



FAQs for the adoption of the Standards of GRAP by Municipalities

Frequently Asked Questions Initial adoption of the Standards of GRAP by municipalities

Disclaimer

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The questions and responses outlined in this document are based on queries commonly received by the Secretariat, the AGSA and the OAG and have been compiled to assist preparers of the financial statements. The questions and responses provide a summarised analysis of topical issues and are not comprehensive. Any examples provided are illustrative only and do not represent a comprehensive list of scenarios or circumstances that may exist in practice. As a result, the examples are not prescriptive and should not be used by analogy to other circumstances. In all instances, readers are encouraged to refer to the relevant Standard of Generally Recognised Accounting Practice (GRAP), Interpretation or Directive.

The Standards of GRAP apply only to material items. Consequently, the FAQs have been drafted on the basis that a particular issue is material. When considering the application of the FAQs, municipalities should apply judgement in determining whether an issue outlined in the FAQs is material to its operations.

The questions and responses focus on issues that are of interest to municipalities, collectively called “municipalities” or “municipality” in this document (unless indicated otherwise).

	Date	Action
Issued:	15 February 2011	Separate publication of FAQs on transitional provisions for the initial adoption of the Standards of GRAP by municipalities
	15 February 2011	Amendment to Question 1.6
	16 May 2011	Clarify Questions 1.2 and 1.6 on when the transitional period ends for medium and low capacity municipalities
	13 June 2011	Update Question 1.11 and 1.12 to apply the principles to medium and low capacity municipalities that adopted the transitional provisions in Directive 4



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Section 1 – Transitional Provisions and Related Issues

1.1 Which directive does a medium or low capacity municipality apply if it early adopted the (eight) Standards of GAMAP, (three) Standards of GRAP and Statements of GAAP (or a variation thereof) in the previous reporting period?

A medium or low capacity municipality applies the transitional provisions in Directive 4, even though it applied the high capacity municipality reporting framework in previous reporting periods.

1.2 What is the effect of the three year transitional period granted in Directive 4 for the initial adoption of GRAP 12, 16, 17 and 102?

Medium and low capacity municipalities are granted a period of three years, from the initial adoption of the Standards of GRAP, within which to measure their assets in accordance with the principles of the relevant Standards. This means that, in the year that these municipalities initially adopt the Standards of GRAP, they should have:

- identified and correctly classified their assets between inventories, investment properties, property, plant and equipment or intangible assets;
- recognised these assets using the principles in the Standards of GRAP; and
- measured these assets either using the principles in the Standards of GRAP or at provisional amounts using the relief allowed in Directive 4.

The transitional period is granted from the initial adoption of the Standards of GRAP and ends within three years following the initial adoption of these Standards of GRAP. The three year period relates to both the initial and subsequent measurement of assets. Although medium and low capacity municipalities are allowed a three year period within which to comply with the measurement of assets, they need to ensure that this implementation is sensible, particularly in relation to subsequent measurement. For example: In determining the depreciation for an asset, a municipality should consider all the related elements of the depreciation calculation (depreciation method, useful life and residual value) when measuring the asset in the financial statements. Using this example, it may not be appropriate for a municipality to recognise depreciation in the financial statements if it has not considered whether the asset has a residual value.

Refer to section 3 which provides detailed guidance on assets and the adoption of Standards of GRAP.

1.3 On initial adoption of GRAP 17, can a medium or low capacity municipality initially recognise assets at “global” amounts using the transitional provisions for the Standard in Directive 4?

The transitional provision for GRAP 17 in Directive 4 allows medium and low capacity municipalities three years to comply with the measurement requirements of GRAP 17; this includes initial and subsequent measurement. The componentisation of assets ensures that significant components of individual assets are identified and separately depreciated.

Componentisation is therefore an essential part of the measurement of an asset. Municipalities are permitted to recognise assets when they initially adopt the Standards of GRAP at “global” amounts, but must have separated these assets into significant components within the three year measurement period allowed in the transitional provisions. For example, a municipality



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may recognise “water infrastructure” on initial adoption of the Standards of GRAP, but by the end of the three year must have analysed this asset into its component parts, including pipes, pumps etc.

Note: Municipalities must have appropriately classified their assets into inventory, property, plant and equipment, investment property or intangible assets. This example refers to “global” amounts of assets that have already been appropriately classified and deals with the componentisation of those assets.

1.4 What does it mean for a medium or low capacity municipality to initially recognise assets, e.g. infrastructure assets, at a “provisional amount”?

When a medium or low capacity municipality uses the transitional provisions in Directive 4 for GRAP 12, 16, 17, 101 or 102, it initially recognises assets using “provisional amounts”. A provisional amount may, for example, be:

- The carrying amount of an asset that was recognised under a previous basis of accounting (which may include assets recognised at R1.00).
- Zero, if a municipality is in the process of establishing an appropriate value for an asset.

Where the “provisional amount” for an asset is zero, it is appropriate for a municipality to provide disclosures about the existence of the assets and the steps taken to establish values for the assets.

1.5 Biological assets that form part of an agricultural activity, GRAP 101 – Directive 4

1.5.1 Do the transitional provisions for GRAP 101 in Directive 4 allow medium and low capacity municipalities three years to recognise and measure biological assets related to an agricultural activity?

Yes, the transitional provisions for GRAP 101 in Directive 4 allow medium and low capacity municipalities three years to recognise and measure biological assets that form part of an agricultural activity. The transitional provision for GRAP 101 is different to GRAP 12, 16, 17 and 102 which allows three years for measurement only.

1.5.2 Is a low or medium capacity municipality required to recognise and measure biological assets simultaneously (in the same year)?

No. If a medium or low capacity municipality has identified biological assets, it can recognise them at provisional amounts. For example, a municipality may have identified that it has 100 species of plants that should be recognised using GRAP 101 in the first year of the three year transitional period. However, it has not determined an appropriate fair value for these plants. The municipality could recognise the assets at a provisional amount of R0, and provide a narrative description in the notes to the financial statements of the nature and quantities of assets that have been identified, as well as the steps being taken by the municipality to measure them appropriately.

1.6 When does the three year transitional period for GRAP 12, 16, 17, 101 and 102 expire for medium and low capacity municipalities?

The three year transitional period allowed in Directive 4 commences on the date that a medium or low capacity municipality initially adopts the Standards of GRAP, i.e. at the beginning of a reporting period. The transitional period ends within three years following the initial adoption of the Standards of GRAP. Where municipalities adopted the Standards of GRAP using the dates prescribed in Gazette 31021, i.e. 1 July 2008 for medium capacity municipalities and 1 July



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2009 for low capacity municipalities, the effect is that these municipalities must comply in full with the Standards of GRAP at the following dates:

- Medium capacity municipalities: Full compliance by 30 June 2011.
- Low capacity municipalities: Full compliance by 30 June 2012.

1.7 When is medium or low capacity municipality deemed to have adopted the Standards of GRAP if it takes advantage of the transitional provisions in Directive 4?

If a medium or low capacity municipality takes advantage of the transitional provisions in Directive 4, it is deemed to have initially adopted the Standards of GRAP in the year that it first prepares its financial statements "...in accordance with the Standards of GRAP..." as set out in its accounting policies. The date of adoption is not influenced by any transitional provisions that a municipality may apply in Directive 4.

For example: Medium capacity municipalities are required to apply the Standards of GRAP from 1 July 2008. From this date, medium capacity municipalities are required to prepare their financial statements "in accordance with the Standards of GRAP". Directive 4 does however allow medium and low capacity municipalities a three-year period to comply with certain aspects of the Standards of GRAP, e.g. relief is provided from the measurement requirements of GRAP 17 on *Property, Plant and Equipment*. Even though the municipality only fully complies with GRAP 17 at a later date, it is deemed to initially adopt the Standards of GRAP at 1 July 2008.

1.8 What is the interaction between the transitional provisions in GAMAP 17 and GRAP 17 on Property, Plant and Equipment as set out in Directive 4?

A medium or low capacity municipality may have applied the high capacity reporting framework in previous reporting periods. This may have resulted in it applying the transitional provisions in GAMAP 17 which provided relief from recognising assets that were not recognised under a previous basis of accounting.

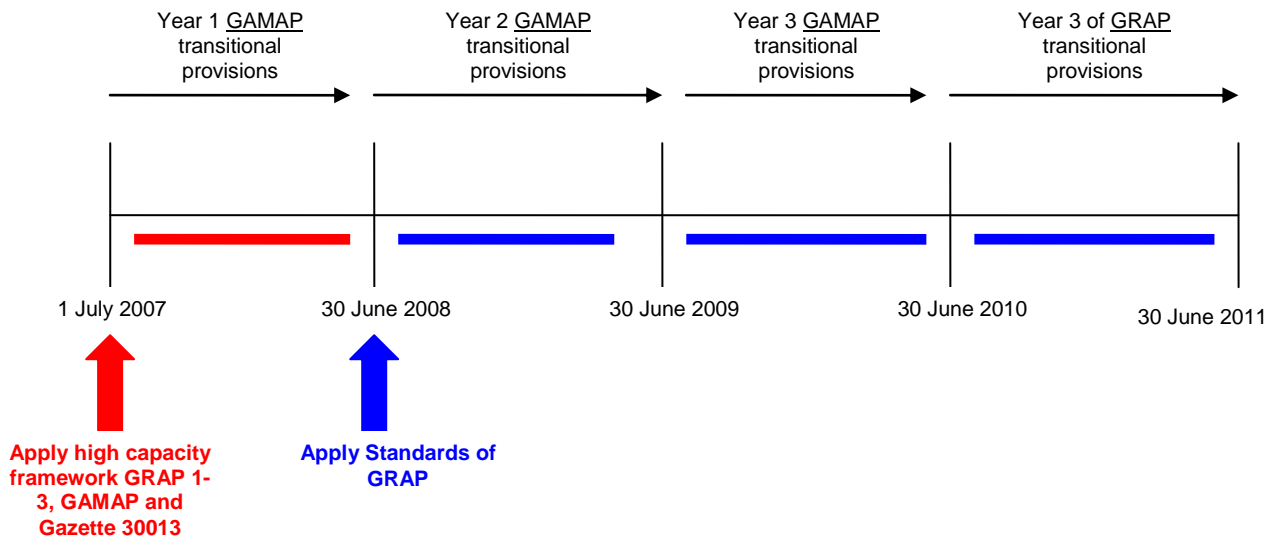
Despite the fact that a medium or low capacity municipality may have taken advantage of the GAMAP 17 transitional provisions, when it adopts the Standards of GRAP, it may also take advantage of the transitional provisions for GRAP 17, as set out in Directive 4. This means that a medium or low capacity municipality has three years from the date of adoption of GRAP 17 to comply with the measurement requirements of the Standard.

Where there is additional time remaining on the GAMAP transitional provisions, a municipality may complete the remaining period of those transitional provisions (which provides relief from the recognition of certain assets) and then apply the remaining period of GRAP 17 transitional provisions (which provides relief from the measurement of certain assets). The GAMAP transitional provisions and GRAP transitional provisions would however run concurrently. This means that from the date of adoption of GRAP 17, a municipality has three years to comply in full with all the requirements of the Standard. An illustrative example is shown below.

Example: A low capacity municipality early adopted the high capacity reporting framework on 1 July 2007 (i.e. it applied GRAP 1 to 3, Standards of GAMAP and Gazette 30013). It is required to adopt the Standards of GRAP from 1 July 2009, but elects to early adopt the Standards of GRAP from 1 July 2008. It previously took advantage of the three year transitional period in GAMAP 17, although it only applied these transitional provisions to infrastructure assets as these assets had not been recognised under its previous basis of accounting. (See diagram 1

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below). The municipality intends to continue with the GAMAP 17 transitional provisions until they expire, and then apply the remaining period of the GRAP 17 transitional provisions.



It is important to note the following variations on the above discussion:

- Instead of waiting for the GAMAP transitional provisions to expire, a municipality may apply the transitional provisions in GRAP 17 when it adopts the Standard. It should however be mindful of the fact that the transitional provisions in GAMAP 17 relate to the recognition of assets and GRAP 17 transitional provisions relates to the measurement of assets.
- Different transitional provisions (i.e. GAMAP or GRAP) may be applied to different classes of property, plant and equipment.

It is important to note that a municipality should provide sufficient disclosure in the financial statements about:

- the transitional provisions it has applied, or intends to apply (if for example, it currently takes advantage of the GAMAP 17 transitional provisions and also intends to take advantage of the remaining period of the GRAP 17 transitional provisions in future);
- which classes of assets are affected;
- by what date it expects full compliance (which cannot be more than three years after the date of adoption of the Standards of GRAP); and
- what steps it is taking to fully comply with the Standard and report on any progress made from the prior year.

1.9 Do the transitional provisions in directive 4 apply if a municipality recognised and measured its property, plant and equipment in accordance with the requirements of GAMAP 17?

The transitional provisions in directive 4 are not mandatory. A municipality may elect to take advantage of the relief provided in directive 4 but only "If the initial accounting for property, plant



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and equipment is incomplete by the end of a reporting period in which the Standard becomes effective... ” [Directive 4 paragraph .79].

Three scenarios exist:

1. The municipality early adopted GAMAP 17 in prior periods, but did not comply with the measurement requirements of GAMAP 17 at the time it adopted GRAP 17.
2. The municipality early adopted GAMAP 17 in prior periods, and did comply with the measurement requirements of GAMAP 17 at the time it adopted GRAP 17.
3. The municipality early adopted GAMAP 17 in prior periods, and partially complied with the measurement requirements of GAMAP 17 at the time it adopted GRAP 17.

In scenario 1, because the municipality did not comply with the measurement requirements of GAMAP 17, it is likely that it cannot comply with the measurement requirements in GRAP 17 on initial adoption. Therefore a municipality may elect to take advantage of the three year transitional period in Directive 4. This effectively means that municipalities had three years under GAMAP 17 to recognise assets and three years under GRAP 17 to measure assets (assuming that the three-year GAMAP 17 transitional provision expires before GRAP 17 is adopted).

In scenario 2, a municipality that has complied with GAMAP 17 in previous reporting periods, complies with most of the requirements of GRAP 17, as the recognition and measurement principles of GAMAP 17 and GRAP 17 are similar. Therefore a municipality cannot apply blanket relief from measuring assets, based on the transitional provisions in Directive 4. A municipality can only apply the transitional provisions for those measurement requirements of GRAP 17 that are not required in GAMAP 17. For example, GAMAP 17 requires the assessment of residual values on a periodic basis, whereas GRAP 17 requires the assessment of residual values annually. If a municipality is unable to comply with this requirement when it adopts the Standards of GRAP, it may take advantage of the transitional provisions granted in Directive 4.

Similarly, in scenario 3, a municipality may only take advantage of the transitional provisions for those measurement requirements where GRAP 17 and GAMAP 17 differ and/or to the extent that the municipality did not comply with the measurement requirements of GAMAP 17.

1.10 Do the transitional provisions in Directive 4 apply to assets acquired after the effective date of the Standards of GRAP?

Paragraphs .77 and .79 of the transitional provisions for GRAP 17 on *Property, Plant and Equipment* in Directive 4, state the following:

- .77 ...entities are not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on *Property, Plant and Equipment* subject to the provisions of paragraphs .79 and .80 below.
- .79 If the initial accounting for property, plant and equipment is incomplete by the end of a reporting period in which the Standard becomes effective or the transfer occurs, whichever is later, the entity shall report in its financial statements provisional amounts for those property, plant and equipment for which the accounting is incomplete....

Assets acquired after the effective date of the Standards



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Municipalities that acquired assets after the effective date of the Standard should have appropriate information regarding the initial cost of those assets (either using cost, if acquired in an exchange transaction or, using fair value if acquired in a non-exchange transaction). They should therefore recognise and initially measure such assets using the Standards of GRAP.

The transitional provisions allow entities additional time to comply with the subsequent measurement of those assets, e.g. determining the residual values, useful lives and depreciation methods. Municipalities are however encouraged to comply in full with the subsequent measurement requirements of the Standards as soon as possible.

Municipalities should disclose that they have initially recognised and initially measured assets, acquired after the effective date of the Standards in accordance with the Standards of GRAP, and the steps they are taking to comply with the subsequent measurement aspects of the relevant Standards (to the extent that they have not complied with such requirements at reporting date).

Assets acquired before the effective date of the Standards

For those assets acquired before the effective date of the Standards, municipalities have three years from the effective date of the Standards of GRAP to comply with the initial and subsequent measurement requirements of the Standards. Where municipalities have not complied with the initial or subsequent measurement of assets using the Standards of GRAP, such assets may be measured at provisional amounts.

1.11 *Should a municipality that adopted the impairment assessment exemption in Gazette 30013, or a medium or low capacity municipality that adopted the transitional provisions in Directive 4, apply impairment retrospectively?*

Unless the municipality applied IAS 36 the previous year the municipality only assesses impairment in the financial year that the entity complies or is required to comply with the Standards of GRAP, whichever is applicable.

1.12 *Should a municipality that adopted the exemption on the assessment of an asset's useful life in Gazette 30013, or a medium or low capacity municipality that adopted the transitional provisions in Directive 4, apply the assessment of useful lives and residual values of assets retrospectively?*

If a municipality did not perform an assessment of the useful lives of the assets because of the exemptions allowed in Gazette 30013, or did not assess the asset's useful life or residual value because it applied the transitional provisions in Directive 4, the municipality should:

- Assess the residual values and useful lives of the assets in the financial year that it complies, or is required to comply with the Standards of GRAP, whichever is applicable; and
- Adjust the opening balances and comparative information using those values.

1.13 *Should a municipality recognise depreciation on "provisional amounts"?*

In terms of Directive 4, a municipality may measure assets at provisional amounts during the three year transitional period. The transitional provisions do not prescribe whether a municipality should or should not recognise depreciation on provisional amounts.



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A municipality may choose to recognise depreciation on provisional amounts¹. This decision should be made based on whether the recognition of depreciation, and the basis used to calculate such depreciation, meets the qualitative characteristics in the Framework, e.g. is the information relevant, reliable, understandable and result in fair presentation. Regardless of the choice made, municipalities are required to disclose in the financial statements whether depreciation is recognised, how depreciation has been calculated and whether or not it has been based on provisional amounts. Municipalities must also disclose the steps they are taking to comply with the subsequent measurement aspects of the relevant Standards, to the extent that they have not complied with such requirements at reporting date.

Section 2 – Initial Recognition of Assets using GAMAP 17 and GRAP 17

2.1 *How should assets have been recognised and measured by high capacity municipalities on the initial adoption of GAMAP 17 and GRAP 17?*

The information outlined below is based on the most common scenarios. In all instances, municipalities are encouraged to consult the relevant Standards of GRAP and legislation.

Background

High capacity municipalities were required to adopt the 8 Standards of GAMAP and GRAP 1, 2 and 3 from 1 July 2005.

The transitional provisions in GAMAP 17 allowed municipalities a period of three years to recognise any assets that it previously had not recognised using another basis of accounting. Where municipalities took advantage of this transitional provision, they were not required to comply with the measurement and disclosure requirements of GAMAP 17 until these assets were recognised.

The transitional provisions in GAMAP 17.85 also prescribed that, where entities had previously not recognised assets and the historical cost information of such assets was not available at the initial adoption of GAMAP 17, entities could use fair value at initial recognition:

When applying this Standard for the first time, an entity may control assets that it has not previously recognised. When the recognition criteria as determined in paragraph 10 have been met, the asset needs to be recognised in the statement of financial position at fair value.

In 2006, the National Treasury issued Government Gazette 30013 which exempted municipalities from applying certain requirements of the Standards of GAMAP, GRAP and Statements of GAAP. Application of these exemptions was not mandatory. Gazette 30013 specifically exempted municipalities from the following requirements of GAMAP 17:

- Review of useful lives of assets. This exemption applied only to the reassessment of useful lives. Municipalities should have made an initial assessment of the useful lives of an asset in determining the depreciable amount of an asset.
- Review of residual values of assets. This exemption applied only to the reassessment of residual values. Municipalities should have made an initial assessment of the residual values of an asset in determining the depreciable amount of an asset.

¹ To ensure comparability, once a municipality elects to depreciate assets using provisional amounts this election should be continued during the measurement.



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- Assessing whether assets are impaired.

The exemptions were available for high capacity municipalities for the 2006/07 and 2007/08 reporting periods.

2.1.1 Recognising and measuring assets on the adoption of GAMAP 17

The effect of the transitional provisions in GAMAP 17 and the exemptions in Gazette 30013 is that municipalities should have accounted for property, plant and equipment as follows:

- All items of property, plant and equipment should have been recognised by 30 June 2008, i.e. the asset register and financial statements should be complete and reflect all assets that should be accounted for by a municipality.
- All items of property, plant and equipment should be initially and subsequently measured using GAMAP 17 by 30 June 2008, except to the extent that the exemptions granted in Gazette 30013 were adopted.

The specific recognition and measurement requirements are outlined below:

2.1.1.1 Initial recognition and initial measurement

- At 30 June 2008, municipalities should have recognised all classes of property, plant and equipment, and allocated items of property, plant and equipment into their component parts.

Assets acquired before 1 July 2005, not previously recognised

- Where municipalities acquired assets before 1 July 2005 and these were not recognised under a previous basis of accounting, municipalities were allowed a period of three years to comply with the recognition requirements of GAMAP 17. This meant that in the three year period, municipalities also did not need to comply with the measurement or disclosure requirements of GAMAP 17. However, at 30 June 2008, when the three year transitional provision under GAMAP 17 expired, municipalities should have recognised, measured and disclosed these assets in accordance with GAMAP 17 (except for any exemptions adopted in Gazette 30013).
- The opening balance of assets acquired before 1 July 2005 should have been determined by measuring the assets at historical cost (if cost information was available) or, using a deemed cost (if no cost information was available) which represents:
 - fair value or depreciated replacement cost at the date the asset was acquired, if the acquisition date is known; or



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- the fair value or depreciated replacement cost of the asset at the date of adoption of GAMAP (i.e. 1 July 2004 or 1 July 2005²), if the asset's acquisition date is unknown.
- The recognition of previously unrecognised property, plant and equipment, represents a change in accounting policy. The initial recognition of property, plant and equipment that was not recognised under a previous basis of accounting results in an adjustment to the opening balance of the accumulated surplus or deficit for the earliest period presented.

Assets acquired after 1 July 2005

- The three year transitional provision in GAMAP 17 does not apply to assets acquired after 1 July 2005. Assets acquired after 1 July 2005 should have been recognised at acquisition date and measured in accordance with the requirements of GAMAP 17; i.e. measured initially at cost if they were purchased in an exchange transaction, or at fair value if they were acquired in a non-exchange transaction.

Disposals of assets after 1 July 2005

- Disposals of assets after 1 July 2005 should be accounted for in accordance with the requirements of GAMAP 17.

2.2.1.2 Subsequent measurement

- Classes of assets would subsequently be measured using either cost or the revaluation model (limited to land and buildings).
- Municipalities should have assessed the useful lives and residual values of assets in determining their "depreciable amount". Depreciation should have been recorded for the 2005/06, 2006/07 and 2007/08 reporting period for all assets. Entities were not required to reassess the residual values and useful lives of assets for the 2006/07 and 2007/08 reporting periods if they took advantage of the exemptions in Gazette 30013.
- Municipalities were not required to assess whether items of property, plant and equipment were impaired for the 2006/07 and 2007/08 reporting periods.

If a high capacity municipality did not comply in full with GAMAP 17 at 30 June 2008 (except where a municipality took advantage of the exemptions in Gazette 30013), this would have resulted in *non-compliance* with GAMAP 17.

Notes on recognising assets that were previously not recognised – GAMAP 17.

² GAMAP 17 was not prescriptive about the date at which "fair value" should be determined for assets that were not previously recognised. "Fair value" could thus have been determined at the start of the year in which GAMAP 17 was adopted, i.e. 1 July 2005 for HCM; at the start of the first reporting period in which financial statements were prepared using GAMAP (which would be the comparative period's financial statements), i.e. at 1 July 2004; or at the date the asset was acquired, if this date is known or could have been estimated.



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The use of fair value or depreciated replacement cost as a substitute for historical cost on the initial adoption of the Standards of GAMAP is not deemed to be a revaluation.

If an municipality undertakes an asset verification and valuation to reconstruct its asset register, the following should be noted:

The verification should distinguish between those assets that were acquired before 1 July 2005 and those acquired after 1 July 2005. This is important as those assets that were acquired before 1 July 2005 can be measured using cost or deemed cost (if historical information is not available). Those assets acquired after 1 July 2005 must be measured using cost (if acquired in an exchange transaction) or fair value (if acquired in a non-exchange transaction).

Where deemed cost is determined at the end of the transitional period, i.e. 30 June 2008, municipalities should adjust the fair value or depreciated replacement cost back to the date of adoption of the Standards of GAMAP, or back to the acquisition date of the asset if this date is known or can be determined reliably. Municipalities should also account for depreciation for the 05/06, 06/07 and 07/08 reporting periods for these assets. If municipalities did not make assumptions about useful lives and residual values at the 05/06 reporting dates, municipalities should use the assumptions at the 07/08 reporting period and apply these retrospectively.

Deemed cost can only be used for those assets where cost information is not available. It is inappropriate to use deemed cost if historical cost information is available. For example, municipalities should not use deemed cost for those assets acquired after 1 July 2005 as this would result in municipalities effectively adopting a policy of revaluing assets.

2.1.2 Recognising and measuring assets on the initial adoption of GRAP 17

High capacity municipalities are required to adopt GRAP 17 from 1 July 2008. As these municipalities previously applied GAMAP 17, most items of property, plant and equipment would have already been recognised and measured using the principles in GAMAP 17, except for any exemptions granted in Gazette 30013, for example: investment properties may have been included in property, plant and equipment under GAMAP 17, and municipalities may not have reassessed the useful lives and residual values of assets, nor assessed the impairment of assets.

Therefore, at 1 July 2008 a high capacity municipality adopts GRAP 17, classes of property, plant and equipment should be initially recognised, initially measured and subsequently measured in full, except if a municipality took advantage of the exemptions in Gazette 30013 on the reassessment of useful lives and residual values and the assessment of impairment.

On the initial adoption of GRAP 17 and the other asset-related Standards of GRAP on 1 July 2008, a number of scenarios may have existed:

Scenario 1: A municipality complied with the requirements of GAMAP 17 at 30 June 2008

In this scenario, a municipality would have been required to do the following in the 08/09 reporting period when it adopted GRAP 17:

- Determine the appropriate classifications of any assets that were included in property, plant and equipment under GAMAP 17 but should be accounted for using another Standard of GRAP e.g. land and buildings that are investment properties.
- Reassess the useful lives and residual values of property, plant and equipment recognised under GAMAP 17.



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- Assess whether any items of property, plant and equipment are impaired.
- Undertaken any other actions that resulted from any exemptions granted in Gazette 30013 that were utilised in 2008/09.

Scenario 2: A municipality did not comply with GAMAP 17 as at 30 June 2008 (either for classes of assets or individual assets). In this instance, a municipality should have done the following in the 2008/09 reporting period:

- Identify classes of property, plant and equipment that are not recognised at 1 July 2008.
- Initially measure these assets using either historical cost (if cost information is available), or use a deemed cost (if cost information is not available) which represents:
 - fair value or depreciated replacement cost at the date the asset was acquired, if this date is known or could have been estimated reliably; or
 - the fair value or depreciated replacement cost of the asset, determined at the earliest date for which a municipality first prepares financial statements that comply with Standards of GRAP, i.e. 1 July 2007³, if the asset's acquisition date is unknown.
- As GRAP 17 is applied retrospectively, the opening balance of assets at 1 July 2008 should be separated between those assets that existed at 1 July 2007 and those that were acquired between 1 July 2007 and 30 June 2008. Also, any disposals that occurred between 1 July 2007 and 30 June 2008 are also accounted for separately.
- The initial recognition of assets that were not recognised under a previous basis of accounting represents an adjustment to the accumulated surpluses and deficit for the relevant periods.
- Assets that are acquired between 1 July 2008 and 30 June 2009 are accounted for using the principles in GRAP 17, i.e. at cost (if acquired in an exchange transaction) or fair value (if acquired in a non-exchange transaction). Any disposals of assets that occur between 1 July 2008 and 30 June 2009 are also accounted for separately.
- Assess the residual values and useful lives of assets at 30 June 2009. If a municipality did not assess the useful lives and residual values of assets at 30 June 2008 because of exemptions granted in Gazette 30013, a municipality uses those values to adjust the opening balances and comparative information.
- Assess whether any assets are impaired by using the principles in IPSAS 21 on *Impairment of Non Cash-Generating Assets* or IAS 36 *Impairment of Assets*

³ As a municipality is required to apply Standards of GRAP retrospectively, the first set of financial statements that are prepared that comply with Standards of GRAP is the comparative set of financial statements. For example, if a municipality is required to apply Standards of GRAP from 1 July 2008, the first set of financial statements prepared using Standards of GRAP is for the period 1 July 2007 to 30 June 2008.



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Notes on recognising assets that were previously not recognised – GRAP 17

The use of fair value or depreciated replacement cost as a substitute for historical cost on the initial adoption of the Standards of GRAP is not deemed to be a revaluation.

If a municipality undertakes an asset verification and valuation to reconstruct its asset register, the following should be noted:

The verification should distinguish between those assets that were acquired before 1 July 2008 and those acquired after 1 July 2008. This is important as those assets that were acquired before 1 July 2008 can be measured using cost or deemed cost (if historical information is not available). Those assets acquired after 1 July 2008 must be measured using cost (if acquired in an exchange transaction) or fair value (if acquired in a non-exchange transaction).

If deemed cost is determined at the end of the year in which GRAP 17 is adopted, i.e. 30 June 2009, municipalities should adjust the fair value or depreciated replacement cost back to the date of adoption of the Standards of GRAP (1 July 2007), or back to the acquisition date of the asset if this date is known or can be determined reliably. Municipalities should also account for depreciation for the 07/08 and 08/09 reporting periods for these assets. If municipalities did not make assumptions about useful lives and residual values at the 07/08 reporting dates, municipalities should use the assumptions at the 08/09 reporting period and apply these retrospectively.

Deemed cost can only be used for those assets where cost information is not available. It is inappropriate to use deemed cost if historical cost information is available. For example, municipalities should not use deemed cost for those assets acquired after 1 July 2008 as this would result in municipalities effectively adopting a policy of revaluing assets.

2.2 How should assets have been recognised and measured by medium and low capacity municipalities on the initial adoption of GRAP 17 (and GAMAP 17 if early adopted)?

There are a number of different scenarios that exist for the preparation of financial statements as some medium and low capacity municipalities may have early adopted Standards of GAMAP and GRAP, while other may have continued to apply the IMFO framework until the mandatory adoption date of the Standards of GRAP. The most common scenarios are outlined in the discussion that follows; municipalities are encouraged to consult the relevant Standards of GRAP and the relevant legislation.

Background

Medium and low capacity municipalities were required to apply Standards of GRAP from 1 July 2008 and 1 July 2009 respectively. Some medium and low capacity municipalities may have early adopted the “high capacity municipality” reporting framework in that they early adopted Standards of GAMAP and GRAP, and may have applied the exemptions granted to the high capacity municipalities in Gazette 30013. Some of these municipalities adopted the GAMAP/GRAP reporting framework in 2005/06, while others adopted the framework in 2006/07.

Other medium and low capacity municipalities may have remained on the IMFO framework and adopted the Standards of GRAP in accordance with Gazette 31021 which prescribed the effective dates of the Standards of GRAP for municipalities.



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2.2.1 Scenario 1: A medium or low capacity municipality applied the IMFO framework and adopted the Standards of GRAP in accordance with Gazette 31021 and applied the transitional provisions in Directive 4

When medium and low capacity municipalities adopt GRAP 17, Directive 4 allows these municipalities a period of three years to comply with initial and subsequent measurement requirements of GRAP 17. This means that at the date that the municipality adopts GRAP 17, it must have identified and recognised all classes (and items) of property, plant and equipment. The effect of the transitional provisions is that medium and low capacity municipalities must comply with GRAP 17 in full at 30 June 2011 and 30 June 2012 respectively.

Initial recognition and measurement of assets

Asset acquired before 1 July 2008 (medium capacity municipality) and 1 July 2009 (low capacity municipality)

- Where municipalities acquired assets before 1 July 2008 (medium capacity) and 1 July 2009 (low capacity), they are allowed a period of three years to comply with the measurement requirements of GRAP 17. This means that in the three year period, municipalities should comply with the disclosure requirements of GRAP 17 to the extent possible. However, at 30 June 2011 (medium capacity) and 30 June 2012 (low capacity), when the three year transitional provision under GRAP 17 expires, municipalities should recognise, measure and disclose these assets in accordance with GRAP 17.
- As municipalities have three years to comply with the initial and subsequent measurement requirements of GRAP 17, it recognises its property, plant and equipment at provisional amounts in the financial statements during the transitional period. These provisional amounts may represent the carrying values under the previous basis of accounting (e.g. IMFO), or they may be recognised at R0 (this may mean that municipalities may only have information disclosed in the financial statements about the classes and quantities of assets during the transitional period).
- Assets acquired before 1 July 2008 (medium capacity) and 1 July 2009 (low capacity) are initially measured at historical cost (if cost information was available) or, using a deemed cost (if no cost information was available) which represents:
 - fair value or depreciated replacement cost at the date the asset was acquired, if the acquisition date is known; or
 - the fair value or depreciated replacement cost of the asset determined at the earliest date for which a municipality first prepares financial statements that comply with Standards of GRAP, i.e. 1 July 2007 (medium capacity) or 1 July 2008 (low capacity)⁴, if the asset's acquisition date is unknown.

⁴ As a municipality is required to apply Standards of GRAP retrospectively, the first set of financial statements that are prepared that comply with Standards of GRAP is the comparative set of financial statements. For example, if a municipality is required to apply Standards of GRAP from 1 July 2008, the first set of financial statements prepared using Standards of GRAP is for the period 1 July 2007 to 30 June 2008. Likewise, if a



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- The recognition and/or change in measurement of property, plant and equipment, represents a change in accounting policy. This result in an adjustment to the opening balance of the accumulated surplus or deficit for the earliest period presented.

Assets acquired after 1 July 2008 (medium capacity) and 1 July 2009 (low capacity)

- The three year transitional provision in GAMAP 17 does not apply to assets acquired after 1 July 2008 (medium capacity) and 1 July 2009 (low capacity). Assets acquired after 1 July 2008 (medium capacity) and 1 July 2009 (low capacity) should have been recognised at acquisition date and measured in accordance with the requirements of GRAP 17; i.e. measured initially at cost if they were purchased in an exchange transaction, or at fair value if they were acquired in a non-exchange transaction.

Disposals of assets after 1 July 2008 (medium capacity) and 1 July 2009 (low capacity)

Disposals of assets after 1 July 2008 (medium capacity) and 1 July 2009 (low capacity) should be accounted for in accordance with the requirements of GRAP 17.

Subsequent measurement of assets

- For assets acquired before and after 1 July 2008 (medium capacity) and 1 July 2009 (low capacity), municipalities have three years from the date of adopting the Standards of GRAP to comply with the subsequent measurement requirements of GRAP 17. This means that a municipality needs to have assessed the residual values and useful lives of assets, and considered whether any assets are impaired, by 30 June 2011 (medium capacity) and 30 June 2012 (low capacity).

Disclosure

- At 30 June 2011 (medium capacity) and 30 June 2012 (low capacity), medium and low capacity municipalities are required to comply in full with the disclosure requirements of GRAP 17.
- During the transitional period, municipalities should disclose in their accounting policies and notes to the financial statements:
 - The fact that they have taken advantage of the three year transitional period in Directive 4.
 - In their accounting policies indicate that they apply Standards of GRAP in recognising and measuring assets (and provide an indication of the policy adopted), but explain that amounts reflected for assets in the transitional period have been determined on a different basis (e.g. using the previous basis of accounting such as IMFO).

municipality is required to apply Standards of GRAP from 1 July 2009, the first set of financial statements prepared using Standards of GRAP is for the period 1 July 2008 to 30 June 2009.



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- In their accounting and/or notes to the financial statements explain the classes of assets that are affected by the transitional provisions, the plans in place to comply with the Standards of GRAP by the required date and progress made to date.

2.2.2 Scenario 2: A medium or low capacity municipality applied the IMFO framework and adopted the Standards of GRAP in accordance with Gazette 31021 and did not apply the transitional provisions in Directive 4

The three-year transitional period offered in Directive 4 is not mandatory. Municipalities can choose to take advantage of this additional time allowed, or it can choose to comply with GRAP 17 in full in the year that it is adopted. The effect of not taking advantage of the transitional provisions is that municipalities have to recognise, measure and disclose all property, plant and equipment at 30 June 2009 (medium capacity) or 30 June 2010 (low capacity).

Where a municipality chooses to adopt GRAP 17 in the full at 1 July 2008 (medium capacity) or 1 July 2009 (low capacity), it is required to undertake the following actions in the year that it adopts GRAP 17:

Initial recognition and initial measurement

Assets acquired before 1 July 2008 (medium capacity) and 1 July 2009 (low capacity)

- Assets acquired before 1 July 2008 (medium capacity) and 1 July 2009 (low capacity) are initially measured at historical cost (if cost information was available) or, using a deemed cost (if no cost information was available) which represents:
 - fair value or depreciated replacement cost at the date the asset was acquired, if the acquisition date is known; or
 - the fair value or depreciated replacement cost of the asset determined at the earliest date for which a municipality first prepares financial statements that comply with Standards of GRAP, i.e. 1 July 2007 (medium capacity) or 1 July 2008 (low capacity)⁵, if the asset's acquisition date is unknown.
- The recognition and/or change in measurement of property, plant and equipment, represents a change in accounting policy. This result in an adjustment to the opening balance of the accumulated surplus or deficit for the earliest period presented.

Assets acquired after 1 July 2008 (medium capacity) and 1 July 2009 (low capacity)

- Assets acquired after 1 July 2008 (medium capacity) and 1 July 2009 (low capacity) are recognised at acquisition date and measured in accordance with the requirements of

⁵ As a municipality is required to apply Standards of GRAP retrospectively, the first set of financial statements that are prepared that comply with Standards of GRAP is the comparative set of financial statements. For example, if a municipality is required to apply Standards of GRAP from 1 July 2008, the first set of financial statements prepared using Standards of GRAP is for the period 1 July 2007 to 30 June 2008. Likewise, if a municipality is required to apply Standards of GRAP from 1 July 2009, the first set of financial statements prepared using Standards of GRAP is for the period 1 July 2008 to 30 June 2009.



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GRAP 17; i.e. measured initially at cost if they were purchased in an exchange transaction, or at fair value if they were acquired in a non-exchange transaction.

Disposals of assets after 1 July 2008 (medium capacity) and 1 July 2009 (low capacity)

- Disposals of assets after 1 July 2008 (medium capacity) and 1 July 2009 (low capacity) should be accounted for in accordance with the requirements of GRAP 17.

Subsequent measurement of assets

For assets acquired before and after 1 July 2008 (medium capacity) and 1 July 2009 (low capacity), municipalities have to comply with the subsequent measurement requirements of GRAP 17 at the end of the reporting period in which they adopt GRAP 17 where they do not take advantage of the transitional provisions in Directive 4. This means that a municipality needs to have assessed the residual values and useful lives of assets, and considered whether any assets are impaired, by 30 June 2009 (medium capacity) and 30 June 2010 (low capacity).

2.2.3 Scenario 3: A medium or low capacity municipality early adopted GAMAP 17 and applied the transitional provisions in Directive 4

Where medium and low capacity municipalities early adopted GAMAP 17, they may have taken advantage of the three year transitional provisions in GAMAP 17 that allows municipalities three years to recognise any assets that were not recognised under its previous basis of accounting. When these municipalities adopt GRAP 17, they are allowed, in certain instances, a further three years to comply with the measurement requirements of GRAP 17.

The use of the transitional provisions in GRAP 17 is dependent on whether the municipality:

- a. complied with GAMAP 17 in full at the end of the transitional period allowed under that Standard; or
- b. partially complied with GAMAP 17 at the end of the transitional period allowed under that standard.

The use of the transitional provisions in GRAP under these scenarios is dealt with in 5.2 below.

There may be an overlap between the transitional provisions in GAMAP 17 and the transitional provisions in the GRAP 17. FAQ 1.8 provides guidance on this issue.

In recognising and measuring assets using GAMAP 17 and GRAP 17, municipalities should have applied the process outlined below.

Recognising and measuring assets on the adoption of GAMAP 17

Where a medium or low capacity municipality early adopted GAMAP 17, it follows a similar process to that set out in 2.1 paragraphs 2.1.1.1 and 2.1.1.2 (the relevant dates would however need to be adjusted to reflect the date that the municipality adopted GAMAP 17).

Recognising and measuring assets on the adoption of GRAP 17

Directive 4 allows medium and low capacity municipalities three years from the date of adopting GRAP 17 to comply with the measurement requirements of GRAP 17. Where medium and low capacity municipalities early adopted GAMAP 17, they can take advantage of the additional three years granted in Directive 4 if:



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- (i) they did not comply, either partially or in full with GAMAP 17 at the end of the transitional period in that Standard; or
- (ii) they cannot comply with aspects of GRAP 17, for example the annual review of residual values and useful lives of property, plant and equipment.

FAQ 1.9 provides guidance on when a municipality that applied GAMAP 17 can take advantage of the transitional provisions in GRAP 17.

As the circumstances may vary from municipality to municipality, they cannot all be addressed in the frequently asked questions; municipalities should therefore consult the relevant Standards of GRAP and Directives.

Where medium and low capacity municipalities early adopted GAMAP 17 and did not comply with the requirements of GAMAP 17, in full, they may take advantage of the transitional provisions in GRAP 17. These medium and low capacity municipalities should apply similar actions to those outlined in paragraph 2.2.1.