in the definition of cash and cash equivalents that short-term investments are generally those investments with a maturity of three months or less. The definition in GRAP 2 does not provide a quantitative threshold; instead judgement is used to determine what “short-term” constitutes.

### Preliminary views and specific matters for comment – Cash flow statements

- 10.29 In developing GRAP 2, the Board eliminated alternative accounting treatments where possible, based on comment received during the public consultation process. The Board therefore believes that the current requirements of GRAP 2 are appropriate for the public sector and should be retained, i.e. the direct method is used to prepare cash flow statements, supplemented with a reconciliation of the surplus or deficit for the year to the net cash from operating activities. It was noted during the initial consultation on GRAP 2, that preparers of consolidated financial statements found the cash flow information on a direct basis more useful. The additional guidance provided in GRAP 2 is useful to larger public sector entities.

#### *Specific matter for comment – Question 54*

- 10.30 Do you agree with the Board’s view? Please provide reasons for either agreeing or disagreeing.

#### *Issues requiring implementation guidance*

#### *Specific matter for comment – Question 55*

- 10.31 Respondents views are requested on the following issues related to the implementation of GRAP 2:
- Would it be useful for the implementation guidance issued by National Treasury to clarify that cash and cash equivalents generally have a maturity of less than three months, as noted in the definition of cash and cash equivalents in the IFRS for SMEs (see paragraph 10.26 above)?
  - Are there any principles included in GRAP 2 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12



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and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

## Section 11 – Consolidated and separate financial statements

### References

This section outlines the results of the comparison of section 9 of the IFRS for SMEs to the Standard of GRAP on *Consolidated and Separate Financial Statements*. A detailed paragraph-by-paragraph comparison is available.

### Analysis of differences

- 11.1 While many similarities exist between the IFRS for SMEs and GRAP 6, there are some areas where significant differences exist. These can be categorised as follows.
- Preparing consolidated and combined financial statements.
  - Definition of control.
  - Consolidation methodology.
  - Disclosures.

#### *Preparing consolidated, separate and combined financial statements*

- 11.2 The IFRS for SMEs exempts an entity from preparing consolidated financial statements if it has acquired a subsidiary that it intends selling or disposing of within one year. In GRAP 6, entities that are acquired for the intention of re-sale in the future are consolidated and treated as a disposal group held for sale in accordance with GRAP 100 (see paragraphs 3.6-3.7 and 3.12-3.14 for further discussions and views on the treatment of non-current assets held for sale).
- 11.3 The IFRS for SMEs allows entities to prepare “combined financial statements”, which are a single set of financial statements of two or more entities controlled by a single investor. For example, an investor may choose to combine the financial statements of only selected entities rather than all entities it controls. GRAP 6 does not address the preparation of combined financial statements as legislation in the South African public sector requires that entities prepare consolidated financial statements where control relationships exist rather than combined financial statements.

#### *Consolidation methodology*

- 11.4 GRAP 6 notes that the reporting dates of a controlling entity and its controlled entities should be consistent. It notes that if the reporting dates are different, the following is required.
- The controlled entity should prepare financial statements as of the controlling entity’s reporting date, unless it is impracticable to do so.
  - Adjustments should be made for transactions that occur between the controlled entity’s reporting date and that of the controlling entity.
  - The difference in the reporting dates of the controlled and controlling entity cannot exceed 3 months.
- 11.5 The IFRS for SMEs requires that the financial statements of the parent and its subsidiaries are prepared as of the same reporting date unless it is impracticable to

do so. GRAP 6 provides guidance on when it is impracticable to prepare information at the same reporting date.

- 11.6 It is not common that entities in the public sector that are required to be consolidated, have different reporting dates. However, limited instances do arise such as, water boards that are included in the national and provincial consolidations. The guidance in GRAP 6 is therefore useful.
- 11.7 GRAP 6 does not allow negative minority interests, except where a minority has a binding obligation to make an additional investment to cover the losses. The IFRS for SMEs allows negative minority interests to be recognised and presented. The Board has issued proposed revisions to GRAP 6 which effectively allows the recognition of negative minority interests.

#### *Disclosures*

- 11.8 GRAP 6 requires the following additional disclosures in the consolidated and separate financial statements:

##### Consolidated financial statements

- (a) Whether there have been any changes in the reporting date of a controlled entity.
- (b) A list of significant controlled entities.
- (c) Surpluses or deficits on the sale of shares or other dilutions in controlled entities.
- (d) Any fees charged for the administration of the controlled entity.

##### Separate financial statements

- (e) A list of significant investments in controlled entities, jointly controlled entities and associates, including the proportion of ownership interest or voting power held.
- (f) Disclosures are required where an entity takes advantage of the exemption from preparing consolidated financial statements. An entity must disclose:
  - (i) the fact that the financial statements are separate financial statements and that the exemption has been applied;
  - (ii) a list of significant investments in controlled entities and the proportion of ownership interest or voting power; and
  - (iii) a description of the method used to account for the investments.

#### **Preliminary views and specific matters for comment**

##### *Preparation of consolidated financial statement, definition of control and consolidation methodology*

- 11.9 Based on the discussions above, the Board believes that no changes should be made to those aspects of GRAP 6 that deal with the preparation of consolidated and separate financial statements and the consolidation methodology.

*Specific matter for comment – Question 56*

11.10 Do you agree with the Board? Please provide reasons for either agreeing or disagreeing.

*Disclosures*

11.11 In issuing GRAP 6, the Board concluded that the additional disclosures outlined in paragraph 11.8 above are useful to users of the financial statements.

*Specific matter for comment – Question 57*

11.12 The Board would however value comment on whether any of the additional disclosure requirements in GRAP 6 should be eliminated. Responses should consider or outline (a) the usefulness of the disclosures to users of the financial statements and (b) the cost of preparing this information.

*Issues requiring implementation guidance*

*Specific matter for comment – Question 58*

11.13 Are there any principles included in GRAP 6 that should specifically be addressed in the implementation guidance issued by the National Treasury (see paragraphs IN12 and IN13)? Respondents should explain the issue in sufficient detail and, where relevant, refer to the specific paragraphs in the Standard.

**Appendix A – Summary of topics included in Discussion Paper**

Section	Title	Included in Comparison	Equivalent Standard of GRAP	Rationale for exclusion
1	Small and Medium-sized Entities	Section 1	No direct equivalent. Parts of <i>Framework for the Preparation and Presentation of Financial Statements</i>	
2	Concepts and Pervasive Principles	Section 2	<i>Framework for the Preparation and Presentation of Financial Statements</i>	
3	Financial Statement Presentation	Section 3	GRAP1 <i>Presentation of Financial Statements</i>	
4	Statement of Financial Position	Section 3	GRAP1 <i>Presentation of Financial Statements</i>	
5	Statement of Comprehensive Income Statement and Income Statement	Section 3	GRAP1 <i>Presentation of Financial Statements</i>	
6	Statement of Changes in Equity and Statement of Income and Retained Earnings	Section 3	GRAP1 <i>Presentation of Financial Statements</i>	
7	Statement of Cash Flows	Section 3	GRAP 2 <i>Cash Flow Statements</i>	
8	Notes to the Financial Statements	Section 3	GRAP1 <i>Presentation of Financial Statements</i>	
9	Consolidated and Separate Financial Statements	Section 4	GRAP 6 <i>Consolidated and Separate Financial Statements</i>	
10	Accounting Policies, Estimates and Errors	Section 3	GRAP1 <i>Presentation of Financial Statements</i>	
11	Basic Financial Instruments	-	GRAP 104 <i>Financial Instruments</i>	The principles in GRAP 104 were developed using the approach in the IFRS for SMEs.
12	Other Financial Instrument Issues	-	GRAP 104 <i>Financial Instruments</i>	
13	Inventories	Section 5	GRAP 12 <i>Inventories</i>	
14	Investments in Associates	Section 4	GRAP 7 <i>Investments in Associates</i>	

15	Investments in Joint Ventures	Section 4	GRAP 8 <i>Interests in Joint Ventures</i>	
16	Investment Property	Section 5	GRAP 16 <i>Investment Property</i>	
17	Property, Plant and Equipment	Section 5	GRAP 17 <i>Property, Plant and Equipment</i>	
18	Intangible Assets Other than Goodwill	Section 5	GRAP 102 <i>Intangible Assets</i>	
19	Business Combinations and Goodwill	-	No equivalent Standard of GRAP	No final Standard of GRAP issued (at date of publishing, exposure draft on entity combinations issued for comment)
20	Leases	Section 7	GRAP 13 <i>Leases</i>	
21	Provisions and Contingencies	Section 6	GRAP 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	
22	Liabilities and Equity	-	GRAP 104 <i>Financial Instruments</i>	
23	Revenue	Section 8	GRAP 9 <i>Revenue from Exchange Transactions</i>	
24	Government Grants	Section 8	GRAP 23 <i>Revenue from Non-exchange Transactions</i>	
25	Borrowing Costs	Section 5	GRAP 5 <i>Borrowing Costs</i>	
26	Share-based Payment	-	No equivalent Standard of GRAP	As share-based transactions are limited in the public sector, the Board will not issue a Standard on share-based payments.
27	Impairment of Assets	Section 5	GRAP 21 <i>Impairment of Non-cash-generating Assets</i> and GRAP 26 <i>Impairment of Cash-generating Assets</i> .	
28	Employee Benefits	Section 6	GRAP 25 <i>Employee Benefits</i>	
29	Income Tax	-	No equivalent Standard of GRAP	As income taxes are not common for the types of entities for which the Board sets Standards, an equivalent Standard does not exist.

30	Foreign Currency Translation	Section 9	GRAP 4 <i>The Effects of Changes in Foreign Exchange Rates</i>	
31	Hyperinflation	Section 9	GRAP 10 <i>Financial Reporting in Hyperinflationary Economies</i>	
32	Events After the End of the Reporting Period	Section 9	GRAP 14 <i>Events After the Reporting Date</i>	
33	Related Party Disclosures	Section 9	No equivalent Standard of GRAP	A Standard is in the process of being developed.
34	Specialised Activities	Section 5	GRAP 101 on <i>Agriculture</i>	This section deals with agricultural activities, extractive industries and service concession arrangements from an operator's perspective. The Board has issued guidance on service concession arrangements but only from the grantor's perspective. Mining and related activities are limited in the public sector.

**Appendix B – Comparison of measurement bases**

Type of asset	Initial measurement		Subsequent measurement	
	IFRS for SMEs	GRAP	IFRS for SMEs	GRAP
<b>Inventories</b>	Cost, plus costs of conversion and bringing asset to current location and condition.	Cost or fair value, including costs of conversion and bringing asset to current location and condition	Lower of: <ul style="list-style-type: none"> <li>• Cost; and</li> <li>• Estimated selling price less costs to complete and sell</li> </ul>	Lower of: <ul style="list-style-type: none"> <li>• Cost; or</li> <li>• Net realisable value or current replacement cost</li> </ul>
<b>Property, plant and equipment</b>	Cost, including transaction costs, costs of bringing asset to current location and condition, initial estimate of costs of dismantling.	Cost or fair value, including transactions costs, costs of bringing asset to current location and condition, initial estimate of costs of dismantling.	Cost model.  (including investment properties that cannot be measured reliably at fair value without undue cost and effort).	Cost or revaluation model.  (including investment property under construction).
<b>Investment property</b>				
Acquired investment property		Cost plus directly attributable expenditure and transaction costs, or fair value.		Cost or fair value model.
<i>Fair value can be determined reliably without undue cost and effort.</i>	Cost plus directly attributable expenditure and transaction costs.		Fair value.	
<i>Fair value cannot be determined reliably without undue cost and effort.</i>			Cost model (Treated as property, plant and equipment)	
Property interest held by a lessee under an operating lease:				
<i>Fair value can be determined reliably without undue cost and effort<sup>7</sup> (IFRS for SMEs)</i>	Lower of fair value of property and present value of minimum lease payments.		Fair value.	
<i>Entity elects to use fair value model (GRAP)</i>		Lower of fair value of property and present value of minimum lease payments.		Fair value.
Investment property under construction		Cost (treated as PPE)		Cost or revaluation model (Treated as PPE)
<i>Fair value can be determined reliably without undue cost and effort.</i>	Cost.		Fair value.	

<sup>7</sup> If fair value cannot be measured reliably, an entity treats the property as a finance lease.

<i>Fair value cannot be determined reliably without undue cost and effort.</i>	Cost.		Cost model (Treated as PPE)	
<b>Intangible assets</b>				
Internally generated intangible assets	Expensed.	Research costs capitalised.	Expensed.	Cost or revaluation model.
Acquired intangible assets	Cost, plus directly attributable costs and transaction costs.	Cost or fair value, plus directly attributable costs and transaction costs.	Cost model.	Cost or revaluation model.
<b>Biological assets that are part of an agricultural activity</b>		Fair value less point of sale costs, except if fair value cannot be determined reliably, then cost is used.		Fair value less point of sale costs; or Cost less accumulated depreciation and impairment.
<i>Fair value can be measured reliably without undue cost and effort</i>	Fair value less costs to sell	Fair value less point of sale costs	Fair value less point of sale costs	
<i>Fair value cannot be measured reliably without undue cost and effort</i>	Cost		Cost less accumulated depreciation and impairment losses.	
<b>Investments in controlled entities (separate financial statements)</b>	Cost.	Cost.	Cost less impairment or fair value.	Cost less impairment or fair value.
<b>Investments in associates</b>				
Cost model (only where published price quotations not available)	Cost.		Cost less impairment.	
Equity method	Cost, including transaction costs.	Cost.	Equity method.	Equity method.
Fair value	Cost, excluding transaction costs.		Fair value.	
<b>Investments in joint ventures</b>				
Cost model (only where published price quotations not available)	Cost.		Cost less impairment.	
Equity method	Cost, including transaction costs.	Cost.	Equity method.	Proportionate method or equity method.
Fair value	Cost, excluding transaction costs.		Fair value.	

## Appendix C – Summary of differences between the IFRS for SMEs and the Standards of GRAP

Area	IFRS for SMEs	Standards of GRAP	Treatment of difference		
			No change	Changes will be considered based on comment received from respondents	Change proposed
<b>ASSETS</b>					
<b>Inventories</b>					
- Disclosures	Less disclosures than GRAP 12.	More disclosures than the IFRS for SMEs.	No change proposed.		Respondents' views are requested on whether they agree with the Board's proposal to not make any amendments to GRAP 12.
<b>Investment property</b>					
- Scope	Only investment property that can be measured reliably at fair value.	All investment property within the scope of GRAP 16.		Respondents' views requested on whether both cost and fair value should be allowed in accordance with GRAP 16.	
	Investment property under construction within scope of investment property.	Investment property under construction within the scope of GRAP 17 (Note: this has been amended as part of the Improvements Project. From 1 April 2011 all investment property under construction treated as investment property).	No change proposed due to amendments to GRAP 16 and 17 effective from 1 April 2011.		
	Multi-use properties treated as investment property unless fair value of investment property component cannot be measured reliably.	Multi-use properties accounted for as separate components if those parts can be sold or leased separately under a finance lease. Alternatively, the property is classified as investment property if		Changes will be informed by responses on the measurement approaches to be adopted for investment property.	

Area	IFRS for SMEs	Standards of GRAP	Treatment of difference		
			No change	Changes will be considered based on comment received from respondents	Change proposed
		an insignificant portion is owner occupied.			
- Measurement approaches	Fair value.	Cost or fair value.		Respondents' views requested on whether both cost and fair value should be allowed in accordance with GRAP 16.	
- Disclosures	Less disclosures than GRAP 16.	More disclosures than the IFRS for SMEs.		Respondents' views requested on useful of additional disclosures and cost of preparing such information.	
<b>Property, plant and equipment</b>					
- Scope	Investment property that cannot be measured reliably at fair value accounted for as property, plant and equipment.	Investment property under construction within the scope of GRAP 17. (Note: the scope of GRAP 17 has been amended as part of the Improvements Project. From 1 April 2011 all investment property under construction treated as investment property).	No change proposed due to amendments to GRAP 16 and 17 effective from 1 April 2011.		
- Measurement approaches	Only cost model (cost less accumulated depreciation and accumulated impairment) allowed for subsequent measurement.	A choice of the cost model or the revaluation model allowed for subsequent measurement.		Respondents' views requested on whether any measurement alternatives should be deleted.	
- Reassessment of residual values, useful lives and depreciation methods	Reassessment of residual value, useful lives and depreciation method only done when there has been an indication that these may have changed.	An assessment of the residual values, useful lives and depreciation methods should be made at every reporting date.		Respondents' views are requested on whether an indicator-based approach is more appropriate in the public sector.	

Area	IFRS for SMEs	Standards of GRAP	Treatment of difference		
			No change	Changes will be considered based on comment received from respondents	Change proposed
- Componentisation of assets	Component parts accounted for separately when the useful lives of those components differ.	Components with different useful lives are accounted for separately. However, component parts are accounted for separately if the cost of the component is significant in relation to the cost of the asset as a whole.			Proposal to change the requirements in GRAP 17 and follow the approach in the IFRS for SMEs, ie component parts are only accounted for separately if the useful lives of the components differ.
- Disclosures	Fewer disclosures in the IFRS for SMEs when compared to GRAP 17.	Additional disclosures in GRAP 17 compared to the IFRS for SMEs.		Respondents' views requested on whether any disclosures can be eliminated.	
<b>Intangible assets</b>					
- Recognition of intangible assets	Research and development costs expensed.	Research costs expensed. Development costs that meet certain criteria are capitalised.	No change proposed. In the public sector, development costs may be significant; as a result it is appropriate to capitalise these costs where they meet specified criteria.		
- Measurement approaches	Only cost model (cost less accumulated depreciation and accumulated impairment losses) allowed for subsequent measurement.	A choice of the cost model or the revaluation model allowed for subsequent measurement.		Respondents' views requested on whether any measurement alternatives should be deleted.	
- Reassessment of useful lives and depreciation methods	Reassessment of useful lives and depreciation method only done when there has been an indication that these may have changed.	An assessment of the useful lives and depreciation methods should be made at every reporting date.		Respondents' views are requested on whether an indicator-based approach is more appropriate in the public sector.	

- Indefinite life intangible asset	No indefinite life intangible assets. If useful life cannot be determined, the asset is amortised over 10.	No similar requirement in GRAP 102.		Respondents' views requested on the existence of indefinite life intangible assets, other than goodwill, in the public sector.	
- Disclosures	Fewer disclosures required in the IFRS for SMEs compared to the GRAP 102.	Additional disclosures required compared to the IFRS for SMEs.	No change proposed.		
<b>Biological assets that are part of an agricultural activity</b>					
- Disclosures	Significantly less disclosures required in the IFRS for SMEs compared to the GRAP 101.	Additional disclosures required compared to the IFRS for SMEs.		Respondents' views are requested on whether any disclosures can be eliminated.	
<b>Borrowing costs</b>					
- Recognition of borrowing costs	Borrowing costs expensed.	Borrowing costs capitalised unless it is inappropriate to capitalise such costs.		Respondents' views requested on whether the approach in the GRAP 5 should be retained or whether the approach in the IFRS for SMEs should be followed, ie all borrowing costs should be expensed.	
<b>Non-current assets held for sale and discontinued operations</b>					
- Approach	<p>No separate guidance on assets held for sale and discontinued operations. IFRS for SMEs requires that an entity:</p> <ul style="list-style-type: none"> <li>Assess the asset for impairment if it is going to be sold.</li> <li>Disclose specific information in the notes to the statement of financial position assets to be sold, the facts and circumstances of the plan of sale as well as the carrying amounts of the assets.</li> </ul>	<p>Separate Standard issued on non-current assets held for sale and discontinued operations. Once an entity is committed to sell a non-current asset, it is required to measure assets held for sale at the lower of carrying value and fair value less costs to sell.</p> <p>Assets held for sale are separately presented in the statement of financial position.</p> <p>Continuing and discontinued</p>	No change proposed to GRAP 100.		

	<ul style="list-style-type: none"> <li>Distinguish between the continuing and discontinued operations in the income statement.</li> </ul>	operations are distinguished in the income statement.			
<b>Impairment of assets</b>					
- Disclosures	Fewer disclosures required in the IFRS for SMEs compared to GRAP 26.	Additional disclosures required when compared to the IFRS for SMEs.		Respondents' views requested on whether any disclosures can be eliminated.	
<b>Investment in associates</b>					
- Accounting method for associates	<p>In group and separate financial statements, entities allowed a choice of any of the following:</p> <ul style="list-style-type: none"> <li>Equity method.</li> <li>Fair value (entities are required to use fair value where published price quotations available).</li> <li>Cost.</li> </ul>	<p>In consolidated financial statements, associates must be accounted for using the equity method.</p> <p>In the separate financial statements, investments in associates are accounted for using either cost or fair value.</p>	No change proposed to GRAP 7. The use of alternative accounting treatments in the consolidated financial statements will reduce the comparability of entities' financial statements. Also, the measurement bases do not reflect the substance of the relationship and that significant influence can be exercised.		
- Treatment of transaction costs	Transaction costs are capitalised.	No specific treatment.			Propose to amend GRAP 7 to require the capitalisation of transaction costs.
- Disclosures	Significantly less disclosures required in the IFRS for SMEs when compared to GRAP 7.	Significantly more disclosures in GRAP 7 when compared to the IFRS for SMEs.		Respondents' views requested on whether any disclosures can be eliminated.	
<b>Interests in joint ventures</b>					
- Accounting method for interests in joint ventures	<p>In group and separate financial statements, entities allowed a choice of any of the following:</p> <ul style="list-style-type: none"> <li>Equity method.</li> <li>Fair value (entities are required to use fair value where published</li> </ul>	<p>In consolidated financial statements, joint ventures can be accounted for using either proportionate consolidation or the equity method.</p> <p>In the separate financial statements, investments in associates are accounted for using either cost or</p>	The measurement bases do not reflect the substance of the relationship and that significant influence can be exercised. The introduction of alternative accounting treatments into the consolidated financial statements		

	price quotations available). ▪ Cost.	fair value.	reduces comparability of entities' financial statements.		
- Disclosures	Significantly less disclosures required in the IFRS for SMEs when compared to GRAP 8.	Significantly more disclosures in GRAP 8 when compared to the IFRS for SMEs.		Respondents' views requested on whether any disclosures can be eliminated.	
<b>LIABILITIES, CONTINGENT LIABILITIES AND CONTINGENT ASSETS</b>					
<b>Provisions, contingent liabilities and contingent assets</b>					
- Disclosures	Fewer disclosures required in the IFRS for SMEs when compared to GRAP 19.	Additional disclosures required in GRAP 19 when compared to the IFRS for SMEs.		Respondents' views requested on whether any disclosures can be eliminated.	
<b>Employee benefits</b>					
- Measurement approaches (defined benefit plans)	Entities should apply the project unit credit method in determining defined benefit obligations unless the information to apply this method is not available and would result in undue cost and effort.	Entities must determine defined benefit obligations using the projected unit credit method.	No change proposed.		
	Discount rate determined by reference to high quality corporate bonds.	Discount rate determined by reference to yields on government bonds.	No change proposed.		
	No specific guidance on whether minimum funding requirements give rise to additional liabilities.	Minimum funding requirements should be recognised as an additional liability.	No change proposed.		
	Guidance provided on the "roll forward" of valuations in the years between conducting full actuarial valuations.	No similar guidance exists.			Proposal to include guidance from the IFRS for SMEs in GRAP 25.
- Recognition of actuarial gains and losses	Actuarial gains and losses recognised in full in the year that they arise, either in profit or loss or comprehensive income.	Actuarial gains and losses recognised in full in the year that they arise in surplus or deficit.	No change proposed.		

- Disclosures	Fewer disclosures required in the IFRS for SMEs when compared to GRAP 25.	Additional disclosures required in GRAP 25 when compared to the IFRS for SMEs.		Respondents' views requested on whether any disclosures can be eliminated.	
<b>LEASES</b>					
- Straight lining of leases	<p>The IFRS for SMEs requires that operating leases are straight-lined unless:</p> <p>(c) another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis; or</p> <p>(d) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition (b) is not met.</p>	GRAP 13 requires that operating leases are straight-lined unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.		Respondents' views requested on whether the approach in the IFRS for SMEs is simpler than that in the Standards of GRAP.	
- Disclosures	Fewer disclosures required in the IFRS for SMEs when compared to GRAP 13.	Additional disclosures required in GRAP 13 when compared to the IFRS for SMEs.		Respondents' views requested on whether any disclosures can be eliminated.	
<b>REVENUE</b>					
<b>Sale of goods and services, revenue and interest , including construction contracts</b>					
- Accounting for construction contracts	No separate guidance on accounting for construction contracts. Included in principles for revenue arising from the sale/provision of goods and	Separate Standard (GRAP 11) that provides comprehensive guidance for the accounting for revenue and expenses arising from construction	Since construction contracts are prevalent in the public sector, it is appropriate to have a separate standard that deals		

	services. Focus on accounting for revenue from construction contracts. Limited guidance provided on accounting for expenses arising from construction contracts.	contracts.	comprehensively with both contract revenues and expenses.		
- Disclosures	Fewer disclosures required in the IFRS for SMEs than GRAP 9 and GRAP 11	Additional disclosures required in GRAP 9 and GRAP 11 than compared to the IFRS for SMEs.	No change proposed as the additional disclosures are appropriate in the context of construction contracts.		
<b>Government grants</b>					
- Scope	The IFRS for SMEs only deals with assistance provided by government. However, it does not deal with government assistance that cannot be measured.	GRAP 23 deals with all types of non-exchange revenue.	No change proposed. Scope appropriate for the types of non-exchange revenue transactions that arise in the public sector.		
<b>OTHER ASPECTS OF FINANCIAL REPORTING</b>					
<b>Foreign exchange transactions</b>					
- Exchange differences arising on the monetary items that form part of the net investment in a foreign operation	Exchange differences on the disposal of a foreign operation are not included in profit or loss on disposal. These gains and losses are retained in comprehensive income as a separate component of equity.	Exchange differences on the disposal of a foreign operation are included in surplus or deficit on disposal (recycled from the statement of changes in net assets to surplus or deficit).		Respondents' views are requested on whether the approach in the IFRS for SMEs should be followed.	
<b>Reporting in hyperinflationary economies</b>					
- Use of average rates	In translating the statement of comprehensive income (or income statement) entities may use an average rate if revenues, expenses and inflation were approximately equal throughout the year.	In translating the statement of financial performance, an entity uses the rate on the date that the revenues and expenses arose.	No change proposed as it may be difficult for entities to prove that revenues, expenses and inflation were equal throughout the year.		

Events after the reporting date					
- Updating disclosures for information received before the financial statements are authorised for issue	No guidance in the IFRS for SMEs regarding the amendment of disclosures for information received after year-end but before the financial statements are authorised for issue.	Entities are required to update disclosures in the financial statements if information about those disclosures is received after year-end but before the financial statements are authorised for issue.	The requirements in GRAP 14 are appropriate for the public sector as it often takes a substantial period of time to finalise the financial statements. All relevant information about conditions that existed at the year-end should be disclosed in the financial statements,		
PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS					
- Components of financial statements	IFRS for SMEs allows the preparation of a statement of income and retained earnings instead of a statement of comprehensive income.	No equivalent in the Standards of GRAP.	No change proposed as the introduction of alternative presentation into the financial statements reduces comparability.		
	No equivalent in the IFRS for SMEs.	A comparison of the budgeted and actual amounts is required in the financial statements.	No change proposed as the assessment of actual results against the budget is appropriate in the public sector.		
- Fair presentation override	Entities may depart from the IFRS for SMEs to achieve fair presentation.	Entities may depart from the Standards of GRAP to achieve fair presentation only if legislation requires such a departure.	No change proposed. Based on the circumstances in the South African public sector, it is appropriate to depart from the requirements of the Standards only if legislation requires a departure, .e.g. because of the status of particular information.		
- Presentation of cash flow statements	Direct and indirect method allowed.	Direct method allowed.	No change proposed.		
- Preparation of combined financial statements	Entities are permitted to prepare combined financial statements.	No equivalent in the Standards of GRAP.	No change proposed. Entities are required in legislation to prepare consolidated financial statements.		
- Disclosures	Fewer disclosures required in the IFRS for SMEs when compared to	Additional disclosures required in the Standards of GRAP when compared	Changes to be informed by respondents' views.		

	the equivalent Standards of GRAP.	<p>to the IFRS for SMEs. The following Standards of GRAP require additional disclosures compared to the IFRS for SMEs:</p> <ul style="list-style-type: none"> <li>• GRAP 1</li> <li>• GRAP 3</li> <li>• GRAP 6</li> </ul>			
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