



IGRAP 12

ACCOUNTING STANDARDS BOARD

INTERPRETATION OF THE STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

JOINTLY CONTROLLED ENTITIES – NON- MONETARY CONTRIBUTIONS BY VENTURERS

(IGRAP 12)

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Acknowledgement

This Interpretation of the Standards of Generally Recognised Accounting Practice (IGRAP) is drawn primarily from the equivalent Interpretation of the International Financial Reporting Standard on *Jointly Controlled Entities – Non-monetary Contributions by Venturers* (SIC 13) issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB). The IASB has issued a comprehensive body of IFRICs. Extracts of the IFRIC on *Jointly Controlled Entities – Non-monetary Contributions by Venturers* are reproduced in these Interpretations of the Standards of GRAP with the permission of the IASB.

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JONTLY CONTROLLED ENTITIES – NON-MONETARY CONTRIBUTIONS BY VENTURERS

Introduction

Interpretations of the Standards of Generally Recognised Accounting Practice

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

The Board must determine GRAP for:

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

The above are collectively referred to as “entities”.

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

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

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

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

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



IGRAP 12

The Interpretation of the Standard of GRAP on *Jointly Controlled Entities – Non-monetary Contributions by Venturers* is set out in paragraphs .01 to .10. All paragraphs in this Interpretation of the Standards of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This Interpretation of the Standards of GRAP should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP*, the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

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



Interpretation of the Standards of GRAP on *Jointly Controlled Entities* – *Non-monetary Contributions by Venturers*

References

- GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors* (as revised in 2010)
- GRAP 8 *Interests in Joint Ventures*
- GRAP 9 *Revenue from Exchange Transactions* (as revised in 2010)
- GRAP 17 *Property, Plant and Equipment* (as revised in 2010)

Issue

- .01 Paragraph .54 in the Standard of GRAP on *Interests in Joint Ventures* refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, paragraph .31 in the Standard of GRAP on *Interests in Joint Ventures* says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').
- .02 Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').
- .03 The issues are:
- (a) when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
 - (b) how additional consideration should be accounted for by the venturer; and
 - (c) how any unrealised gain or loss should be presented in the consolidated

financial statements of the venturer.

- .04 This Interpretation of the Standards of GRAP deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

Consensus

- .05 In applying paragraph .54 in the Standard of GRAP on *Interests in Joint Ventures* to non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE, a venturer shall recognise in surplus or deficit for the period the portion of a gain or loss attributable to the interest in the net assets of the other venturers except when:

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

If exception (a) or (b) applies, the gain or loss is regarded as unrealised and therefore is not recognised in surplus or deficit unless paragraph .06 also applies.

- .06 If, in addition to receiving an interest in the net assets in the JCE, a venturer receives monetary or non-monetary assets, an appropriate portion of gain or loss on the transaction shall be recognised by the venturer in surplus or deficit.
- .07 Unrealised gains or losses on non-monetary assets contributed to JCEs shall be eliminated against the underlying assets under the proportionate consolidation method or against the investment under the equity method. Such unrealised gains or losses shall not be presented as deferred gains or losses in the venturer's consolidated statement of financial position.

Transitional provisions

- .08 *All changes resulting from the application of this Interpretation of the Standards of GRAP shall be accounted for in accordance with the requirements of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).***



Effective date

Initial adoption of the Standards of GRAP

- .09** *This Interpretation of the Standards of GRAP becomes effective with reference to the effective date of the applicable Standards of GRAP as determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.*

Entities already applying Standards of GRAP

- .10** *An entity shall apply this Interpretation of the Standards of GRAP for annual financial statements covering periods beginning on or after DDMMYYYY [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].*



Comparison with the Interpretation of IFRS on *Jointly Controlled Entities – Non-monetary Contributions by Venturers* (SIC 13) (December 1998)

This Interpretation of the Standards of GRAP on *Jointly Controlled Entities – Non-monetary Contributions by Venturers* (IGRAP 12) is drawn primarily from the Interpretation of IFRS on *Jointly Controlled Entities – Non-monetary Contributions by Venturers* (SIC 13). The main differences between this Interpretation and SIC 13 are as follows:

- This Interpretation uses different terminology, in certain instances, from SIC 13. The most significant examples are the use of the terms “interest in the net assets of an entity” and “surplus or deficit”. The equivalent terms in SIC 13 are “equity interest” and “profit or loss” respectively.