IGRAP 9

ACCOUNTING STANDARDS BOARD

INTERPRETATION OF THE STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS

(IGRAP 9)

Issued by the
Accounting Standards Board

February 2010

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 *Distributions of Non-cash Assets to Owners* (IFRIC 17) 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 *Distributions of Non-cash Assets to Owners* are reproduced in these Interpretations of the Standards of GRAP with the permission of the IASB.

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DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS

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.

The Interpretation of the Standard of GRAP on *Distributions of Non-cash Assets to Owners* is set out in paragraphs .01 to .20. 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.

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Interpretation of the Standards of GRAP on *Distributions of Non-cash Assets to Owners*

References

- GRAP 1 *Presentation of Financial Statements* (as revised in 2010)
- GRAP 6 *Consolidated and Separate Financial Statements*
- GRAP 14 *Events after the Reporting Date* (as revised in 2010)
- GRAP 100 *Non-current Assets Held for Sale and Discontinued Operations* (as revised in 2010)
- GRAP 104 *Financial Instruments*
- The Standard of GRAP on *Entity Combinations*

Background

.01 Sometimes an entity distributes assets other than cash (non-cash assets) as dividends or similar distributions to its owners acting in their capacity as owners. In those situations, an entity may also give its owners a choice of receiving either non-cash assets or a cash alternative.

.02 Standards of GRAP do not provide guidance on how an entity should measure dividends or similar distributions to its owners. The Standard of GRAP on *Presentation of Financial Statements* (as revised in 2010) requires an entity to present details of dividends or similar distributions recognised as distributions to owners either on the face of the statement of financial performance or in the statement of changes in net assets or in the notes to the financial statements.

Scope

.03 This Interpretation of the Standards of GRAP applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

(a) distributions of non-cash assets (e.g. items of property, plant and equipment, entity combinations as defined in the Standard of GRAP on *Entity Combinations*, ownership interests in another entity or disposal groups as defined in the Standard of GRAP on *Non-current Assets Held for Sale and Discontinued Operations* (as revised in 2010)); and

(b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

.04 This Interpretation of the Standards of GRAP applies only to distributions in which all owners of the same class of residual interests are treated equally.

.05 This Interpretation of the Standards of GRAP does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

.06 In accordance with paragraph .05, this Interpretation of the Standards of GRAP does not apply when the non-cash asset is ultimately controlled by the same parties both before and after the distribution. The Standard of GRAP on *Entity Combinations* states that 'A group of individuals shall be regarded as controlling an entity when, as a result of binding arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities.' Therefore, for a distribution to be outside the scope of this Interpretation of the Standards of GRAP on the basis that the same parties control the asset both before and after the distribution, a group of individual owners receiving the distribution must have, as a result of binding arrangements, such ultimate collective power over the entity making the distribution.

.07 In accordance with paragraph .05, this Interpretation of the Standards of GRAP does not apply when an entity distributes some of its ownership interests in a controlled entity but retains control of the controlled entity. The entity making a distribution that results in the entity recognising a minority interest in its controlled entity accounts for the distribution in accordance with the Standard of GRAP on *Consolidated and Separate Financial Statements*.

.08 This Interpretation of the Standards of GRAP addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by owners who receive such a distribution.

Issues

.09 When an entity declares a dividend or similar distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend or similar distribution payable. Consequently, this Interpretation of the Standards of GRAP addresses the following issues:

(a) When should the entity recognise the dividend or similar distribution payable?

(b) How should an entity measure the dividend or similar distribution payable?

(c) When an entity settles the dividend or similar distribution payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend or similar distribution payable?

Consensus

When to recognise a dividend or similar distribution payable

.10 The liability to pay a dividend or similar distribution shall be recognised when the dividend or similar distribution is appropriately authorised and is no longer at the discretion of the entity, which is the date when the dividend or similar distribution is declared by management.

Measurement of a dividend or similar distribution payable

.11 An entity shall measure a liability to distribute non-cash assets as a dividend or similar distribution to its owners at the fair value of the assets to be distributed.

.12 If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend or similar distribution payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.

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

Accounting for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend or similar distribution payable when an entity settles the dividend or similar distribution payable

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

Presentation and disclosures

.15 An entity shall present the difference described in paragraph .14 as a separate line item in surplus or deficit.

.16 An entity shall disclose the following information, if applicable:

(a) the carrying amount of the dividend or similar distribution payable at the beginning and end of the period; and

(b) the increase or decrease in the carrying amount recognised in the period in accordance with paragraph .13 as result of a change in the fair value of the assets to be distributed.

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

(a) the nature of the asset to be distributed;

(b) the carrying amount of the asset to be distributed as of the end of the reporting period; and

(c) the estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method used to determine that fair value required by the Standard of GRAP on *Financial Instruments.*

Transitional provisions

.18 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). This Interpretation of the Standards of GRAP shall only be applied to those distributions of non-cash assets to owners that occurred after 1 April 2010.

Effective date

Initial adoption of the Standards of GRAP

.19 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

.20 An entity shall apply this Interpretation of the Standards of GRAP for annual financial statements covering periods beginning on or after 1 April 2011.

Appendix – Consequential amendments to other Standards of GRAP

The purpose of the appendix is to identify the consequential amendments to other Standards of GRAP resulting from the issue of this Interpretation of the Standards of GRAP.

Amended text is shown with new text underlined and deleted text struck through.

Amendments to Standards of GRAP

The Standard of GRAP on *Non-current Assets Held for Sale and Discontinued Operations (as revised in 2010)*

Scope

Paragraph .06 is to be amended as follows:

.06A The classification, presentation and measurement requirements in this Standard applicable to a non-current asset (or disposal group) that is classified as held for sale apply also to a non-current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners (held for distribution to owners).

Classification of non-current assets (or disposal groups) as held for sale or as held for distribution to owners

Paragraph .10 and .14 are to be amended as follow:

.10 For the sale to be highly probable, management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph .11, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

.14A A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn.

Measurement of non-current assets (or disposal groups) classified as held for sale

Paragraph .17 is to be amended as follows:

.17A An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute[1].

The Standard of GRAP on *Events after the Reporting Date (as revised in 2010)*

Paragraph .13 is to be amended as follows:

Dividends or similar distributions

.13 If dividends or similar distributions to owners are declared (~~ie the dividends or similar distributions are appropriately authorised and no longer at the discretion of the entity~~) after the reporting date but before the financial statements are authorised for issue, the dividends or similar distributions are not recognised as a liability at the end of the reporting date because no obligation exists at that time ~~they not meet the criteria of a present obligation in the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets*~~. Such dividends or similar distributions are disclosed in the notes in accordance with the Standard of GRAP on *Presentation of Financial Statements* (as revised in 2010). Dividends or similar distributions do not include a return of capital.

[1] Costs to distribute are the incremental costs directly attributable to the distribution excluding finance costs and income tax expense, where applicable.

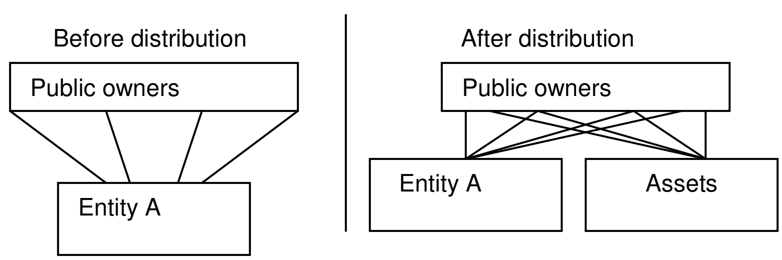
Appendix

Illustrative examples

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

Scope of the Interpretation of the Standards of GRAP (paragraphs .03 to .08)

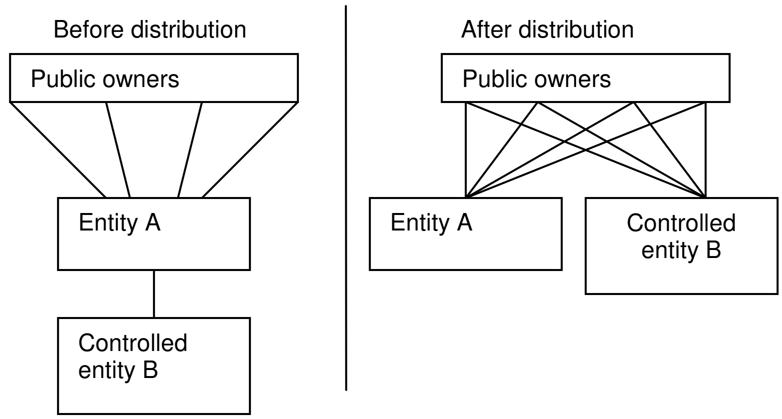
CHART 1



IE1 Assume Entity A is owned by public owners. No single owner controls Entity A and no group of owners is bound by a binding agreement to act together to control Entity A jointly. Entity A distributes certain assets pro rata to the owners. This transaction is within the scope of this Interpretation of the Standards of GRAP.

IE2 However, if one of the owners (or a group bound by a binding agreement to act together) controls Entity A both before and after the transaction, the entire transaction (including the distributions to the minority owners) is not within the scope of this Interpretation of the Standards of GRAP. This is because in a pro rata distribution to all owners of the same class of residual interests, the controlling owner (or group of owners) will continue to control the non-cash assets after the distribution.

CHART 2 (distribution of shares of controlled



IE3 Assume Entity A is owned by public owners. No single owner controls Entity A and no group of owners is bound by a binding agreement to act together to control Entity A jointly. Entity A owns all of the shares of controlled entity B. Entity A distributes all of the shares of controlled entity B pro rata to its owners, thereby losing control of controlled entity B. This transaction is within the scope of this Interpretation of the Standards of GRAP.

IE4 However, if entity A distributes to its owners shares of controlled entity B representing only a minority interest in controlled entity B and retains control of controlled entity B, the transaction is not within the scope of this Interpretation of the Standards of GRAP. Entity A accounts for the distribution in accordance with the Standard of GRAP on *Consolidated and Separate Financial Statements*. Entity A controls controlled entity B both before and after the transaction.

Comparison with the Interpretation of IFRS on *Distributions of Non-cash Assets to Owners* (IFRIC 17) (March 2009)

This Interpretation of the Standards of GRAP on *Distributions of Non-cash Assets to Owners* (IGRAP 9) is drawn primarily from the Interpretation of IFRS on *Distributions of Non-cash Assets to Owners* (IFRIC 17). The main differences between this Interpretation and IFRIC 17 are as follow:

- This Interpretation uses different terminology, in certain instances, from IFRIC 17. The most significant examples are the use of the terms "surplus or deficit", "dividends or similar distributions", "owner", "controlled entity", "minority", "residual interests" and "binding arrangements. The equivalent terms in IFRIC 17 are "profit or loss", "dividends", "shareholder", "subsidiary", "non-controlling", "equity instruments" and contractual arrangements".
- This Interpretation has been amended to reflect that management is responsible for the declaration of dividends or similar distributions in the South African public sector. IFRIC 17 provides guidance on the recognition of dividends when it is declared by management or a board of directors and approved by the relevant authority; and when it is declared by management and no further approval is required. This Interpretation only provides for the second scenario.
- The transitional provisions included in this Interpretation are different to those in IFRIC 17.